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, 2017

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

Elliot P. Lewis

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

Date Issued: March 29, 2018
Report Number: 22-18-006-13-001

Table of Contents

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, 2017, and dated its *Independent Auditors' Report* November 15, 2017. 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. 17-03, *Audit Requirements for Federal Financial Statements*. The objective of the audit engagement was to express opinions on the fair presentation of DOL's consolidated financial statements and its sustainability financial statements.

This report presents for DOL's consideration certain matters that KPMG noted, as of November 15, 2017, involving internal control and other operational matters. These management advisory comments are provided in addition to the material weakness and significant deficiency presented in KPMG's *Independent Auditors' Report* and included in DOL's *FY 2017 Agency Financial Report*.

These management advisory comments, all of which have been discussed with the appropriate members of management, are intended to improve internal control or result in other operating efficiencies as summarized in Exhibit I. Included in this report are 7 comments and related recommendations newly identified in fiscal year (FY) 2017, 10 prior year comments that continued to exist in FY 2017, and 14 prior year comments and related recommendations KPMG determined had been corrected and closed during FY 2017.

KPMG prepared this report to assist DOL in developing corrective actions for the management advisory comments identified in the FY 2017 audit.

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

November 15, 2017

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

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

In planning and performing our audit of the United States Department of Labor's (DOL) consolidated financial statements as of and for the year ended September 30, 2017, and its statement of social insurance as of September 30, 2017, and our engagement to audit DOL's statement of changes in social insurance amounts for the year ended September 30, 2017, in accordance with auditing standards generally accepted in the Unites States of America, we considered DOL's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on these financial statements, but not for the purpose of expressing an opinion on the effectiveness of DOL's internal control. Accordingly, we do not express an opinion on the effectiveness of DOL's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. During our audit and engagement to audit, we noted certain matters involving deficiencies in internal control and other operational matters that are presented for your consideration. These comments and recommendations, all of which have been discussed with the appropriate members of management and have been communicated through issued Notifications of Findings and Recommendations, are intended to improve internal control or result in other operating efficiencies and are summarized in Exhibit I. In addition, we identified certain deficiencies in internal control that we consider to be a material weakness or a significant deficiency and communicated them in writing in our *Independent Auditors' Report*, dated November 15, 2017, included in DOL's *FY 2017 Agency Financial Report*.

We summarized prior year comments and recommendations that were remediated in fiscal year (FY) 2017 in Exhibit II.

Our audit procedures are designed primarily to enable us to form opinions on the consolidated financial statements, the statement of social insurance, and the statement of changes in social insurance amounts, and therefore may not bring to light all weaknesses in policies or procedures that may exist. We aim, however, to use our

KPMG

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 letter are presented in Exhibit I. DOL’s responses were not subjected to the auditing procedures applied in the audit of the consolidated financial statements and statement of social insurance, and the engagement to audit the statement of changes in social insurance amounts, and accordingly, we express no opinion on the responses.

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

Very truly yours,

KPMG LLP

Comments and Recommendations

New Financial Comments and Recommendations Identified in Fiscal Year 2017

1. Insufficient Review of Schedule Award Payments

During our testing of the operating effectiveness of controls for the period of October 1, 2016 through May 31, 2017, we noted certain instances in which the Claims Examiner's (CE) review of schedule award payments was not performed in accordance with established procedures. Specifically, we identified the following:

- For 3 of 50 schedule award payments approved in fiscal year (FY) 2017 and selected for testing, Office of Workers' Compensation Programs was unable to provide evidence that the CE signed the decision letter that was sent to the claimant. One of the claims selected was from the San Francisco district office and the other two were from the Jacksonville district office.

- For 1 of 50 schedule award payments approved in FY 2017 and selected for testing, the fiscal memo and iFECS reflected an 'award from' date that was different from the maximum medical improvement date listed in the District Medical Advisor's (DMA's) determination and the decision letter. The claim selected was from the Jacksonville district office.

- For 1 of 50 schedule award payments approved in FY 2017 and selected for testing, there was no decision letter completed by the CE. As of July 21, 2017, the decision letter has been completed by the CE and sent to the claimant. The claim selected was from the Seattle district office.

Although the claims examiners were required by Federal Employees' Compensation Act (FECA) Bulletin 16-01 to sign the decision letters, they were not required to retain signed copies of the decision letters. Therefore, the signed copies were not readily available for review in all instances for those items identified in the first bullet. For bullets two and three above, the reviewing claims examiner did not review the information in iFECS with sufficient precision to detect the errors identified.

Ineffective controls over schedule award payments may result in incorrect payments to claimants, which leads to misstatements of FECA benefit expense. We did note there were no incorrect payments made to claimants related to the errors identified above.

The *Division of Federal Employees Compensation program's FECA Procedure Manual* (the Manual), Chapter 2-0808-8 states:

> Schedule Award Decisions. After the payment has been certified, the CE should promptly issue a formal decision outlining the award details. Form CA-181 Award of Compensation (or equivalent) should be used.

FECA Bulletin 16-01, *Signatures on Outgoing Correspondence* states the following:

> 1. Claims staff may release any routine correspondence, including initial development letters as addressed in DFEC PM 2-0800, without a signature. However, the author of the correspondence must be identified on the letter in accordance with action item 2 below.
>
> Correspondence that must bear a signature includes:
>
> (1) Priority Correspondence as addressed in DFEC PM 2-0300.5;
> (2) Controlled Correspondence as addressed in DFEC PM 2-0300.6;
> (3) Initial Acceptances as addressed in DFEC PM 2-0806;
> (4) Initial Denials as addressed in DFEC PM 2-1401;
> (5) All Formal Decisions, including Proposed Decisions, addressed in DFEC PM 2-1400;
> (6) Preliminary Findings of Overpayment, Final Decisions of Overpayment, and any correspondence used with the intention of collecting a debt as addressed in DFEC PM Part 6;
> (7) Responses to Privacy Act and Freedom of Information Act (FOIA) Requests.

The Government and Accountability Office (GAO) *Standards for Internal Control in the Federal Government* (the GAO Standards), Section 10.03 states:

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

Further, Section 17.06 of the GAO Standards states:

> Management evaluates and documents internal control issues and determines appropriate corrective actions for internal control deficiencies on a timely basis. Management evaluates issues identified through

monitoring activities or reported by personnel to determine whether any of the issues rise to the level of an internal control deficiency. Internal control deficiencies require further evaluation and remediation by management. An internal control deficiency can be in the design, implementation, or operating effectiveness of the internal control and its related process. Management determines from the type of internal control deficiency the appropriate corrective actions to remediate the internal control deficiency on a timely basis. Management assigns responsibility and delegates authority to remediate the internal control deficiency.

Recommendations

We recommend that the Director of the Office of Workers Compensation Programs:

1. Require CEs to scan signed copies of all schedule award decision letters into iFECS to ensure documentation of such reviews are readily available; and

2. Provide additional training to the CEs to address deficiencies identified in the review of schedule award payments.

Management's Response

Division of Federal Employees' Compensation (DFEC) agrees to require that CEs place signed copies of all schedule award decision letters into iFECS.

DFEC does not agree to provide additional training to CEs to address deficiencies identified in the review of schedule award payments. While management agrees that there was a single case with a typo in the decision and a single case where the decision was not in the case record, we do not concur with the second recommendation. Training would not be beneficial for either of these errors, and neither error affected the benefit payment.

Auditors' Response

Although management did not agree with the second recommendation, we note that management did confirm the errors. As such, we did not change our recommendations based on management's response. Follow-up procedures will be conducted in FY 2018 to determine whether corrective actions have been implemented.

2. Improvements Needed in Reconciliation of SF-133 to Statement of Budgetary Resources

The reconciliation of the amounts on the SF-133, *Report on Budget Execution and Budgetary Resources*, to line items reported on the Statement of Budgetary Resources (SBR), and management's review of the reconciliation, were not designed and implemented effectively for the year ended September 30, 2017. Specifically, we inspected the reconciliation as of March 31, 2017, and noted the following two SBR line items were not included in the reconciliation: Expired Unobligated Balance and Recoveries of Prior Year Paid Obligations (Discretionary and Mandatory). These line items had balances of $904.5 million and $4.6 million, respectively in the March 31, 2017, SBR. Therefore, the reconciliation was incomplete.

Per discussion with management, the unreconciled SBR line items were historically not included in the reconciliation because they were new line items in the FY 2016 SBR, and DOL's SF-133 to SBR reconciliation procedures did not require the preparer or reviewer to ensure that all line items included in the SBR were included in the reconciliation. Unreconciled SBR line items could cause management to overlook material variances between the SBR and SF-133. This in turn could cause material misstatements in the SBR.

Office of Management and Budget's (OMB) Circular A-136, *Financial Reporting Requirements*, section IV.3 states:

> Agencies are required to submit, for the interim quarter and for the fiscal year-end, an analysis of any material differences between the unaudited SBR and the department-wide SF 133, Report on Budget Execution and Budgetary Resources.

The GAO Standards, section 10.03 states:

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

Further, section 12.05 of the GAO Standards also states:

> Management periodically reviews policies, procedures, and related control activities for continued relevance and effectiveness in achieving the entity's objectives or addressing related risks.

