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, 2018

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 15, 2019
Report Number: 22-19-006-13-001

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Executive Summary

KPMG LLP (KPMG), under contract to the United States Department of Labor's (DOL) Office of Inspector General (OIG), audited DOL's consolidated financial statements and its sustainability financial statements as of and for the year ended September 30, 2018, and dated its *Independent Auditors' Report* November 15, 2018. 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. 19-01, *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, 2018, involving deficiencies in internal control identified during the audit. These management advisory comments are provided in addition to the significant deficiency presented in KPMG's *Independent Auditors' Report* and included in DOL's *FY 2018 Agency Financial Report*. KPMG prepared this report to assist DOL in developing corrective actions for the management advisory comments identified in the fiscal year (FY) 2018 audit.

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 3 comments newly identified in FY 2018, 9 prior-year comments that continued to exist in FY 2018, and 11 prior-year comments KPMG determined had been corrected and closed during FY 2018. See Table 1 below for a summary of comments by audit area.

Table 1: Summary of Comments by Audit Area

Audit Areas	New Comments Identified in FY 2018	Prior Year Comments Still Present in FY 2018	Prior Year Comments Closed in FY 2018
Grants	1	5	4
Unemployment Trust Fund	2	2	1
Fund Balance with Treasury	-	1	-
IT Incident Reporting	-	1	1
Budget	-	-	1
Human Resources	-	-	2
Black Lung	-	-	1
Procurement	-	-	1
Totals	**3**	**9**	**11**

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

November 15, 2018

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

Mr. Lewis, Mr. Williams, and Mr. Ahluwalia:

In planning and performing our audits of the United States Department of Labor's (DOL) consolidated financial statements and its sustainability financial statements as of and for the year ended September 30, 2018, in accordance with auditing standards generally accepted in the Unites States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, 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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses and/or significant deficiencies and therefore, material weaknesses and/or significant deficiencies may exist that were not identified. In accordance with *Government Auditing Standards*, we issued our report dated November 15, 2018, on our consideration of DOL's internal control over financial reporting in which we communicated certain deficiencies in internal control that we consider to be a significant deficiency.

KPMG

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 audits, we identified certain deficiencies in internal control. These comments and recommendations are summarized in Exhibit I.

We summarized prior year comments and recommendations that were closed in fiscal year (FY) 2018 in Exhibit II.

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 sustainability financial statements, and accordingly, we express no opinion on the responses.

The purpose of this letter is solely to describe the deficiencies in internal control identified during our audit. 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 2018

1. Insufficient Review of the Grant Accrual Lookback Analysis

During our fiscal year (FY) 2018 audit, we noted that Employment and Training Administration (ETA) management did not follow their policies and procedures when performing the grant accrual accuracy analysis (lookback). Specifically, we noted management's review of the lookback did not identify 98 document IDs/footprints that had no September 30, 2017 Cost Reports submitted as of the date the accuracy analysis was performed and were improperly included in the analysis.

This error occurred because ETA performed the analysis based on document IDs/footprints that could have an impact on the accrual, rather than those document IDs/footprints that actually incurred costs during the previous year.

Failure to include the correct data in the lookback analysis could result in management's inability to adequately assess if the grant accrual methodology is accurately estimating the accrual. This could also cause errors in the grant accrual ratios, which may ultimately result in a misstatement in the grant accrual calculation.

The ETA Standard Operating Procedure Section E 2.b states:

> A grant is excluded if it meets one of the following criteria:
>
> i. No Cost Report Submitted: If a cost report has not been submitted by the Grantee then a comparison between the accrued amount and the actual costs cannot be performed therefore the grant is excluded from the lookback analysis.

In addition, the U.S. Government Accountability Office (GAO) *Standards for Internal Control in the Federal Government* (the GAO standards), page 58 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.

Furthermore, the GAO standards, section 16.05 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.

Recommendation

1. We recommend the Acting Assistant Secretary for ETA ensure management and staff follow existing policies and procedures in the preparation and review of the grant accrual accuracy analysis.

Management's Response

Recommendation #1: ETA management identified the 98 document IDs/footprints in the accuracy analysis, which had no September 30, 2017 Cost Reports submitted as of the date that the accuracy analysis was performed. Several meetings occurred to discuss the treatment of these documents because of the 111 footprints identified in the 2017 financial statement audit. As a result of those internal meetings, it was determined that these documents were beneficial inclusions in accomplishing the goal of the grant accrual accuracy analysis, which is producing accurate ratios for the ETAOJC grant accrual. ETA has determined that the 98 document IDs/footprints identified are primarily a result of current closeout procedures and a normal part of our grant's cost cycle. These documents are beneficial in compiling an accurate representation of the ratio categories they are assigned which produces more accurate ratios in the following year.

Although the 98 document IDs/footprints did not have a 9130 Cost Report for the period ending September 30, 2017, these footprints did have new cost reports filed for a preceding period (i.e., June 30, 2017). Therefore, to ensure the accuracy analysis contained accurate data, the new cost reports must be considered. ETA was following written policies precisely by excluding grant documents that had no new cost reports submitted as of the date of the accuracy analysis as opposed to no September 30, 2017 cost reports submitted as of the date of the accuracy analysis.

