

# 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, 2019

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

*Elisat P. Lewis*

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

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# Executive Summary

KPMG LLP (KPMG), under contract to the United States Department of Labor’s (DOL) Office of Inspector General (OIG), audited DOL’s consolidated financial statements and its sustainability financial statements as of and for the year ended September 30, 2019, and dated its *Independent Auditors’ Report* November 18, 2019. 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. 19-03, *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 18, 2019, involving deficiencies in internal control identified during the audit. KPMG prepared this report to assist DOL in developing corrective actions for the management advisory comments identified in the fiscal year (FY) 2019 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 2019 and 11 prior-year comments that continued to exist in FY 2019, of which 5 had been previously reported in the *Independent Auditors’ Report* dated November 15, 2018. Also included in this report are 10 prior-year comments KPMG determined had been corrected and closed during FY 2019. 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 2019	Prior Year Comments Still Present in FY 2019	Prior Year Comments Closed in FY 2019
<b>Black Lung</b>	1	-	-
<b>Procurement</b>	1	-	-
<b>Unemployment Trust Fund</b>	1	-	4
<b>Grants</b>	-	5	5
<b>Information Technology</b>	-	6	-
<b>Fund Balance with Treasury</b>	-	-	1
<b>Totals</b>	<b>3</b>	<b>11</b>	<b>10</b>

Source: Based on comments in Exhibit I and Exhibit II



KPMG LLP  
Suite 12000  
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November 18, 2019

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, 2019, in accordance with auditing standards generally accepted in the United 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 18, 2019, on our consideration of DOL's internal control over financial reporting.

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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 2019 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

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## New Financial Comments and Recommendations Identified in Fiscal Year 2019

### **1. Improvements Needed in the Review of Black Lung Transaction Balancing Reports**

As part of our current year procedures, we tested the Division of Coal Mine Workers' Compensation (DCMWC) District Directors' review of Transaction Balancing Reports to verify the completeness and accuracy of Black Lung claimant transactions processed during fiscal year 2019. As a result, we identified certain instances in which the DCMWC did not follow established procedures. Specifically, we noted the following:

- For 1 of 18 weeks tested, the reviewer did not detect a discrepancy between the claimant's date of death listed on the Benefit Payments Data form CM-1261 and the date of death entered into the Automated Support Program.
- For 1 of 18 weeks tested, the individual who reviewed and signed the Transaction Balancing Report also signed as the District Director for 5 CM-1261 forms under review.

DCMWC controls over the review of the Transaction Balancing Report were not sufficient to detect and correct a discrepancy from its established procedures. In addition, controls were not sufficient to ensure that the individuals reviewing the CM-1261 forms and the Transaction Balancing Reports were not the same person.

Ineffective controls over the review over the Transaction Balancing Reports and failure to maintain appropriate segregation of duties increases the risk that errors in claimants' information are not detected and corrected timely.

The 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 United States Government Accountability Office's *Standards for Internal Control in the Federal Government*, (the GAO Standards), Principle 10, states:

Management divides or segregates key duties and responsibilities among different people to reduce the risk of error, misuse, or fraud. This includes separating the responsibilities for authorizing transactions, processing and recording them, reviewing the transactions, and handling any related assets so that no one individual controls all key aspects of a transaction or event.

Furthermore, the GAO Standards, Principle 16, 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. Separate evaluations are used periodically and may provide feedback on the effectiveness of ongoing monitoring.

## **Recommendations**

We recommend the Director of OWCP:

1. Provide training to individuals responsible for reviewing the Transaction Balancing Reports to reinforce established policies and procedures.
2. Monitor DCMWC district offices' efforts to maintain segregation of duties in the review of the Transaction Balancing Reports.

## **Management's Response**

Management concurs with the recommendations. Management will address the recommendations by providing an in-depth training to all individuals responsible for reviewing and approving the Transaction Balancing Reports to reinforce the updated Benefit Payment – Policy Manual Chapter 2-1402. Management anticipates to complete the corrective action in fiscal year 2020.