Recommendation

3. We recommend the Principal Deputy Chief Financial Officer update the SF-133 to SBR reconciliation procedures to require that the reviewer ensure that all line items presented in the SBR are included in the reconciliation.

Management's Response

Management concurs with the recommendation. Office of the Chief Financial Officer (OCFO) management has corrected the SF-133 to the SBR reconciliation as of March 31, 2017. In addition, OCFO management has updated their SF-133 to SBR reconciliation procedures to require the preparer and reviewer ensure all line items included in the SBR are included in reconciliation.

Auditors' Response

Management indicated that action has been taken to address the matters identified in this comment. Follow-up procedures will be conducted in FY 2018 to determine whether the corrective actions have been implemented.

3. Improvements Needed in the Review of Separated Employees

During our testing of the operating effectiveness of controls associated with the DOL financial statement audit for the period October 1, 2016, to June 30, 2017, we noted certain instances in which the employee's separation clearance form was not appropriately completed in accordance with established procedures. Specifically, we identified the following exceptions in a sample of 45 separated employees selected for testing:

- For one separated employee, management was not able to provide the separation clearance form.
- For one separated employee, the separation clearance form was missing a signature from the supervisor.
- For two separated employees, the separation clearance form was missing a signature from finance/RASO.
- For five separated employees, the separation clearance form was signed by the employee after the employee's separation date.
- For two separated employees selected for testing, the separation clearance form was signed by the supervisor seven days after the employee's separation date.

We noted that there was a lack of enforcement and monitoring of control requirements across multiple levels of review for the employee separation process. Ineffective controls related to the separation of employees may result in incorrect payments to separated employees, which could result in a misstatement of payroll expense.

The U.S. Department of Labor Form DL1-107, *Separation Clearance*, states:

> Employing offices should prepare a clearance form for each departing employee. Each employee is required to clear the document with the appropriate office and return the signed form to his/her supervisor prior to departure from the current position. Authorized officials receiving returned items, or clearing the employee, will sign and date the document indicating the employee has cleared his/her obligation with the Department. The Separation Clearance form should be returned to the servicing Human Resource Office. Administrative Officers, RASOs, and Agency Regional Administrators are responsible to ensure the clearance process is initiated within seven (7) days of employee departure. Final personnel action will not be taken until the clearance has been completed.

The GAO Standards, Section 10.03, states:

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

Further, Section 16.05 of the GAO Standards states:

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

Recommendations

We recommend that the Deputy Assistant Secretary for Operations:

4. Implement policies and procedures to address the enforcement and monitoring of the control requirement for the employee separation process; and

5. Implement trainings that reinforce the separated employee process and emphasize established timeframes on the Form DL1-107A.

Management's Response

Management concurs with the recommendation. The separation clearance process involves several stakeholders such as the supervisor of the separating employee, his/her DOL Agency Administrative Officer, the OCFO, the servicing Human Resources (HR) Office, the Office of the Chief Information Officer (OCIO), and the Security Center. All parties are equally responsible for ensuring that this process is completed accurately and timely, in accordance with Departmental Personnel Regulations.

The Human Resources Center (HRC) is working with other stakeholders to strengthen compliance with the DPR. A small team was formed to examine areas for improvement.

HRC commits to:

- Issuing reminders to DOL supervisors about the separation clearance process.
- Advising servicing HR Offices to continue to hold the employee's final personnel action in abeyance until the separation clearance form has been completed.
- Continuing to examine opportunities to automate our clearance process.
- Improving the DPR Chapter 179- Separation Clearance.
- Conducting informational briefings to cover supervisory clearance responsibilities.

Auditors' Response

Management indicated that action will be taken to address the matters identified in this comment. Follow-up procedures will be conducted in FY 2018 to determine whether the corrective actions have been implemented.

4. Untimely Issuance of Single Audit Final Determination Letters

During FY 2017 testing procedures related to Single Audit Act compliance, we selected a sample of 35 grantees that submitted Single Audit Reports to the Federal Audit Clearinghouse (FAC) database for the period July 1, 2015 to June 30, 2016. In response to these reports, the Employment and Training Administration (ETA) was required to issue a management decision during FY 2017. As a result of our testing, we identified 16 instances in which a management decision was not issued within six months after receipt of the audit report as required by OMB A-133, Subpart D, Section 400 (c). Delays in issuing a management decision ranged from 3 to 212 days. The Office of Inspector General (OIG) contributed to the delays as it did not timely download reports from the FAC and provide them to ETA for management decision.

Furthermore, the OIG and ETA did not have effective monitoring procedures in place to ensure that Single Audit Reports were downloaded by the OIG and provided to ETA in a timely manner, and that ETA responded back to the OIG within 150 days. Not issuing management decisions over findings disclosed in Single Audit reports in a timely manner causes delays in the resolution of findings and questioned costs which may result in DOL funds not being used as intended.

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

> 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) states:

> The Federal awarding agency shall perform the following for the Federal awards it makes:
>
> (3) Ensure that audits are completed and reports are received in a timely manner and in accordance with the requirements of this part.
>
> (4) Provide technical advice and counsel to auditees and auditors as requested.
>
> (5) 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.
>
> (6) Assign a person responsible for providing annual updates of the compliance supplement to OMB.

Recommendations

We recommend that the Principal Deputy Chief Financial Officer coordinate with the OIG's Assistant Inspector General for Audit and the Assistant Secretary for Employment and Training to:

6. Effectively implement policies and procedures to enhance the monitoring controls to ensure all applicable reports from the FAC are downloaded, reviewed, accurately tracked and reported to the applicable agency, and resolved in accordance to the applicable guidance.

Management's Response

The OIG has revised its single audit policies and procedures to update for the change in Single Audit compliance guidance from OMB A-133 to 2 Code of Federal Regulations (CFR) §200. Specifically, 2 CFR §200.521(d), requires that a management decision must be issued within six months of acceptance of the audit report by the Federal Clearinghouse. The single audit agency cover letter now contains the Federal Audit Clearinghouse acceptance date in bold for each single audit report issued and is tracked.

Auditors' Response

Management indicated that action has been taken to address the matters identified in this comment. Follow-up procedures will be conducted in FY 2018 to determine whether the corrective actions have been implemented.

5. Untimely Review of Transaction Balance Package

The Black Lung Benefits Act Procedure Manual, Chapter 2-1402 requires the Division of Coal Mine Workers' Compensation's (DCMWC) district offices to produce and review the Transaction Balancing Report on a weekly basis. This report lists all changes made to Black Lung claimant information (additions, updates, and terminations) in the Automated Support Program (ASP).

During the FY 2017 financial statement audit, we identified certain instances in which the DCMWC management's review of the weekly Transaction Balancing Report was not completed timely. Specifically, we noted that for 3 of 18 weekly reports selected for testing, the District Director or designated reviewer completed their review 60, 82, and 52 days after the end of the week for Part C claims and 74, 75, and 52 days after the end of the week for Part B claims.

In addition, we noted certain cases in which DCMWC did not follow established procedures with respect to maintaining segregation of duties between the review of the *Benefit Payment Data* forms (CM-1261) and the review of the Transaction Balancing Report. Specifically, we noted 2 of 18 reports sampled in which the Transaction Balancing Signoff sheet was signed by the same individual who signed as "District Director (DD)" or "Claims Examiner (CE)" for the CM-1261 forms in the package.

With respect to the timeliness of the review, we noted that the *Coal Mine Black Lung Benefits Act Procedure Manual* did not require the reviewer to review and sign the Transaction Balancing Report within a specific time frame. In addition, there were resource constraints at certain offices that caused the delays in review and resulted in the same individual that reviewed the CM-1261 forms to review the Transaction Balancing Package. Failure to maintain appropriate segregation of duties and delays in completing the review of the Transaction Balancing Report increases the risk that errors in claimants' information are not detected and corrected in a timely manner.

The *Coal Mine Black Lung Benefits Act Procedure Manual*, Chapter 2-1402, part C states:

> Payment Transaction Report. This report details all processed transactions for a particular processing week. Each district director or designee (reviewer may not be anyone who prepared or input the CM-1261) must review the original CM-1261 input for each payment record listed on the "supplemental payment" and "payment transaction" reports and must ensure that there are no discrepancies between the payment record noted on the reports and the original CM-1261.

The GAO Standards, Section 10.02 states:

> Management designs control activities in response to the entity's objectives and risks to achieve an effective internal control system. Control activities are the policies, procedures, techniques, and mechanisms that enforce management's directives to achieve the entity's objectives and address related risks.

Further, Section 12.05 of the GAO Standards also states:

> Those in key roles for the unit may further define policies through day-to-day procedures, depending on the rate of change in the operating environment and complexity of the operational process. Procedures may include the timing of when a control activity occurs and any follow-up corrective actions to be performed by competent personnel if deficiencies are identified. Management communicates to personnel the policies and procedures so that personnel can implement the control activities for their assigned responsibilities.

The GAO Standards, Section 16.04 of, states:

> Management monitors the internal control system through ongoing monitoring and separate evaluations. Ongoing monitoring is built into the entity's operations, performed continually, and responsive to change.

Recommendations

We recommend the Director of the Office of Workers' Compensation Programs:

7. Amend the *Coal Mine Black Lung Benefits Act Procedure Manual* to include a specific and appropriate time frame for which the district offices are required to complete their review and approval of the weekly Transaction Balancing Package; and

8. Monitor DCMWC district offices' efforts to maintain segregation of duties in the review of the Transaction Balancing Packages.