ETA is in the process of making updates to the Standard Operating Procedures for the Grant Accuracy Analysis to minimize the possibility of misinterpretation of the language regarding the criteria for footprint exclusion.

Auditors' Response

Management indicated standard operating procedures will be updated; however, we believe the policy, as currently written, should be followed in order to perform an accurate lookback analysis. As noted above, ETA's policy rightfully states a comparison between the accrued amount and the actual costs cannot be performed if a cost report has not been submitted by the Grantee. Therefore, those grants should be excluded from the lookback analysis. As a result, we continue to propose the recommendation noted above.

2. Improvements Needed in Management's Review of the Benefits Disbursement Estimate

Our testing of the operating effectiveness of ETA management's review of the benefit disbursement estimate as of December 31, 2017, indicated ETA did not identify the calculation of the day ratio and improperly included federal holidays. Management informed us the difference did not have a significant impact on the ratio; however, no evidence documenting management's decision to depart from policy, nor their assessment of the minimal impact on the overall estimate, was provided.

The use of incorrect data in the day ratio could result in errors in the calculation of the benefit disbursement estimate, which could ultimately cause a misstatement in the related liability and expense. Specifically, we noted this error resulted in a $7.1 million understatement of the benefit expense and the related liability.

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.

The GAO Standards, Appendix I, also 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.

The Methodology for Estimating UTF Disbursements, dated 12/31/2017, page 4, states:

> Located in the Regular UI sheet [the day ratio] is the number of working days in the current year and month / number of working days in the previous year and current month.

Recommendation

2. We recommend the Acting Assistant Secretary for ETA require responsible personnel to adhere to existing policies and procedures; however, if any deviations from the policies and procedures are made they should document their rationale along with an assessment of whether the overall impact is immaterial to the estimate.

Management's Response

Recommendation #2: ETA Management notes that the above referenced $7.1 million difference noted in the December 2017 disbursement estimate amounts to 0.3 percent of the total disbursement estimate. However, management recognizes the potential impact of the different approaches to formulating the day ratio, specifically regarding the inclusion or exclusion of a federal holiday as a "working day." While the potential for a material error is exceptionally small, the disbursement estimation methodology has been revised to explicitly exclude holidays from the day ratio in accordance with this finding.

For FY 2019, ETA implemented a revised calculation of the day ratio, which eliminates the use of holidays in the count of applicable days.

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 2019 to determine whether the corrective actions have been implemented.

3. Improvements Needed in Management's Review of Unemployment Trust Fund (UTF) Accounts Receivable Estimates and Related Allowances

Our testing of the operating effectiveness of ETA management's review over the accounts receivable and related allowance estimate as of December 31, 2017, indicated ETA did not assess or investigate the allowance for doubtful accounts for reasonableness, in accordance with its policies and procedures. Specifically, we noted the estimated allowance for doubtful accounts related to UTF overpayment receivables for former Federal Employees (UCFE) and Unemployment Compensation for Ex-Service Members (UCX) exceeded the prior period estimate by 26 percent. However, management did not investigate this variance even though it exceeded management's acceptable threshold of 10 percent.

In addition, management used estimates instead of actual data for certain states while performing the final lookback for the fourth quarter of FY 2017 for the UTF overpayments accounts receivable.

These deficiencies occurred because management did not have a clear understanding of the guidance for assessing the allowance separately from the associated accounts receivable. Additionally, management's policies and procedures did not specify how the lookback should be performed if particular states had not submitted its respective data.

Insufficient guidance for performing the reviews discussed above may result in variances not being investigated, or inadvertent reliance on estimates instead of actual data. This could ultimately result in management not identifying potential changes that need to be made to the estimation methodology, which could ultimately result in misstatements to the accounts receivable or its related allowance for doubtful accounts.

In regards to management's look back analysis the Methodology for *Unemployment Trust Fund – AR from the Public*, dated December 31, 2017, page 3, states:

> Any variance of more than 10% in total per GL [General Ledger] is investigated. If a variance of more than 10% exists, it may be that a state submitted a subsequent report that differs from the original submission or failed to report certain activity. Our review of the variance is to determine the reason for the variance and whether any action should be taken to modify the accrual methodology.

Page 10 states:

> The percentage of allowance for doubtful accounts is reviewed to ensure reasonableness when compared to the prior period. Variances of more than 10% per total allowance would be considered unusual, investigated, and an explanation would be noted and included as part of the supporting documentation for the process.

The GAO standards, sections 10.03 and 10.08, 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.

Recommendations

We recommend the Acting Assistant Secretary for ETA update policies and procedures to:

3. Clarify when variances for allowance review should be investigated.

4. Require only the use of actual data for the look back analysis.

Management's Response

Recommendation #3 and #4: ETA reviewed the process to determine where modifications to existing procedures are necessary and is in the process of updating standard operating procedures.

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 2019 to determine whether the corrective actions have been implemented.

Prior Year Financial Comments and Recommendations Still Present in Fiscal Year 2018

4. Untimely Issuance of Single Audit Final Determination Letters and Untimely Grantee submission into the Federal Audit Clearinghouse (FAC)

Our testing of DOL's compliance with the Single Audit Act as of June 30, 2018, noted DOL did not comply with certain regulations as stated in OMB Circular No. A-133, subpart D, and 2 CFR Part 200. Specifically, we identified the following exceptions during our testing of 58 Single Audit reports:

- For one Singe Audit report, a management decision letter was not yet issued. As of October 1, 2018, the report was 108 days late.
- For 20 Single Audit reports, management decision letters were not issued within 6 months of the required date prescribed by the relevant guidelines. The number of days late ranged from 2 to 112.
- One grantee did not receive timely follow-up in regards to their submission into FAC.

ETA did not have policies and procedures in place to monitor and follow up with all grantees to ensure they were submitting their reports into the FAC in a timely manner. Due to a backlog of submitted reports, the OIG was unable to complete its Desk Reviews to submit Single Audit reports to ETA in a reasonable timeframe, which contributed to management determination letters not getting issued in accordance with OMB Circular A-133, subpart D, and 2 CFR Part 200.

Not issuing management decision letters 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. Additionally, not submitting the Single Audit report to the FAC prevents the disclosure and distribution of audit results to the federal agencies that granted federal financial assistance to the grantee. This could hamper OMB oversight and render the assessment of compliance with federal award requirements ineffective.

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.

2 CFR Part 200 – Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, Subpart F, Section 200.521 (d), states:

> The Federal awarding agency or pass-through entity responsible for issuing a management decision must do so within six months of acceptance of the audit report by the FAC. The auditee must initiate and proceed with corrective action as rapidly as possible and corrective action should begin no later than upon receipt of the audit report.

2 CFR Part 200 – Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, Subpart F, Section 200.512 (a)(1) and (d) states:

> (1) The audit must be completed and the data collection form described in paragraph (b) of this section and reporting package described in paragraph (c) of this section must be submitted within the earlier of 30 calendar days after receipt of the auditor's report(s), or nine months after the end of the audit period. If the due date falls on a Saturday, Sunday, or Federal holiday, the reporting package is due the next business day.

Prior Year Recommendation

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

Current Year Recommendations

We recommend the:

5. Assistant Inspector General for the Office of Audit effectively implement and adhere to 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 with the applicable guidance.

6. Acting Assistant Secretary for ETA enhance policies and procedures for ensuring that grantee's timely submit their Single Audit Reports into FAC.

Management's Response

OIG response:

The OIG has revised its single audit policies and procedures to enhance our monitoring controls to ensure that all single audit reports from the FAC are downloaded, reviewed, accurately tracked, and reported to the applicable agency in accordance to the applicable guidance.

ETA response:

Recommendation #6: Pursuant to OMB Circular A-133 and ETA policy, ETA monitors whether DOL grantees have submitted their Single Audit Reports to the Federal Audit Clearinghouse (FAC). ETA queries the FAC to determine if the grantee submitted a Single Audit Report during the fiscal year; if they did not, ETA contacts the grantee for justification regarding the omitting of the submission. ETA has reviewed and revised its single audit policies and procedures to enhance the quarterly review process noting that each grantee either has submitted a single audit into FAC or has an approved waiver for the required period.

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 2019 to determine whether the corrective actions have been implemented.

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

The Fund Balance with Treasury (FBWT) reconciliation and OCFO management's review of that reconciliation were not implemented effectively for the year ended September 30, 2018. Specifically, we inspected the October 2017 reconciliation for Treasury Account Fund Symbol (TAFS) 16160400 for which the Occupational Safety and Health Administration (OSHA) was responsible. Based on our inspection, we identified six differences on the reconciliation that were outstanding for more than three months. The absolute value of the differences totaled $2,389.

We also inspected the February 2018 reconciliation for TAFS 16X1800 for which ETA is responsible. We noted one difference in the reconciliation that was outstanding for more than 3 months in the amount of $337,625.

These differences were created by transactions recorded by other Agency Location Code (ALC) owners (e.g., other agencies, OCFO, or regional offices within DOL other than the agency or office responsible for the reconciliation). 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 Treasury's 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 Department of 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 following prior year recommendation remains open:

- We recommend that the 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.

Current Year Recommendation

7. We recommend the Chief Financial Officer implement policies and procedures to analyze, on a monthly basis, the total differences that have been outstanding for more than three months for the DOL consolidated FBWT balance, and to document management's considerations of whether such differences have a material impact on the consolidated FBWT balance and on the consolidated financial statements.

Management's Response

OCFO management agrees with the recommendation and will conduct an analysis to determine the materiality of FBWT differences exceeding 3 months. Following the analysis, OCFO will introduce a revised reconciliation template that utilizes conditional formatting to display a clear snapshot of outstanding differences and encourage a proactive approach to reconciling differences timely from agency management.

Additionally, OCFO will implement a team of reviewers whose primary responsibility is to initiate and maintain ongoing communication between OCFO and agencies with outstanding differences. The team will escalate inquiries as the conditional formatting produces a yellow (31-89 days) or red (90+ days) result to ensure resolution before a 3 month time period passes.

OCFO will also write off balances that cannot be otherwise reconciled based on cost effectiveness, age of difference, and amount as a final resort to clearing prior year differences.

OCFO is continuing to improve agencies communication with one another by improving processes, including new files and tools to help reconcile and working with agencies monthly to clear differences between agencies.

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 2019 to determine whether the corrective actions have been implemented.