Management's Response

Management concurs. Management is addressing the causes noted in the comment through amendments to the Black Lung Benefits Act Procedure Manual. Revisions in the manual will specify the time frame for review and signature of the Transaction Balancing Report and will specify procedures for compliance with the requirements for processing Transaction Balancing Reports in offices in which there are resource constraints. The procedure manual revisions are targeted in the third quarter of FY 2018 with interim instructions provided to the District Offices during the second quarter.

The revised manual will implement recommendation no. 7 by including a specific and appropriate time frame for which the district offices are required to complete their review and approval of the weekly Transaction Balancing Package and the manual will address the timely correction of errors.

Management will address recommendation no. 8 by implementing and monitoring an alternative procedure where resource constraints would otherwise prevent compliance through coordinating critical functions between district offices.

Auditors' Response

Management indicated that action will be taken to address the matters identified in this comment. Follow-up procedures will be conducted in FY 2018 to determine whether the corrective actions have been implemented.

6. <u>Improvements Needed in the Monitoring of Confidential and Public Filers</u>

As part of our testing of entity level controls, we selected a sample of 15 public filers and 15 confidential filers that submitted either Form 278 or Form 450 for the FY 2017. As a result of our testing, we identified the following:

- Five instance in which the employee (i.e., filer) did not submit the report timely, and no management follow-up occurred (2 ETA; 1 Office of the Solicitor (SOL); 1 Occupational Safety and Health Administration (OSHA); and 1 Veterans' Employment and Training Service (VETS)); and

- Three instances in which the SOL did not timely notify the employee of the requirement to file.

The SOL, OSHA, ETA, and VETS did not implement effective monitoring procedures to ensure that employees filed Form 278 or Form 450 timely. In addition, the SOL, OSHA, ETA, and VETS did not provide supporting documentation indicating timely follow-up with both Public and Confidential filers regarding untimely submission of the required forms. Without adequate procedures and controls to monitor the submission and review of confidential and public filers, there could be employees and/or contractors that have not had proper assessment of potential ethical conflicts.

The *Executive Branch Ethics Program*, 5 C.F.R. 2638.104(c), states:

> Acting directly or through other officials, the DAEO is responsible for taking actions authorized or required under this subchapter.(8) carrying out an effective financial disclosure program, by: (i) Establishing such written procedures as are appropriate relative to the size and complexity of the agency's financial disclosure program for the filing, review, and, when applicable, public availability of financial disclosure reports; (ii) Requiring public and confidential filers to comply with deadlines and requirements for financial disclosure reports under part 2634 of this chapter and, in the event of noncompliance, taking appropriate action to address such noncompliance; … (vii) timely certifying financial disclosure reports and taking appropriate action with regard to financial disclosure reports that cannot be certified.

The *Executive Branch Financial Disclosure, Qualified Trusts, and Certificates of Divestiture*, 5 C.F.R. 2634.201 states:

> General requirements, filing dates, and extensions.
>
> (a)*Incumbents.* A public filer as defined in § 2634.202 of this subpart who, during any calendar year, performs the duties of his position or office, as described in that section, for a period in excess of 60 days shall file a public financial disclosure report containing the information prescribed in subpart C of this part, on or before May 15 of the succeeding year.

> 5 CFR 2634.903 General requirements, filing dates, and extensions.
>
> (a)*Incumbents.* A confidential filer who holds a position or office described in § 2634.904(a) of this subpart and who performs the duties of that position or office for a period in excess of 60 days during the calendar year (including more than 60 days in an acting capacity) shall file a confidential report as an incumbent, containing the information prescribed in §§ 2634.907 and 2634.908 of this subpart on or before February 15 of the following year.

The GAO Standards, Section 10.03, states:

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

Recommendations

We recommend that the Acting Solicitor, Deputy Assistant Secretary for Occupational Safety and Health, Deputy Assistant Secretary for Employment and Training, and Deputy Assistant Secretary for Operations and Management for Veterans' Employment and Training

9. Develop and implement processes to effectively monitor the employee submission of confidential and public filers.

In addition, we recommend the Acting Solicitor:

10. Enhance its process for notifying employees of the filing requirements to ensure all notifications are made in a timely manner.

Management's Response

Management notes one inaccuracy in the condition section. The second bullet states that there were three instances in which SOL failed to timely notify a filer. We dispute that. While two of the instances were attributable to SOL's administrative error, one of the instances was the result of HR's failure to notify.

While we acknowledge instances in which employees were not timely notified of filing requirements and in which reports were not timely filed, it is important to note that the overwhelming majority of filers submit timely reports.

Additionally, it should be noted that a number of mitigating controls exist as part of DOL's ethics program. Training serves as a venue to reinforce employee understanding of ethics laws and rules. Training is provided annually to all public filers in the National Office and the Regional offices vis-à-vis materials prepared by our office and generally delivered through live trainings. New career employees receive written summaries of the ethics rules and an initial ethics briefing in the context of an onboarding program through our Office of the Assistant Secretary for Administration and Management (OASAM). In person training is provided to all confidential filers every three years with written materials in the interim. SOL has also provided specialized training to procurement officials and grant managers, as well as new supervisors, agency investigators, advisory committee members, and upon request, at staff meetings of various program offices on topics of interest to that office. We provide one-on-one ethics briefings for all incoming PAS (Presidentially Appointed Senate Confirmed) officials and small group briefings for incoming Schedule C political appointees.

Financial disclosure consists of more detailed reporting required by public filers and a less rigorous form for confidential filers. Review and certification of public filer reports is centralized in our office, but the confidential reporting system is delegated to and administered primarily by the agencies, responsible for both review and certification. The forms are necessarily rough tools to identify actual or potential conflicts of interest given that they are snapshots of assets at the time the report is filed. This is merely one step in the process, a point seemingly lost during discussions with the auditors. The process is supplemented by periodic reporting of securities transactions under the STOCK Act. Our office regularly reminds employees of their obligation to comply with the law, to recognize conflicts when they arise, and to appropriately bring these to our attention at any time – not just when they have submitted a financial disclosure report. Complying with the conflicts laws is a personal and continuing obligation of the employee.

We are continuously recognizing and addressing issues in an effort to improve the program and will continue to do so.

Auditors' Response

Although management disagreed with certain elements of the comment, management indicated that actions will be taken to address the matters identified in this comment. Follow-up procedures will be conducted in FY 2018 to determine whether corrective actions have been developed and implemented.

New Information Technology Comment and Recommendation Identified in FY 2017

7. Weakness in the E-Grants System Monitoring Process

During our FY 2017 audit procedures, we determined that neither SolarWinds, Nagios, nor any other tool was implemented to monitor the performance of the three servers that support the E-Grants application and database between October 1, 2016 and May 31, 2017. However, we noted that Nagios was fully implemented and operational for E-Grants servers as of June 1, 2017.

OASAM management stated that the OCIO was in the process of upgrading to a new enterprise level tool, SolarWinds, to replace Nagios and during the upgrade, Nagios was turned off. However, OCIO experienced an issue implementing SolarWinds and Nagios was not turned back on while the OCIO was working to resolve the issue due to an oversight. Without system performance monitoring and real-time alerts, OASAM personnel are unable to receive timely notification when a critical E-Grants server goes offline. In an event like this, the server may not be able to be brought back online in a timely manner, leading to a loss of the availability and integrity of data in the E-Grants application and database.

The DOL Computer Security Handbook (CSH), Version 1.0, last reviewed on March 31, 2016, Volume 17, System and Information Integrity Policies, Procedures, and Standards, page 10 states:

> DOL’s additional required minimum standards on monitoring information systems for Moderate and High information systems are as follows:
>
> 1. The agency employs automated tools to support near real-time analysis of events.
>
> […]
>
> 3. The information system alerts agency and/or enterprise designated individuals when agency-defined indications of compromise or potential compromise occur (such as irregular consumption or audit function disablement).

National Institute of Standards and Technology (NIST) Special Publication (SP) 800-53, *Recommended Security Controls for Federal Information Systems and Organizations*, Revision 4, page F-129 states:

The organization:

a. Monitors the information system to detect:
    a. Attacks and indicators of potential attacks in accordance with [*Assignment: organization-defined techniques and methods*]
    b. Unauthorized local, network, and remote connections

[…]

c. Deploys monitoring devices: (i) strategically within the information system to collect organization-determined essential information; and (ii) at ad hoc locations within the system to track specific types of transactions of interest to the organization;

Recommendation

11. We recommend that the Chief Information Officer coordinate with Deputy Assistant Secretary for Operations to continue implementing SolarWinds for full system monitoring functionality and to utilize Nagios until SolarWinds is fully implemented.

Management's Response

Management concurs with the original finding but has since remediated this weakness with the implementation of SolarWinds in August 2017. OCIO remained aware SolarWinds was not operational when the audit was conducted in June of 2017 because OCIO experienced an issue with the SolarWinds implementation that caused a setback. OCIO implemented Nagios after June 1st, 2017 as an alternate monitoring performance tool while SolarWinds was being implemented. In August 2017, the implementation of SolarWinds was completed. At such time, Nagios was turned off. No Plan of Action & Milestones will be created since the finding has been fully remediated.