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

During our FY 2018 audit, we noted ETA was not adhering to its policies and procedures regarding the timely acceptance of grantees' cost reports. Specifically, we noted for 2 of the 4 sample items selected for testing as of March 31, 2018, the Federal Project Officer (FPO) was delinquent in accepting the cost report once it was submitted by accepting it more than 10 days after the grantees submission. The number of days late was 66 and 73 days late, respectfully.

Although ETA timely reviewed the ETA-9130, grantees were not timely re-submitting their reports or timely responding to follow-up inquiries, thus causing a delay in ETA's final review. In addition, the work for one grant was performed in Region 5, but was headquartered in New York, thus it was assigned to the incorrect FPO. Failure to timely review and accept submitted grant expenditure details may lead to the misstatement of grant-related expenses, advances, payables, and undelivered orders.

DOL's Grants Management Policies and Responsibilities within the Employment and Training Administration Attachment B dated September 19, 2017 states:

> After a grantee submits a certified 9130, ETA assigned staff has 10 business days to review and accept or reject the 9130.

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.

Lastly, 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.

Prior Year Recommendation

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

Current Year Recommendations

We recommend that the Acting Assistant Secretary for ETA:

8. Develop and implement monitoring controls to ensure FPOs are accepting ETA 9130s timely.

9. Provide additional training to FPOs, as necessary.

10. Provide additional training to grantees to ensure timely submission of reports or follow up to inquiries.

11. Implement policies and procedures to ensure all Regions are properly assigned to the correct FPO.

Management's Response

Recommendation #8: ETA concurs. Per the Grants Management Policies and Responsibilities within the Employment and Training Administration (ETO 1-17), ETA staff has 10 business days to review and accept or reject the 9130. ETA scheduled FPO training the week of January 28, 2019. ETA will stress the importance of timely monitoring report uploads in the grant system during this training.

Recommendation #9: ETA held additional training January 28, 2019 and stressed the importance of timely monitoring report uploads in the grant system during this training.

Recommendation #10: ETA will explore updating the guidance to include instruction regarding the timely resubmission of rejected 9130s and response times to follow-up questions.

Recommendation #11: In FY 2019, Region 5, through transmittal memos between the Discretionary Grants unit and the Fiscal unit, identified grantees with service delivery areas in Region 5, but has headquarters in States outside of Region 5. The memo also identified such awards by grant number to allow a secondary search for applicable 9130s using the Grant Number as a search filter, in addition to the Region filter. This exception report is a live document, updated when new discretionary grants are assigned to Office of Special Initiatives and Demonstration (OSID) and the Division of Discretionary Grants (DDG).

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 2019 to determine whether the corrective actions have been implemented.

7. <u>Untimely Federal Project Officers Desk Review</u>

In FY 2018, ETA developed and implemented new written policies and procedures to provide specific guidance on the timely reassignment of FPOs. In doing this, ETA also created a comprehensive Standard Operating Procedure (SOP) Manual for FPOs. However, during our FY 2018 audit, we noted the Grants Electronic Management System (GEMS) configuration related to multiple desk reviews was still not corrected, nor did ETA implement additional monitoring procedures to verify that desk review submission dates corresponded with the appropriate quarterly review timeframe, as was recommended in the prior year. Additionally, we noted ETA was not properly following its policies and procedures related to desk reviews. Specifically, we noted the FPO desk reviews for 2 of 30 grants selected for testing were not performed, or not documented in GEMS, as of March 31, 2018.

Due to a lack of resources and competing priorities, ETA was still in the process of modernizing E-Grants and did not develop additional monitoring procedures to verify that desk review submission dates corresponded with the appropriate quarterly review timeframe while a technology solution was investigated. Additionally, ETA did not adhere to monitoring controls in place to ensure that its FPOs performed desk reviews timely. 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 Grants Management Policies and Responsibilities within the Employment and Training Administration dated September 19, 2017 states:

> A desk review is required on all projects in GEMS by the dates listed below [not included].FPOs must ensure that desk reviews are completed following the end of each quarter within the deadlines listed below [not included].

The GAO Standards, Section 16.05, 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.

Prior Year Recommendation

The following prior year recommendation remains open:

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

Current Year Recommendation

We recommend the Acting Assistant Secretary for ETA:

12. Provide training to staff on existing policies and procedures to ensure employees are performing desk reviews timely.

Management's Response

For Recommendation # 12: ETA held additional training January 28, 2019 and stressed the importance of timely monitoring report uploads in the grant system during this training. ETA Wave 2.0 Grants Modernization received a small increment of funding and a gap analysis is in process. Wave 2.0 Grants Modernization includes modernization of GMS (formally GEMS) which will address the prior year recommendation. ETA identified the need to include a monitoring component in a future GMS update. A monitoring workspace where FPO's and management would electronically document each step in the monitoring process, including the automatic storage of the issued monitoring reports is being scoped out. Instead of monitoring documentation, occurring outside of GMS (announcement letters, final monitoring reports, and resolution of findings) it would occur within GEMS automatically. However, Program Integrity Funds for the full project development has yet to be approved by OMB. ETA will continue to seek approval from OMB for these funds to fully implement Wave 2.0. Wave 2.0 of the e-grants modernization has been moving forward very slowly due to limited funding. ETA and other grant making agencies have developed the requirements and hope to move forward once additional funding is secured.

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 2019 to determine whether the corrective actions have been implemented.

8. Untimely Filing of On-Site Monitoring Review Reports

During our testing of on-site monitoring as of March 31, 2018, we noted ETA did not review on-site monitoring reports timely. Specifically, of the 30 site visits selected for testing, we noted the following:

- For 3 site visits, the site visit report was not completed and available within 45 days of the exit conference date.

- For 4 site visits, the site visit report was not included in GEMS within 30 days of the issuance of the report.

Additionally, we noted 8 items that were included in the population of On-Site Monitoring grants that were not subject to On-Site Monitoring.

ETA did not have formal monitoring controls in place to ensure that staff were performing on-site monitoring timely. Furthermore, ETA did not have policies and procedures in place to track the grants that were subject to monitoring. Without adequate controls in place to properly and timely monitor grants, grantees may be misusing grant funds without detection by DOL. As a result, grant-related expenses, advances, payables, and undelivered orders could be misstated.

DOL's ETA-1-17: Attachment C-Regional Monitoring Plan Policy, states:

> The monitoring plan represents the proposed number and type of reviews (on-site or Enhanced Desk Monitoring Review) each Regional Office plans to undertake throughout the fiscal year. The monitoring plans are developed at the beginning of each fiscal year in October based on staff and financial resources estimated to be available in the fiscal year beginning October 1st.
>
> Factors considered during initial plan development include: risk assessments from the prior quarter desk reviews, fiscal assessments from information on 9130s; the maturity of the grants (meaning grants that are not in their 1st quarter of their lifecycle); the Federal Project Officer's (FPO) contemporaneous knowledge of the grant and grantee; the number of reviews needed to meet regional goals; incident reports or any outside agency reports/requests (i.e. A-133, Office of the Inspector General (OIG), etc.) complaints; etc. Generally, trips are prioritized based on resources and risk analysis.

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.

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 Recommendations

We recommend the Acting Assistant Secretary for ETA:

13. Develop and implement monitoring controls to ensure that on-site monitoring review reports are timely issued and uploaded into GEMS with appropriate documentation.

14. Provide training to employees to ensure compliance with ETA's written policies and procedures.

15. Develop and implement policies and procedures to ensure a complete and accurate listing of grants to be monitored is maintained.

Management's Response

Recommendation #13: ETA concurs with the Condition, but does not concur with the cause as the finding was due to other circumstances, not a lack of monitoring controls. ETA is meeting the target of 80 percent timely and the regions monitor 26 percent of their grants annually per the ETO 1-17. While some grants are not monitored annually, almost all will be monitored at least once in their 3-4 year lifecycle.

ETA has already developed and implemented monitoring controls to ensure that staff timely perform on-site monitoring and uploading appropriate documentation in GEMS via the issuance of ETO 1-17 on September 19, 2017. 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

Recommendation # 14: ETA leadership commits to providing training emphasizing the importance of compliance with written monitoring policies and procedures outlined in ETO 1 -I 7. Throughout FY 2018, ETA worked to implementing this ETO and providing technical assistance to staff. Furthermore, ETA management continued to stress the importance of adhering to these guidelines, as evidenced by continuously meeting its monitoring goal target of 80 percent. ETA held additional training January 28, 2019 and stressed the importance of timely monitoring report uploads in the grant system during this training.

Recommendation # 15: ETA has policies and procedures that already exist in Attachment C of ETO 1-17. Page C-1 identifies the required usage of a monitoring plan, which represents the proposed number and type of grantee reviews each Regional

Office must undertake throughout the fiscal year. The monitoring plans are developed based on staff and financial resources and a host of other factors such as desk reviews, fiscal assessments, staff knowledge, etc. The monitoring plan is a flexible management tool and living document, so as these various factors change, plans to visit grantees may shifted accordingly. Attachment C also outlines the established process in place for updating and reporting.

Auditors' Response

Management indicated that they will implement actions for certain recommendations. For recommendation #15, we note that although there are policies and procedures in place for monitoring the grants, management did not have policies in place to ensure the population of grants monitored throughout the year was complete. As noted above, we identified eight items that were improperly included in the population of On-Site Monitoring grants. Follow-up procedures will be conducted in FY 2019 to determine whether the corrective actions have been implemented.

9. Untimely Grant Closeout

During our FY 2018 audit, we noted the Veterans' Employment and Training Service (VETS), ETA, and Bureau of International Labor Affairs (ILAB) did not close out all expired grants within 365 days, as stipulated in their policies and procedures. Specifically, we identified the following exceptions during our testing of 39 grants as of March 31, 2018:

- VETS did not close four grants within 365 days of expiration.
- ETA did not close three grants within 365 days of expiration.
- ILAB did not close one grant within 365 days of expiration

VETS noted that it had an increase in workload as a result of the Gone Act that caused OCFO to be delayed in reviewing and processing grant closeouts. In addition, technical issues with NCFMS, E-Grants, and SAM caused delays in some of the close-out procedures. ETA noted it had informed its service provider of clerical errors that needed to be corrected prior to grant closeout. The service provider did not timely resolve the issues, thus causing the grant to not be closed out within the specified period of time. In addition, technical issues among the grants management system (E-Grants) caused delays in some of the close-out procedures. Lastly, ILAB noted it had a delay in receipt of supporting documentation that caused delays in the close-out procedures. Without adequate controls in place to review and close out expired grants timely, including the de-obligating of 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.