Auditors' Response

Management indicated that action has been taken to address the matters identified in this comment. Follow-up procedures will be conducted in FY 2018 to determine whether the corrective actions have been implemented.

Prior Year Financial Comments and Recommendations Still Present in Fiscal Year 2017

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

In FY 2016, we continued to recommend that the OCFO management monitor DOL agencies' efforts to properly resolve prior year differences in accordance with Division of Central Accounting Operations' (DCAO) established timeline. The Fund Balance with Treasury (FBwT) reconciliation and management's review of that reconciliation were not implemented effectively for the year ended September 30, 2017. Specifically, we inspected the February 2017 reconciliation for Treasury Account Fund Symbol (TAFS) 16140400 for which OSHA was responsible. We noted 49 differences on the reconciliation that were outstanding for more than three months, that in absolute value, totaled $15 million. Some of the differences dated back to October 2013. We did note 44 of the 49 differences related to payroll transactions, were resolved in the April 2017 reconciliation. OCFO management confirmed that differences aged over 90 days were not limited to the TAFS/Agency selected for testing.

Per discussion with management, these differences were created by transactions recorded by other agency location codes (ALC) (e.g., the OCFO and regional offices within DOL) and were originally caused by the transition from SF-224 to CARS reporting in FY 2014 and 2015. However, due to staff turnover within the responsible agencies, internal knowledge of the source of these differences has decreased over time. As a result, OCFO did not receive the necessary information from the agencies to resolve the differences timely. Differences that are not properly researched and resolved timely could compromise the reliability of FBWT balances, other U.S. Standard General Ledger (USSGL) account balances contra to the USSGL 101000 account, and the U.S. Department of the Treasury's (Treasury) published financial reports. This, in turn, could compromise the overall integrity and status of DOL's financial position.

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

> Monthly, they (agencies) must reconcile the USSGL account 1010 balances for each fund symbol with 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, Sections 14.01 and 14.04 states:

> Management should internally communicate the necessary quality information to achieve the entity's objectives.
>
> Management receives quality information about the entity's operational processes that flows up the reporting lines from personnel to help management achieve the entity's objectives.

The Treasury's 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, last updated December 6, 2016, 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 open prior year recommendation has been modified. See below.

Current Year Recommendation

12. We recommend that the Principal Deputy Chief Financial Officer work with the other DOL agencies to improve communication so that the information needed to properly resolve aged FBWT differences is received timely and in accordance with DCAO's established timeline.

Management's Response

Management concurs with the recommendation. Management will assess potential corrective action to address the comment in the current fiscal year.

Auditors' Response

Management concurred with this recommendation. Follow-up procedures will be conducted in FY 2018 to determine whether the corrective actions have been developed and implemented.

9. Lack of Advisory Council on Unemployment Compensation

In FY 2016, we recommended that the Assistant Secretary for Employment and Training continue assessing and pursuing the resources needed to convene an Advisory Council on Unemployment Compensation (ACUC) and comply with Section 908 of the Social Security Act (SSA). We noted in FY 2017 that ETA was not in compliance with Section 908 of the SSA, which requires the ACUC to meet every four years. The last meeting of the ACUC was in 1997. Over the past several fiscal years, ETA completed an assessment of resources needed to convene the ACUC in order to comply with Section 908 of the SSA and pursued a budget proposal to fund the ACUC or propose language revisions to the SSA. However, ACUC funding was not included in either the final FY 2017 or FY 2018 President's Budgets because of competing priorities. In addition, due to the change in administration, ETA has not had the opportunity to work with new departmental leadership to evaluate options for addressing this finding.

Section 908 of the SSA states:

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

Prior Year Recommendation

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

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

Management's Response

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

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

Neither approach has been successful. Management will work with new Departmental leadership during FY 2018 to evaluate options for addressing this recommendation.

Auditors' Response

Management indicated that action will be taken to address the matters identified in this comment. Follow-up procedures will be conducted in FY 2018 to determine whether corrective actions have been developed and implemented.

10. Untimely ETA-9130 Cost Report Acceptance by a Federal Project Officer

In FY 2016, we recommended that the Employment and Training Administration, 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. During our FY 2017 audit, we inquired of management to determine if remediation efforts were completed to address prior year recommendations mentioned above. ETA management informed us that they were developing a comprehensive standard operating procedure (SOP) that would include written procedures to address the concern of timely reassignment of Federal Project Officers (FPO) and staff. However, the SOP was not finalized as of September 30, 2017. Since management has not completed and implemented adequate oversight procedures, the recommendation from the previous year has not been fully addressed in FY 2017.

Additionally, we selected a sample of eight delinquent grants identified in the March 31, 2017 delinquent reporting analysis for testing. For 5 of the grants selected for testing, we noted the FPO did not accept the cost reports in a timely manner. The days late for these five reports ranged from 6 days to 61 days. In addition, the grantee submitted their cost reports after the 45 day deadline for 2 of the 5 grants noted above and no support was provided by management to evidence that a FPO followed up with the grantee to ascertain the reason for delinquency.

Due to a lack of resources and competing priorities, management was not able to satisfactorily implement our recommendations to 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. 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, Section 10.10, states:

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

Further, Section 10.03 of the GAO Standards also states:

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

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

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

Prior Year Recommendation

The following prior year recommendation remains open:

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

Management's Response

Management continues to strive to make improvements in the area of timely ETA-9130 cost report acceptance by FPO. As a result, to 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, ETA issued Employment and Training Order (ETO) 1-17 entitled "Grants Management Policies and Responsibilities within the Employment and Training Administration" on September 19, 2017. This comprehensive document reflects a holistic, agency-wide approach to revising all current grants management responsibilities, processes and procedures, including guidance on the timely reassignment of FPOs, and ETA 9130 acceptance requirements.

Additionally, it should be noted that two out of the eight sampled delinquent 9130 reports were in the Women's Bureau (WB), another agency in DOL with grants management responsibilities. Through a memorandum of understanding (MOU), ETA provides grants administration services for the WB. FPOs in the WB are unable to access E-Grants due to cross-agency limitations in E-Grants. As a workaround, ETA provides the 9130s to the WB and subsequently accepts the reports upon WB concurrence, which sometimes results in delays in receiving and reviewing documents. As a DOL grant-making agency, the WB will eventually have access to E-Grants as part of DOL's Grants Modernization which will provide for a less convoluted process. Until such time, in an effort to mitigate delinquent reporting, the WB has committed to adhering to the guidelines outlined in ETO 1-17, more diligent follow-up, along with providing ETA individual concurrence rather than waiting until all reports are acceptable.

Lastly, there were a total of 4,646 9130s for ETA action on March 31, 2017. Only 20 were delinquent for the Regional Offices and 37 delinquent for the National office. Based on these numbers, ETA was timely 98.8 percent of the time.

Auditors' Response

Management indicated that action has been taken to address the matters identified in this comment. Follow-up procedures will be conducted in FY 2018 to determine whether the corrective actions have been implemented.

11. Untimely Federal Project Officers Desk Review

During our FY 2017 control testing, we performed procedures to determine if remediation efforts were completed to address prior year recommendations related to FPO desk reviews. For the first recommendation, ETA management informed us that its E-Grants Modernization efforts had begun and a Steering Committee was convened to meet with key stakeholders to identify the requirements for designing and deploying a new, integrated, modernized grants management system. However, because of a lack of resources the modernization efforts were not expected to be completed for at least two years. As such, the related recommendation from the previous year had not been addressed.

For the second recommendation procedures, ETA was in the process of developing a comprehensive SOP document that would include written procedures to address grant management responsibilities. However, the SOP was not completed as of September 30, 2017. As such, the related recommendation from the prior year was not addressed during FY 2017.

In addition, we selected a sample of 30 grants from the population of grant expenses recorded in NCFMS as of March 31, 2017 to determine if FPO desk reviews were properly performed and documented in GEMS. For 1 of the 30 grants selected, we noted that the review occurred one day after the reporting deadline.

Due to a lack of resources and competing priorities, 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. Without a formal SOP and the lack of specific policies and procedures relating to FPO reassignments, management was unable to promptly reassign a FPO 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 violation. Additionally, failure to implement proper monitoring controls to ensure compliance with existing policies and procedures increases the risk that policy deviations are not detected and corrected. Without adequate grantee monitoring controls, grantees may misreport, intentionally or unintentionally, grant expenses without the misstatement being detected by ETA, or may fail to report grant expenditure details. As a result, grant-related expenses, advances, payables, and undelivered orders could be misstated.

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

> A quarterly desk review is required on all projects in GEMS. Desk reviews must be completed following a review of both the progress and cost reports submitted during the reporting timeframe. Section iii below [not included] identifies the due dates for Desk Review completions.
>
> Frontline supervisors are responsible for ensuring the FPOs meet these requirements and timeframes. Supervisors conduct quarterly reviews of the GEMS exception report and notify FPOs of concerns or anomalies

regarding completeness or timeliness. Supervisors report their unit's status to their Administrator on a regular basis.