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 prior year recommendations have been modified. See below.

Current Year Recommendation

We recommend that the Deputy Undersecretary for ILAB:

16. Communicate the retention policies to its grantees to ensure adequate supporting documentation is maintained and submitted to DOL to support daily grant activities.

We also recommend that the Deputy Assistant Secretary for Operations for VETS, the Deputy Undersecretary for ILAB, and the Acting Assistant Secretary for ETA:

17. Educate the grantees 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.

18. Strengthen their communication with the grantees and service providers to follow up on issues or missing supporting documentation prior to the 365 days expiring.

19. Implement routine edit checks on their systems to ensure that system issues do not cause the delays in the close out process.

Management's Response

DOL disagrees with this finding. While policies and procedures do stipulate that all expired grants will be closed within 12-months (365 days), those same policies and procedures further state expired grants will be closed within 365 days barring any unforeseen circumstances. In the grants identified by KPMG, DOL believes each grant had an unforeseen circumstances outside of Agency control for varying reasons which resulted in a closeout after 365 days. However, DOL closeout unit specialists performed due diligence and adhered to internal control procedures, both prior to and after the 365 day deadline, and ensured immediate closeout once the issues had been resolved.

Based upon CFR 200.16 and 200.343 and the definition of "should," as generally defined by GAO/OMB, the DOL is in compliance with all federal regulations as well as our internal policy and procedures. The closeout specialist may communicate throughout the grant closeout period, via email, conference, notes to file and/or system, and phone calls providing technical assistance as needed. Since the communications have been adequately documented to depart from typical closure period, it is the federal awarding agency who determines when all applicable administrative actions have taken place to proceed with closure. Due to circumstances beyond DOL control, all necessary administrative and financial actions to satisfactory closure requirements were delayed. In order to be comply with policies, laws, and regulations and/or potentially contractual vulnerability, it was in DOL's best interest to ensure all necessary administrative and financial closure actions have been satisfied, even if this constitutes a delay in closure.

§200.16 Closeout.
Closeout means the process by which the Federal awarding agency or pass-through entity determines that all applicable administrative actions and all required work of the Federal award have been completed and takes actions as described in
§200.343 Closeout.

§200.343 Closeout.
(g) The Federal awarding agency or pass-through entity should complete all closeout actions for Federal awards no later than one year after receipt and acceptance of all required final reports.

Should general defined by GAO and OMB
"Should" indicates a presumptively mandatory requirement, which must always be considered; however, rare departures from the requirement are permitted as long as there is appropriate justification, performance of sufficient alternative procedures, and thorough documentation.

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

While DOL disagrees with this recommendation, DOL is committed to consistent communication with its grantees to reinforce and ensure adequate supporting documentation is maintained and submitted to DOL to support grant closeout activities in a timely manner. DOL will continue to follow the 2CFR, DLMS, and Agency internal policies and procedures as it relates to closeout.

Auditors' Response

For the exceptions noted during our testing, management was unable to provide sufficient supporting documentation to validate that the due diligence noted in their response was performed. As such, we continue to propose the recommendations noted above. Follow-up procedures will be conducted in FY 2019 to determine whether the corrective actions have been implemented.

10. Improvements Needed in Management's Review of the Federal Employees' Compensation Act Existing Claims Accrual

During our current year testing of the design and implementation of ETA management's review of the FECA existing claims accrual, we noted management did not implement monitoring controls over the review of the accrual. Furthermore, management did not update the related accrual methodology to require the proper research and documentation of outliers that fall outside management's defined risk tolerance.

Management considered its existing review controls sufficient for the purposes of monitoring the performance of the control in accordance with the methodology. Additionally, management elected not to investigate external factors to outliers that exceeded management's documented risk tolerance, as they did not believe it was necessary. However, insufficient monitoring of the review control may result in inconsistent application of the accrual methodology. In addition, 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, section 16.05, 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, which can increase objectivity and efficiency by electronically compiling evaluations of controls and transactions.

Further, section 10.03 of the GAO Standards, also 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.

Prior Year Recommendation

The following prior year recommendations remain open:

We recommend that the Acting Assistant Secretary of ETA:

- 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.

- Update the *FECA Existing Claims Accrual Methodology* to require outliers that fall outside of management expected range be properly researched and documented.

Management's Response

ETA Management adjusted the process for controls of the Existing Claims Accrual estimate and in response to NFR 17-15 stated, "ETA considers this finding closed. 1) The FECA existing Claims Methodology were updated with a new procedure (monitoring control) to verify the accrual estimate within a reasonable range; and 2) research on "external factors" is not pertinent to developing the Existing Claims Accrual estimate as no actual accrual number is reported to compare against. In addition, data items are already reviewed in our data management system - a separate track.

The Condition Statement states "ETA management did not implement monitoring controls over the review of the accrual." That statement does not recognize the new monitoring procedure added to the Existing Claims estimation process during the Spring of 2017, (item 4 under Management Review in the Methodology document).

ETA is continues to apply the Management Controls, as stated in the FECA Existing Claims Methodology document put in place in May of 2017. ETA modified the methodology document and considers this matter closed.

Auditors' Response

We note that management updated its policies to reflect changes to the review of the estimate but not the monitoring of the review to determine if it was consistent with management's policies. As a result, we continue to propose the recommendations noted above.

11. 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, 2017, we evaluated ETA management's remediation of the prior year recommendation. We noted management did not update the Due and Payable Accrual Methodology to include steps for reaching out to states with identified outliers or utilizing other information such as unemployment rates and/or state submitted reports to determine the accuracy of data obtained and reasons for fluctuations.

We did note that management updated the Due and Payable Accrual Methodology to clarify how outliers should be addressed if the data appears misreported. Specifically, we noted that 'weeks claimed series' data and 'annual weekly benefits amount' data was checked for large fluctuations and the data may be replaced by estimated data. However, the criteria for estimating and evaluating the replacement data was not included in the methodology.

Management did not provide sufficient guidance for the preparation and review of the due and payable accrual. Additionally, management believed the level of effort to determine reasons for the occurrence of an identified outlier did not justify the additional effort required to obtain the information from the state level. However, without sufficient procedures and controls related to the preparation and review of the estimate, there is an increased risk that assumptions or data may be used inconsistently or incorrectly, which could ultimately lead to a misstatement in the due and payable accrual.

Lastly, we noted the following items during our test of operating effectiveness as of December 31, 2017:

- Variances exceeded the acceptable thresholds for the Virgin Islands and Puerto Rico for Ex-service Members but were not investigated, and

- Management documented that they had compared Federal Employees Unemployment Compensation and Ex-service Members input data for the calculation to the actual ETA 539 weekly claims report for the week of December 24, 2017; however, an average calculation of past data was used as a replacement instead.

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.
>
> 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 10.08 of the GAO Standards, also states:

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

The Due and Payable Accrual Methodology, dated December 31, 2017, states within the Management Review of Due and Payable Accrual section:

> [An OUI Senior Analyst] Spot check[s] input data - compare[s] to UIDB [Unemployment Insurance Database] -Check[s] a random state from each of the two referenced reports (ETA 539, ETA 5159). Includes one random state from the first week and last week required for weekly claims (539 data) and one random state from the prior year and current year periods required for AWBA [Average Weekly Benefit Amount] calculations (5159 data) for a total of 6 individual data points.

Prior Year Recommendation

The following prior year recommendation remains open:

- We recommend the Acting Assistant Secretary for ETA 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.

Current Year Recommendation

20. We recommend the Acting Assistant Secretary for ETA properly document when estimated replacement data is used, as well as, the rationale and assumptions used to estimate the replacement data.

Management’s Response

ETA Management revised the Due and Payable Methodology and submitted to OIG and the independent auditor, KPMG, on July 12, 2018. In the new methodology, ETA identified the criteria under which reported weekly claims data and average weekly benefit data will be replaced. This documentation also details when and how the replacement rate data will be estimated.

The new methodology introduces additional review criteria to determine when the comparison to prior year and prior quarter estimates will lead to a review of the underlying data. This criterion effectively limits the requirement for further review to outliers that are large enough to lead to a material dollar amount.

In regards to the additional items cited in the review of operation effectiveness:

-In response to the first item regarding UCX claims in the Virgin Islands and Puerto Rico, each of these cases failed to meet the criteria requiring a further review of the underlying data based on the new criteria. In each case, the combined difference of the estimate versus the prior quarter and prior year fell below the dollar threshold identified in the revised methodology document.

-In response to the second item regarding the weekly claims estimates for UCFE and UCX for the week of 12/24/2017, ETA's accounting office required an estimate for these two programs one week prior to the OCFO's deadline for the full estimate. Due to this discrepancy in due dates, OUI provided the UCFE and UCX numbers a week early and included the additional week of claims data for regular UI only. The review document should have reflected this in referring to the week or weeks reviewed and these cases will be reflected appropriately in future reports.

In regards to the recommendation that ETA include steps to reach out to states and identify reasons for outliers and/or provide additional insight into an explanation of the variation, ETA continues to disagree with this recommendation. It is important to note that the point of identifying data "outliers" is not to identify erroneously reported values but is to ensure that projections of current and future periods are not improperly benchmarked to unusual fluctuations in state programs. ETA maintains that the newly revised methodology and approach to identifying and replacing irregular values will ensure the most reasonable and accurate projections of the Due and Payable accruals of State UI programs.

In FY 2019, ETA management implemented additional review criteria which is more appropriately suited to the requirements of the Due and Payable calculation.

Auditors' Response

The new methodology described in management's response was not implemented until the fourth quarter, which was after our control testing was completed. Follow-up procedures will be conducted in FY 2019 to determine whether the methodology and corrective actions have been implemented.

Prior Year Information Technology Comments and Recommendations Still Present in Fiscal Year 2018

12. <u>Employee Computer Network/Departmental Computer Network Incident Reporting Weakness</u>

During our FY 2018 audit procedures, we inspected Plan of Action and Milestones (POA&M) 23306 and determined that management marked it completed and approved for closure on February 8, 2018. To close the POA&M, it was noted that Enterprise Security Operation Center (ESOC) would consider increasing the number of individuals in DOL Computer Security Incident Response Capability (DOLCSIRC), and would periodically conduct awareness training to review the Incident Management SOP and Incident Response Reporting guidelines with all agencies beginning in January 2018. Furthermore, we noted that incident response training occurred on March 23, 2018. However, we determined that 1 of 5 cyber incidents selected for testing was not reported from the DOLCSIRC team to the US-CERT within one hour, instead taking 6 hours to report.