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

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

The GAO Standards states:

> Management clearly documents internal control and all transactions and other significant events in a manner that allows the documentation to be readily available for examination. The documentation may appear in management directives, administrative policies, or operating manuals, in either paper or electronic form. Documentation and records are properly managed and maintained. (Section 10.02)

> Management designs control activities for appropriate coverage of objectives and risks in the operations. Operational processes transform inputs into outputs to achieve the organization's objectives. Management designs entity-level control activities, transaction control activities, or both depending on the level of precision needed so that the entity meets its objectives and addresses related risks. (Section 10.08)

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

> Management performs ongoing monitoring of the design and operating effectiveness of the internal control system as part of the normal course of operations. Ongoing monitoring includes regular management and supervisory activities, comparisons, reconciliations, and other routine actions. (Section 16.05)

Prior Year Recommendations

The following prior year recommendations remain open:

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

- Correct the configuration of GEMS to ensure that multiple desk reviews for the same period are associated with the correct period, and in the interim, implement additional monitoring procedures to verify that desk review submission dates correspond with the appropriate quarterly review timeframe; and

- Develop and implement written policies and procedures to provide specific guidance on the timely reassignment of FPOs.

Management's Response

ETA management is committed to improving the current process and will frequently evaluate the process to make necessary improvements. ETA continues its E-Grants Modernization effort and has convened a Steering Committee that is meeting with key stakeholders and identifying the requirements for designing and deploying a new, integrated, modernized grants management system. ETA notes that this is a 2-3-year planning and developmental process to ensure comprehensive design and implementation of a system that addresses our grant management requirements, processes and procedures. GEMS will not be updated. GEMS is one of a family of legacy systems at or near the end of their lifecycles.

As of October 2017, two DOL agencies were launched in Acquisition Management System (AMS)-Grants for all of their new FY 18 grants (Wave 1). Progress continues for Grants Modernization with Wave 2 pre-planning. Wave 2 is planned to launch AMS-Grants to ETA and several other agencies. Currently, the team is standing up a Wave 2 Working Group, which will be an important forum for agency representatives to actively participate in planning and development, helping ensure the right requirements and business needs are captured in AMS-Grants. At the end of Wave 2 (approximately FY 19 Q2), almost all major system functions should be available, including multiple 9130s, monitoring services (GEMS) and more.

ETA has addressed the recommendation to develop and implement written policies and procedures to provide specific guidance on the timely reassignment of FPOs via the issuance of ETO 1-17 entitled "Grants Management Policies and Responsibilities within the Employment and Training Administration" on September 19, 2017. This comprehensive document reflects a holistic, agency-wide approach to revising all current grants management responsibilities, processes and procedures, including guidance on the timely reassignment of FPOs. Additionally, ETA would like to state for record that in this audit cycle, none of the 30 grants from the sample received untimely desk reviews due to the issue of timely reassignment of an FPO.

ETA also addressed the recommendation by conducting a GEMS Refresher Training for FPOs, which took place on September 21, 2017. ETA is committed to FPO training in FY 18 and held a week-long FPO Training on October 30 - November 3 in the Frances Perkins Building for new and veteran FPOs located in the national and regional offices. ETA hosted a second FPO training class on February 27th – March 1st, 2018.
The ETA Operating Plan states that 95% of desk reviews must be completed timely in which ETA has exceeded with a 96.6% timely completion rate.

Auditors' Response

Although management disagreed with certain elements of the comment, management indicated that action will be taken to address the matters identified in this comment. Follow-up procedures will be conducted in FY 2018 to determine whether the corrective actions have been implemented.

12. <u>Untimely Filing of On-Site Monitoring Review Reports</u>

During our FY 2017 walkthroughs for the grants process, we inquired with ETA management regarding the status of remediation efforts needed to address the prior year recommendations. For recommendation No.1, ETA informed us that the recommendation was not implemented as of year-end. As such, recommendation No.1 remains open. For recommendation no. 2, we noted that ETA did not explicitly update written policies and procedures to include guidance on monitoring the timely completion of regional on-site monitoring. As a result, recommendation No. 2 remains open. For recommendation No. 3, ETA began its E-Grants Modernization effort and convened a Steering Committee to meet with key stakeholders to identify the requirements for designing and deploying a new, integrated, modernized grants management system. However, because of a lack of resources the modernization efforts were not expected to be completed for at least two years. As such, recommendation No. 3 remains open.

In addition, we selected a sample of 25 site visits from the Regional Site Visit Monitoring Plan for the period October 1, 2016, through March 31, 2017, to determine if On-Site Visits were properly performed and documented in GEMS and determined the following:

- For 1 of the 25 site visits selected, the Site Visit Report was not issued within 45 days of the exit conference date,
- For 5 of the 25 site visits selected, the Site Visit Report was not included in GEMS within 30 days of the issuance of the report, and

- For 3 of the 25 site visits selected not mentioned above, neither the Site Visit Report was issued within 45 days nor included in GEMS within 30 days.

The aforementioned reports were completed late by a range of 1 day to 420 days of the exit conference date or the issuance of the report.

ETA had not completed the development and implementation of policies and procedures to address the recommendations we initially made in FY 2014, and repeated in FY 2015 and 2016.

Failure to properly monitor site visit plans 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 in a timely manner. Without adequate controls in the grant monitoring process, grantees may be misusing grant funds without detection by DOL. As a result, grant-related expenses, advances, payables, and undelivered orders could be misstated.

The GAO Standards states:

> Management clearly documents internal control and all transactions and other significant events in a manner that allows the documentation to be readily available for examination. The documentation may appear in management directives, administrative policies, or operating manuals, in either paper or electronic form. Documentation and records are properly managed and maintained. (Section 10.03)

Further, the GAO Standards states:

> Management uses quality information to support the internal control system. Effective information and communication are vital for an entity to achieve its objectives. Entity management needs access to relevant and reliable communication related to internal as well as external events. (Page 58)
>
> Management performs ongoing monitoring of the design and operating effectiveness of the internal control system as part of the normal course of operations. Ongoing monitoring includes regular management and supervisory activities, comparisons, reconciliations, and other routine actions. (Section 16.05)

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

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

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

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

Prior Year Recommendations

The following prior year recommendations remain open:

We continue to recommend that Deputy Assistant Secretary for Training and Administration:

- 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

Management Concurs. ETA has addressed recommendations no. 1 and no. 2 via the issuance of ETO 1-17 entitled "Grants Management Policies and Responsibilities within the Employment and Training Administration" on September 19, 2017. This comprehensive document reflects a holistic, agency wide approach to revising all current grants management responsibilities, processes and procedures, including several references to monitoring policies and responsibilities throughout the document as well as a brand new Standard Operating Procedure (SOP) regarding monitoring plans. This SOP outlines the procedures all grants management staff should follow with respect to developing, implementing and updating monitoring plans as well as guidance on the timely completion of on-site monitoring. Additionally, Attachment A of ETO 1-17 reflects Grants Management System Documentation Requirements and outlines monitoring reporting deadlines with the Grants Management System.

In terms of Recommendation #3, Attachment A of the new ETO 1-17 outlines Grants Management System Documentation Requirements which addresses part of KPMG's recommendation to develop controls to ensure on-site monitoring review reports are uploaded timely into GEMS with appropriate documentation. ETA continues its E-Grants Modernization effort and has convened a Steering Committee that is meeting with key stakeholders and identifying the requirements for designing and deploying a new, integrated, modernized grants management system. ETA notes that this is a 2-3-year planning and developmental process to ensure comprehensive design and implementation of a system that addresses our grant management requirements, processes and procedures. GEMS will not be updated. GEMS is one of a family of legacy systems at or near the end of their lifecycles. As of October 2017, two DOL agencies were launched in AMS-Grants for all of their new FY18 grants (Wave 1). Progress continues for the Grants Modernization with Wave 2 pre-planning. Wave 2 is planned to launch AMS-Grants to ETA and several other agencies. Currently, the team is standing up a Wave 2 Working Group, which will be an important forum for agency representatives to actively participate in planning and development, helping ensure the right requirements and business needs are captured in AMS-Grants. At the end of Wave 2 (approximately FY 19 Q2), almost all major system functions should be available, including multiple 9130s, monitoring services (GEMS) and more (see attached newsletter).

ETA also addressed the recommendation by conducting a GEMS Refresher Training for FPOs, which took place on September 21, 2017. ETA is committed to FPO training in FY 18 and held a week-long FPO Training October 30 - November 3 in the Frances Perkins Building for new and veteran FPOs located in the national and regional offices. ETA also planned to host a second FPO training on January 22 - 26, 2018. However, due to the FY 18 Continuing Resolution, which ended on January 19, 2018, and the three-day lapse in funding, ETA hosted the second FPO training class February 27 – March 1, 2018.

ETA met its timely monitoring goal of 80%. In addition, ETA management has briefed staff to stress the importance of adhering to guidelines outlined in the new ETO 1-17. Lastly, content covered during the GEMS and FPO training sessions document and reiterate for grants management staff the importance of proper and timely execution of on-site monitoring and meeting the applicable reporting deadlines.

Auditors' Response

Management indicated that action will be taken to address the matters identified in this comment. Follow-up procedures will be conducted in FY 2018 to determine whether the corrective actions have been implemented.