OASAM management stated that the incident was not reported timely to the US-CERT because relevant parties responsible for the initial detection, analysis, and information sharing were not aware of the requirements to report. 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 December 2017, Section 1.5.3, page 16 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.

[…]

7. When 24/7 monitoring and reporting capabilities are unavailable, incidents which occurred during non-business hours must be reported immediately the next day.

Prior Year Recommendation

The following prior year recommendation remains open:

- We recommend that the Chief Information Office 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.

Management's Response

Management concurs with the finding. All Incident Response (IR) personnel have since received refresher training in accordance with the existing IR SOP for reporting. IR Personnel will continue to follow the appropriate policies and procedures. OCIO believes all necessary corrective actions have been made to resolve this finding.

Auditors' Response

Management indicated that action has be taken to address the matters identified in this comment. Follow-up procedures will be conducted in FY 2019 to determine whether the corrective actions have been implemented.

Prior Year Comments and Related Recommendations Closed in Fiscal Year 2018

The following comments reported in the *Management Advisory Comments Identified in an Audit of the Consolidated Financial Statements for the Year Ended September 30, 2017*, dated November 15, 2017, were closed in fiscal year (FY) 2018.

Prior Year Comment Number	Fiscal Year Comment Originated	Title of Comment Reported in FY 2017 MAC	Recommendation(s) Reported in the FY 2017 MAC
2017-02	2017	Improvements Needed in Reconciliation of SF-133 to Statement of Budgetary Resources	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.
2017-03	2017	Improvements Needed in the Review of Separated Employees	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.

Prior Year Comment Number	Fiscal Year Comment Originated	Title of Comment Reported in FY 2017 MAC	Recommendation(s) Reported in the FY 2017 MAC
2017-05	2017	Untimely Review of Transaction Balance Package	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. 8. Monitor DCMWC district offices' efforts to maintain segregation of duties in the review of the Transaction Balancing Packages.
2017-06	2017	Improvements Needed in the Monitoring of Confidential and Public Filers	9. 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 develop and implement processes to effectively monitor the employee submission of confidential and public filers. 10. We recommend the Acting Solicitor enhance its process for notifying employees of the filing requirements to ensure all notifications are made in a timely manner.
2017-07	2017	Weakness in the E-Grants Monitoring Process	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.
2017-09	2007	Lack of Advisory Council on Unemployment Compensation	• 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.

Prior Year Comment Number	Fiscal Year Comment Originated	Title of Comment Reported in FY 2017 MAC	Recommendation(s) Reported in the FY 2017 MAC
2017-13	2013	Insufficient Supporting Documentation for Contracts	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.

The following comments reported in the *Management Advisory Comments Identified in an Audit of the Consolidated Financial Statements for the Year Ended September 30, 2017*, dated November 15, 2017, were partially re-issued during FY 2018 but included recommendations that were closed during the year.

Prior Year Comment Number	Fiscal Year Comment Originated	Title of Comment Reported in FY 2017 MAC	Recommendation(s) Reported in the FY 2017 MAC
2017-11	2015	Untimely Federal Project Officers Desk Review	• We continue to recommend that the Deputy Assistant Secretary for Training and Administration develop and implement written policies and procedures to provide specific guidance on the timely reassignment of FPOs.
2017-12	2015	Untimely Filing of On-Site Monitoring Review Reports	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; and • Update written policies and procedures to include specific guidance on monitoring the timely completion of regional on-site monitoring.
2017-14	2014	Untimely Grant Closeout	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.

Prior Year Comment Number	Fiscal Year Comment Originated	Title of Comment Reported in FY 2017 MAC	Recommendation(s) Reported in the FY 2017 MAC
2017-17	2017	Employee Computer Network/Departmental Computer Network Incident Reporting Weakness	17. We recommend that the Chief Information Officer increase the number of individuals in the DOLCSIRC or with Incident Response responsibilities; 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.

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
CE	Claims Examiner
CFO	Chief Financial Officer
CSAM	Cyber Security Assessment and Management
CSH	Computer Security Handbook
DCAO	Division of Central Accounting Office
DFEC	Department of Federal Employees Compensation
DLMS	Department of Labor Manual Series
DOL	U.S. Department of Labor
EEOIC	Energy Employees Occupational Illness Compensation
ETA	Employment and Training Administration
FAC	Federal Audit Clearinghouse
FAR	Federal Acquisition Regulation
FBWT	Fund Balance with Treasury
FECA	Federal Employees' Compensation Act
FMS	Financial Management Services
FOIA	Freedom of Information Act
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
iFECS	Integrated Federal Employees Compensation System
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
OWCP	Office of Workers' Compensation Program
POA&M	Plan of Action and Milestones
ROB	Rules of Behavior
SBR	Statement of Budgetary Resources
SOP	Standard Operating Procedures
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
UCFE	Federal Employees Unemployment Compensation
UCX	Ex-Service Members Unemployment Compensation
U.S.	United States
USSGL	United States Standard General Ledger
VETS	Veterans' Employment and Training Service

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