13. Insufficient Supporting Documentation for Contracts

During our FY 2017 audit, we performed procedures to determine if remediation efforts were completed to address the prior year recommendations related to supporting documentation for contracts. Based on our procedures, we noted that the recommendation for developing and implementing minimum documentation requirements to support compliance with the Federal Acquisition Regulation (FAR) were developed and implemented in FY 2017. In addition, we selected a sample of 63 contracts from the NCFMS for the period October 1, 2016, through September 30, 2017, and did not identify any instances of insufficient documentation during our testing. As such, we are closing prior year recommendation No. 1.

DOL management implemented a Contract Review Board (CRB) to provide monitoring and oversight of competitive contracts. In FY2017, 31 contracts went through the Contract Review Board process. We selected a sample of 5 of the 31 contracts that went through the Contract Review Board process and performed testing procedures to determine whether prior year recommendation No. 2 was adequately implemented. For 2 of the contracts selected for testing, management was not able to provide supporting documenting to demonstrate the contracts were reviewed by the CRB. As such, prior year recommendation No. 2 is only partially addressed and will remain open.

Sufficient resources had not been applied to the planned remediation activity of the CRB. Inadequate oversight of the contract award process may pose a risk of not detecting on a timely basis instances of non-compliance which could lead to extension of contract funding to non-eligible recipients.

The GAO Standards, Section 10.03 states:

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

Prior Year Recommendation

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

Current Year Recommendation

13. We recommend that Deputy Assistant Secretary for Employment and Training provide sufficient resources to the Contract Review Board process to ensure that contract files include the required documentation and to confirm completeness of the contract file documentation.

Management's Response

Management does not concur. The Office of Contracts Management maintains that the corrective action considered to remedy deficient contract file documentation is inappropriate. The CRB policy in place when the 2016 NFR was issued is identified immediately following this paragraph. Moreover the policy was updated in May 2017 and further streamlined the process of what documents would be reviewed by the CRB.

The CRB is not a file audit. The purpose of the contract review board is to:

- Ensure that the Statement of Work or specifications should be understandable to a third party.
- The last chance to check for standardized clauses and the proper use of Federal Acquisition Regulation (FAR) clauses.
- Ensure that the Statement of Work matches the Type of Contract under FAR Part 16.
- Ensure that the pricing, proposal technical instructions and evaluation criteria are appropriate and internally consistent.
- Periodically relate lessons learned across staff.

Once a proposed solicitation, competitive range determination, or award decision is approved by the CRB the CO receives written approval. This is not a validation of the contract file contents. Our process includes senior procurement professionals (Administrator, Deputy Administrator and all Division Chiefs), a representative from the

Solicitors Office, the Contracting Officer, Specialist, and Panel Chair for the procurement or the COR. This board does not review the contract file pre award file.

Under the May 2017 CRB Policy, the purpose of the CRB is to:

- Assess the consistency of the competitive range or award decision with selection criteria
- Analyze documentation to ensure quality and defensibility
- Share lessons learned with staff
- Educate the acquisition workforce

Auditors' Response

Although management does not concur with the recommendation, our testing noted two instances in which we did not receive supporting documentation to indicate a review had occurred. As such, we did not change our recommendation based on management's response. Follow-up procedures will be conducted in FY 2018 to determine if corrective actions were developed and implemented.

14. <u>Untimely Grant Closeout</u>

We noted the recommendation for Bureau of International Labor Affairs (ILAB) was adequately addressed and implemented in FY 2017. Specifically, ILAB's management informed us that they implemented system enhancements to assist in monitoring the closeout process for expired grants that were not closed within the 365 days of expiration. On April 17, 2017, management provided alerts related to the E-Grants notification enhancements whereby initial deployment went out on March 8, 2016, and bugs were fixed on February 16, 2017.

During our FY 2017 walkthroughs of grant closeout procedures, we inquired of management about the controls in place to ensure backlogged grants and recently expired grants were appropriately closed in accordance with DLMS policies and procedures. VETS management indicated that progress had been made in closing backlogged grants, but certain backlogged grants remained open. We noted that 5 out of 8 expired VETS grants selected for testing were not closed within 365 days of expiration as of March 31, 2017.

In addition, we selected a sample of 30 grants closed out within the FY 2017 from the grant expired listing, for the period from October 1, 2015, to March 31, 2016, for our testing of the grant close out process and identified six VETS grants that were not closed timely and did not have sufficient justification for remaining open. The untimely closeout ranged from 26 days overdue to 34 days for four of the grants while the other two grants were over 365 days late and still remained open as of March 31, 2017.

Supporting documentation was not maintained appropriately by VETS, and a lack of communication occurred between the grant officers and grantees concerning delays in grant close-out. Also, VETS developed a backlog of expired grants to be closed because of resource constraints over a period of several years. While additional resources were added in prior years and the current fiscal year to assist with addressing the backlog of expired grants, they were not sufficient to clear this backlog as of our testing date or to remain up-to-date in closing current year expired grants. Without adequate processes and controls to timely close out expired grants and de-obligate any remaining funds, undelivered orders may be overstated

The GAO Standards, Section 10.03, states:

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

Further, section 10.03 of the GAO Standards, also states:

> Management clearly documents internal control and all transactions and other significant events in a manner that allows the documentation to be readily available for examination. The documentation may appear in management directives, administrative policies, or operating manuals, in either paper or electronic form. Documentation and records are properly managed and maintained.
>
> Management performs ongoing monitoring of the design and operating effectiveness of the internal control system as part of the normal course of operations. Ongoing monitoring includes regular management and supervisory activities, comparisons, reconciliations, and other routine actions.

Department of Labor Manual Series (DLMS) 2 – Administration: Chapter 800 – Grant and Procurement Management; Section 875 – Responsibilities states:

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

office, who shall be responsible for administration including closeout.

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

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

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

> Special circumstances may exist which delay closeout, such as a closeout following termination or a closeout where litigation or an appeal is pending. Unless such a circumstance exists, the contracting or grant officer shall close out a contract, grant, or agreement as soon as possible after completion (as defined in the DLMS 2-7, "HANDBOOK—CLOSEOUT OF CONTRACTS, GRANTS, AND AGREEMENTS"). Closeout should be accomplished within the following periods after completion:
> a. Firm fixed-price contracts – 6 calendar months. (Except for contracts for automatic data processing (ADP)).
> b. All other contracts – 18 calendar months.
> c. Grants and agreements – 12 calendar months.

Prior Year Recommendations

The following prior year recommendation remains open:

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

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

Current Year Recommendation

14. We recommend the Deputy Assistant Secretary for Operations and management for Veterans' Employment and Training evaluate resource needs and address any shortages to promptly address not only the grants backlog, but also current year expired grants and to properly follow procedures related to the monitoring of the

closeout process for grants that have expired and have not been closed within 365 days of expiration.

Management's Response

VETS concurs with the Notification of Findings and Recommendations overall. Since the implementation of the MOU between ETA's Office of Grants Management (OGM) and VETS beginning October 1, 2015, the concerted efforts of OGM were focused exclusively on addressing the VETS closeout backlog of grants that were impacted by GONE ACT deadlines, i.e. those grants whose period of performance end date ended on or before September 30, 2015. As that backlog of 742 grants has now been eliminated, OGM is re-directing its efforts to the remaining VETS grants now eligible for closeout. OGM and VETS are monitoring it monthly to track the closeout of these remaining grants. In addition, VETS is proactively reporting to the VETS Regional Administrators grantees and Grant Officer's Technical Representatives (GOTRs) who have not properly reported or certified the reports or submitted the final closeout report. VETS worked with OGM to develop a closeout standard operating procedure and training presentation that will be released in the next 90 days to GOTRs and grantees.

The two grants in the sample listed as "not yet closed" are part of the current cohort and will be addressed as the closeout process continues forward. In addition to resources directed by the MOU to grant closeout, VETS continues to support one full-time contracted closeout specialist to address the existing backlog of grants.

Auditors' Response

Management indicated that action will be taken to address the matters identified in this comment. Follow-up procedures will be conducted in FY 2018 to determine whether the corrective actions have been implemented.

15. Improvements Needed in Managements Review of the Federal Employees' Compensation Act Existing Claims Accrual

During our testing of the design and implementation of management's review of the FECA existing claims accrual as of December 31, 2016, we noted that ETA management addressed prior year recommendation No. 2. Specifically, management revised the review procedures within the *FECA Existing Claims Accrual Methodology* to include a threshold for the variances in the estimated accruals from quarter to quarter. However, no additional monitoring control procedures were added during FY 2017 to enforce the management review requirements outlined in the *FECA Existing Claims Accrual Methodology* document. As such, prior year recommendation No. 1 is still open.

In addition, management did not provide adequate explanation for the differences and outliers that fell outside of management's second expected range. Specifically, we noted management's December 2016 accrual estimate was 14 percent of the annual budget estimate, which was not within the management's expected range of roughly 20 to 30 percent and there was no evidence provided to demonstrate this outlier was investigated.

Management indicated in its FY 2016 corrective action plan that they did not believe previously issued recommendations would lead to any improved accuracy of the estimate. In addition, management believed the new metric provided a sufficient warning level to the reviewer that further investigation was warranted when the ratio was outside the established ranges. OUI management indicated that the calculation of the accrual to current annual budget estimate was roughly within the noted range documented within their estimate methodology. However, the estimate fell six percent outside of management's range. Application of the FECA existing claims methodology without sufficient understanding of the root cause of significant variances may result in a misstatement in the related accrued benefits and costs.

The GAO Standards, Principle 6, states:

> Management defines risk tolerances for the defined objectives. Risk tolerance is the acceptable level of variation in performance relative to the achievement of objectives. Risk tolerances are initially set as part of the objective-setting process. Management defines the risk tolerances for defined objectives by ensuring that the set levels of variation for performance measures are appropriate for the design of an internal control system.
>
> Management also evaluates whether risk tolerances enable the appropriate design of internal control by considering whether they are consistent with requirements and expectations for the defined objectives. As in defining objectives, management considers the risk tolerances in the context of the entity's applicable laws, regulations, and standards as well as the entity's standards of conduct, oversight structure, organizational structure, and expectations of competence. If risk tolerances for defined objectives are not consistent with these requirements and expectations, management revises the risk tolerances to achieve consistency.

Further, the GAO Standards, Principle 7, also states:

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

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

Finally, the GAO Standards, Appendix I, states:

> Documentation is a necessary part of an effective internal control system. The level and nature of documentation vary based on the size of the entity and the complexity of the operational processes the entity performs. Management uses judgment in determining the extent of documentation that is needed. Documentation is required for the effective design, implementation, and operating effectiveness of an entity's internal control system.
>
> FECA Existing Claims Accrual Methodology – Overview
>
> […]
>
> 2. Compare accrual to current annual budget estimate for UCFE-X. The accrual should be roughly 20-30% of the annual estimate.

Prior Year Recommendation

The following prior year recommendation remains open:

- We continue to recommend that the Deputy Assistant Secretary for Employment and Training 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.

Current Year Recommendation

15. We recommend that Deputy Assistant Secretary for Employment and Training update the *FECA Existing Claims Accrual Methodology* to require that outliers that fall outside of management expected range be properly researched and documented.

Management's Response

Management does not concur. Management continues to develop and implement monitoring controls to enforce the review requirements per the *FECA Existing Claims Accrual Methodology* and ensure that they are sufficiently documented. ETA made adjustments to its current process in June 2017; KPMG performed its test work in July 2017 stating that an accrual estimate of 14 percent of the annual budget estimate was not within the management's expected range of roughly 20 to 30 percent. However, this finding fails to cite that the Management methodology document dated June 5, 2017 states that the range of the quarterly accrual estimate is between 10 to 20 percent.

KPMG continues to recommend that ETA management update the FECA Existing Claims Accrual Methodology to require that outliers that fall outside of management expected range be properly researched and documented. ETA updated its procedures to:

> From Management Existing Claims Methodology Document,
> June 5, 2017 – page 4:
> 5) Compare accrual to current annual budget estimate for UCFE-X. The accrual should be 10-20% of the annual estimate.

It was explained to the auditors that the previous range of 20 to 30 percent pertained only to a period when the extended and emergency benefit programs were activated and that the range has since been modified, thus ETA considered this finding to be closed.

Auditors' Response

We note that management's updated policies were not implemented until the beginning of the third quarter and the selected item for testing was the first quarter estimate. Although management disagreed with certain elements of the comment, management indicated that actions are in place to address the matters identified in this comment. Follow-up procedures will be conducted in FY 2018 to determine whether the corrective actions have been implemented.

16. Improvements Needed in Management's Documentation of the Review of the Due and Payable Estimate

During our testing of operating effectiveness of controls over the due and payable estimate as of December 31, 2016, we evaluated management's remediation of the prior year recommendation and noted that management updated the *Due and Payable Accrual Methodology* to clarify the outliers to be documented and how outliers should be addressed if the data appears misreported. Specifically, management indicated that estimates that fall outside the stated range (outliers) for both prior quarter and prior year should receive further review. In addition, if any of the data items include clearly misreported data values, the questionable data may be replaced by estimates using various methods, including interpolation between values for adjacent periods.

However, management did not specify in the *Due and Payable Accrual Methodology* how outliers were investigated and how management determined misreported data values As such, we consider the prior year recommendation partially addressed.

Management believed that inquiring of states the reason or rationale for outlying or inconsistent data is outside the reviewer's ability and information readily available to the reviewer. In addition, management stated that due to the limited timeframe available to complete and submit estimates on a near monthly basis following the end of each period, state inquires cannot be completed in a timely manner in order to submit estimates by required deadlines. In addition, management's intention when creating procedures related to the due and payable accrual was not to document conclusions related to individual outliers, but rather to document outliers in the event research for potential misreported data should be performed. Failure to document cause of outliers at the state level may lead to use of inaccurate assumptions or data that could have a material effect on the calculation of the due and payable estimate.

The GAO Standards, Section 10.03, states:

> Management designs appropriate types of control activities for the entity's internal control system. Control activities help management fulfill responsibilities and address identified risk responses in the internal control system.
>
> Management compares actual performance to planned or expected results throughout the organization and analyzes significant differences.

Further, Section 10.03 of the GAO Standards, states:

> Management clearly documents internal control and all transactions and other significant events in a manner that allows the documentation to be readily available for examination. The documentation may appear in

management directives, administrative policies, or operating manuals, in either paper or electronic form. Documentation and records are properly managed and maintained.

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

Prior Year Recommendation

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

Current Year Recommendation

16. We recommend that Deputy Assistant Secretary for Employment and Training review and update the *Due and Payable Accrual Methodology* to include steps for reaching out to states identified as outliers or utilizing other information such as unemployment rates and/or state submitted reports to determine the accuracy of data obtained and the reasons for fluctuations. These reasons should be documented and detailed in management's analysis of the quarterly accrual.

Management's Response

The Management Methodology document purposely does not include specific guidelines for management review to determine specific reason/s for the occurrence of an identified outlier due to the significant time and resources this type of research would entail.

Management continues to strongly believe, based on experience and the short turn-around time required for the monthly estimates, that relying on quick communications with state staff at the time the monthly estimates are produced would be nonproductive. This type of policy would be particularly difficult during periods of irregular claims activity when outliers would be most likely to occur and attributing specific events as the cause for an outlier would be impossible without rigorous and time-consuming research. ETA instead will work to develop a specific range for outlier data, relative to prior months and years, outside of which the data will be automatically and consistently replaced. Local unemployment rates and other similar data as recommended by KPMG, cannot, in a timely manner, provide insight into questionable data that is often being used for these estimates whose deadlines are required far sooner than the unemployment data would be available for the same period.

Each of the state reports used in the due and payable accrual estimation process include a set of edit checks (included in the ETA Handbook 402, Appendix C), which the reported data must meet in order for the report to be submitted. Any data outliers observed during the accrual estimation process will be automatically and consistently replaced as noted above. Additionally, ETA will address the outlier data by alerting the impacted state of the potentially misreported data field(s) through communication via the appropriate regional office.

The exception to the automated replacement will be following extreme, nationally recognized events impacting specific state UI programs, such as those recently impacting the Virgin Islands and Puerto Rico following Hurricanes Irma and Maria. These instances will continue to be handled on a case-by-case basis, as no automation routine would be capable or appropriate in the aftermath of these types of events.

Auditors' Response

Although management disagreed with certain elements of the comment, management indicated that actions will be taken to address the matters identified in this comment. Follow-up procedures will be conducted in FY 2018 to determine whether the corrective actions have been implemented.

Prior Year Information Technology Comments and Recommendations Still Present in Fiscal Year 2017

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

During our FY 2017 audit procedures, we inspected Plan of Actions & Milestones (POA&M) Number (No.) 22650, which was developed to track the remediation of the prior year recommendations. We noted that management determined that POA&M No. 22650 was closed on February 23, 2017. To close the POA&M, DOL developed an Incident Management Standard Operating Procedure (SOP), provided quarterly incident response training, updated the CSH to clarify reporting timelines, and added a weekly US-CERT reporting time review. However, we determined that 2 of 15 cyber incidents selected for testing were not reported from the DOLCSIRC team to the US-CERT within one hour. We did note that both incidents were ultimately reported within two hours.

OCIO management stated that the incidents were not reported timely to the US-CERT because of the limited number of resources required to monitor DOL's operating environment and manage security incidents. Incident response capabilities are vital in ensuring that the DOLCSIRC is able to report all incidents to the US-CERT timely. Failure to report an incident to DOLCSIRC or US-CERT in a timely manner could result in the actions to detect and protect against malicious code or other critical DOL information and systems being delayed, allowing those systems and information to be compromised.

The DOL CSH, Volume 8, Edition 5.0, *Incident Response Policies, Procedures and Standards,* dated February 2017, Section 1.5.3, page 17 states:

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

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

National Institute of Standards and Technology Special Publication 800-53, *Security and Privacy Controls for Federal Information Systems and Organizations*, Revision 4, dated April 2013, control IR-6, Incident Reporting, states:

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

Prior Year Recommendations

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

Current Year Recommendations

We recommend that the Chief Information Officer:

17. Increase the number of individuals in the DOLCSIRC or with Incident Response responsibilities;

18. Continue to periodically conduct training to review the Incident Management SOP and incident response reporting guidelines with all agencies, so they are aware of the procedures prior to incident occurrence; and

19. Enforce the incident response monitoring process and procedures to ensure that incidents are reported timely to the DOLCSIRC and US-CERT upon occurrence.

Management's Response

Management agrees with the finding. OCIO assigned POA&M 23306 to track remediation of this FY17 finding. Since that time, OCIO has remediated the finding. Per the recommendations, OCIO has hired additional incident response staff, provided incident response training to Agency Information Security Officers, and will continue to enforce the incident response monitoring process and procedures to ensure incidents are reported timely to DOLCSIRC and US-CERT.

Auditors’ Response

Management indicated that action will be taken to address the matters identified in this comment. Follow-up procedures will be conducted in FY 2018 to determine whether the corrective actions have been implemented.

Prior Year Comments and Related Recommendations Closed in Fiscal Year 2017

The following comments reported in the *Management Advisory Comments Identified in an Audit of the Consolidated Financial Statements for the Year Ended September 30, 2016*, dated December 15, 2016, were closed in fiscal year (FY) 2017.

Prior Year Comment Number	Fiscal Year Comment Originated	Title of Comment Reported in FY 2016 MAC	Recommendation(s) Reported in the FY 2016 MAC
2016-02	2016	Lack of Process to Properly Accrue for Schedule Award Payments	2. We recommend that the Director of Workers' Compensation Programs design and implement formal policies to properly accrue for schedule award payments in the period incurred.
2016-03	2016	Improvements Needed over Reconciliation Controls Related to Federal Employees' Compensation Act (FECA) Benefit Expense	3. Design and implement formal policies and procedures to reconcile the CB-40 report to benefit expenses recorded in the general ledger. These policies and procedures should document a level of precision for the review that is at an appropriately low level to identify material errors in FECA benefit expenses. 4. Establish and implement documentation requirements for evidencing management's review of the reconciliation.
2016-04	2016	Errors in Medical Payment System Coding of Significant Medical Bills Related to the Energy Employees	5. Require the service provider to correct the system coding error that prevented the medical bills from being blocked by the medical payment system prior to payment. 6. Implement policies and procedures to periodically monitor the medical bills paid by the service provider to verify that all medical

Prior Year Comment Number	Fiscal Year Comment Originated	Title of Comment Reported in FY 2016 MAC	Recommendation(s) Reported in the FY 2016 MAC
		Occupational Illness Compensation Program Act	bills exceeding management's review threshold have been sent to the DOL EEOIC Medical Payment System Manager for review prior to payment.
2016-05	2016	Improvements Needed in the Review of the EEOIC and Black Lung Actuarial Liability Model	7. Finalize and implement formal policies that require management to a) periodically assess the assumptions used to estimate the EEOIC actuarial liability and Black Lund Disability Trust Fund projected future benefit payments to determine whether or not they continue to be appropriate based on the current circumstances and to document how the assessment should be performed, b) review the completeness of the underlying data, and c) validate the mathematical accuracy of the assumptions used; and 8. Formally document a) which data elements the reviewer is required to review, b) what reports are used and how reliability of the data is determined, c) what constitutes an outlier (e.g., a percentage change versus previous quarter or forecasted amounts), and d) why the established metrics/criteria would detect a material misstatement.
2016-06	2016	Lack of Monitoring Controls Related to New Obligations/Modific ations	9. We recommend the Deputy Assistant Secretary for Operations and Management for Veterans' Employment and Training Service consistently conduct monitoring procedures as outlined in the *PAR Monitoring* procedures.
2016-07	2016	Weaknesses in the System Security Plan and Risk Assessment Annual Review Process	10. Review the E-Grants and AMS SSPs and perform a Risk Assessment over these applications on at least an annual basis, document the reviews, and upload latest versions of the documents to CSAM timely; and

Prior Year Comment Number	Fiscal Year Comment Originated	Title of Comment Reported in FY 2016 MAC	Recommendation(s) Reported in the FY 2016 MAC
			11. Provide annual training to reiterate the annual SSP and Risk Assessment process to responsible supervisors/personnel.
2016-13	2013	Improvements Needed over the Preparation and Review of Journal Entries	• We recommend the Principal Deputy Chief Financial Officer continue to monitor journal entries and provide training to applicable supervisors to ensure they are performing sufficient reviews of journal entries and related documentation before the entries are posted. 15. We recommend that the Principal Deputy Chief Financial Officer provide additional resources to assist other agencies in conducting timely research into proper financial statement accounting in order to record journal entries in the correct accounting period.
2016-14	2012	Lack of Supporting Documentation Related to Training over the Initiation of Background Investigations	16. We recommend the Principal Deputy Chief Financial Officer coordinate with OASAM to develop and implement a process to properly communicate, conduct, and track training for HROs and CORs to ensure a full understanding of their roles and responsibilities in accordance with the updated *Personnel Suitability and Security Handbook*.
2016-18	2015	Weakness in the Entity-Wide Rules of Behavior Acknowledgement Process	19. We recommend that the Chief Information Officer develop, implement, and maintain a centralized document repository for ROB acknowledgement forms until automation can be introduced into the process.
2016-20	2014	Weakness in the Plan of Actions and Milestones Review Process	22. Upload all FY 2016 POA&M quarterly snapshots and semi-annual scorecards to the CSAM system; and 23. Reiterate and promulgate policies and procedures related to the POA&M review process to relevant personnel to ensure that

Prior Year Comment Number	Fiscal Year Comment Originated	Title of Comment Reported in FY 2016 MAC	Recommendation(s) Reported in the FY 2016 MAC
			quarterly snapshots and semi-annual scorecards are uploaded to the CSAM system timely.
2016-21	2014	Weaknesses Identified in the E-Grants and Unemployment Insurance Database Management System Backup Procedures	24. Review the job scheduling tool and remove the noted conflict to ensure that the daily incremental jobs are run to successfully back-up E-Grants data in the Catalogic backup tool; and 25. For aborted backups, ensure and document that a subsequent successful backup is run.
2016-22	2013	Lack of Executed Memorandum of Understanding (MOU) and Interagency Security Agreement (ISA) between AMS and the General Services Administration (GSA) System for Award	• We recommend the Chief Information Officer complete POA&M efforts to develop and sign MOU and ISA between AMS and GSA's System for Award.

The following comments reported in the *Management Advisory Comments Identified in an Audit of the Consolidated Financial Statements for the Year Ended September 30, 2016*, dated December 15, 2016, were partially re-issued during FY 2017 but included recommendations that were closed during the year.

Prior Year Comment Number	Fiscal Year Comment Originated	Title of Comment Reported in FY 2016 MAC	Recommendation(s) Reported in the FY 2016 MAC
2016-08	2015	Improvements needed in Management's Review of the Unemployment Trust Fund Federal Employees Compensation Act Existing Claims Accrual	12. We recommend the Deputy Assistant Secretary for Employment and Training update the FECA Existing Claims Accrual Methodology to include a threshold by which to explain variances identified when comparing the change in the accrual from quarter to quarter to the change in first payments from quarter to quarter. The threshold should be at an appropriately low level to identify material errors in the estimation methodology.
2016-16	2013	Insufficient Supporting Documentation for Contracts	1. We recommend the Deputy Assistant Secretary for Employment and Training enforce minimum documentation requirements to support compliance with the FAR.

Appendix A

Acronyms and Abbreviations

ACUC	Advisory Council on Unemployment Compensation
ALC	Agency Location Code
AMS	Acquisition Management System
CARS	Central Accounting and Reporting System
CFO	Chief Financial Officer
CSAM	Cyber Security Assessment and Management
CSH	Computer Security Handbook
DCAO	Division of Central Accounting Office
DLMS	Department of Labor Manual Series
DOL	U.S. Department of Labor
EEOIC	Energy Employees Occupational Illness Compensation
ETA	Employment and Training Administration
FAR	Federal Acquisition Regulation
FBWT	Fund Balance with Treasury
FECA	Federal Employees' Compensation Act
FMS	Financial Management Services
FPO	Federal Project Officer
FY	Fiscal Year
GAO	Government Accountability Office
GAO Standards	Government Accountability Office's *Standards for Internal Control in the Federal Government*
GEMS	Grants Electronic Management System
GSA	General Services Administration
GWA	Government-wide Accounting
ILAB	Bureau of International Labor Affairs
ISA	Interagency Security Agreement
IT	Information Technology
KPMG	KPMG LLP
MOU	Memorandum of Understanding
NCFMS	New Core Financial Management System
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
OIG	Office of Inspector General

OMB	Office of Management and Budget
OSHA	Occupational Safety and Health Administration
POA&M	Plan of Action and Milestones
ROB	Rules of Behavior
SBR	Statement of Budgetary Resources
SP	Special Publication
SSA	Social Security Act
SSP	System Security Plan
TAFS	Treasury Appropriation Fund Symbol
TFM	Treasury Financial Manual
Treasury	U.S. Department of the Treasury
U.S.	United States
USSGL	United States Standard General Ledger
VETS	Veterans' Employment and Training Service

TO REPORT FRAUD, WASTE OR ABUSE, PLEASE CONTACT:

Online: http://www.oig.dol.gov/hotlineform.htm
Email: hotline@oig.dol.gov

Telephone: 1-800-347-3756
202-693-6999

Fax: 202-693-7020

Address: Office of Inspector General
U.S. Department of Labor
200 Constitution Avenue, N.W.
Room S-5506
Washington, D.C. 20210