## **Auditors' Response**

Management indicated that action will be taken to address the matters identified in this comment. Follow-up procedures will be conducted in fiscal year 2020 to determine whether corrective actions have been implemented.

## **2. Improvements Needed in Management's Review of Undelivered Orders**

During our testing of management's review of the agencies undelivered orders (UDOs) as of June 30, 2019, we noted that Departmental Management and Bureau of Labor Statistics (BLS) were not appropriately identifying invalid UDOs and de-obligating them. Specifically, we selected a sample of 45 UDOs for testing and identified 3 UDOs that were improperly certified as valid within the Triannual Certification but were invalid and should have been de-obligated based on the supporting documentation.

Certain agencies did not have sufficient policies and procedures in place to ensure they were appropriately identifying the status of the UDO's as either valid, invalid or researching. The lack of sufficient policies and procedures at the agency level resulted in an overstatement of valid UDO's as of June 30, 2019 of \$1,966. Without sufficient policies and procedures in place there is an increased risk that invalid UDOs are not accurately and timely identified and de-obligated, which could lead to misstatements in the financial statements.

The GAO Standards, Principle 16, 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.

### **Recommendations**

We recommend the:

3. Chief Financial Officer and the Commissioner for BLS enhance policies and procedures to ensure agencies are adequately reviewing the status of UDO's to identify the UDO as valid, invalid, or researching.
4. Chief Financial Officer enhance training to agencies to ensure agencies are properly trained and are following policies and procedures.

### **Management's Response**

Management concurs. Management will implement corrective action plans to correct the matters identified in fiscal year 2020.



## Auditors' Response

Management indicated that action will be taken to address the matters identified in this comment. Follow-up procedures will be conducted in fiscal year 2020 to determine whether corrective actions have been implemented.

### **3. Improvements Needed in Management's Design of the Review of the Due and Payable, and Disbursement Estimates**

During the current fiscal year, management updated its *Due and Payable Accrual Methodology* and the *Benefit Disbursement Methodology* (the methodologies) but did not finalize them until August 7, 2019. The new methodologies included a management review by Employment and Training Administration (ETA) of the due and payable and benefit disbursement estimates, and for the results of that review to be sent to the Office of the Chief Financial Officer (OCFO) for a determination of any impact on DOL's financial reporting. However, there was no formal policy that stated the specific and measurable tolerance threshold to be used in determining whether an adjustment to the methodologies was warranted.

The OCFO had verbally communicated the specific and measurable tolerance threshold that were intended to be used in performing the retrospective reviews of the due and payable and disbursement estimates but had not formally documented metrics due to the timing of the transition of certain responsibilities related to the review from ETA to OCFO. Without specific and measurable tolerance thresholds, the precision of the controls may not be sufficient for management to prevent, or detect and correct potential misstatements of the due and payable and disbursement estimates or to adjust the methodologies, as needed.

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 defines risk tolerances in specific and measurable terms so they are clearly stated and can be measured. Risk tolerance is often measured in the same terms as the performance measures for the defined objectives.

In addition, the GAO Standards, Principle 7, states:

Based on the selected risk response, management designs the specific actions to respond to the analyzed risks. The nature and extent of risk response actions depend on the defined risk tolerance. Operating within the defined risk tolerance provides greater assurance that the entity will achieve its objectives. Performance measures are used to assess whether risk response actions enable the entity to operate within the defined risk tolerances. When risk response actions do not enable the entity to operate within the defined risk tolerances, management may need to revise risk responses or reconsider defined risk tolerances. Management may need to conduct periodic risk assessments to evaluate the effectiveness or the risk response actions.

Furthermore, the GAO Standards, Principle 10, 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. As part of the control environment component, management defines responsibilities, assigns them to key roles, and delegates authority to achieve the entity's objectives. As part of the risk assessment component, management identifies the risks related to the entity and its objectives, including its service organizations, the entity's risk tolerance, and risk responses. Management designs control activities to fulfill defined responsibilities and address identified risk responses.

## **Recommendation**

5. We recommend that the Assistant Secretary for ETA and the Chief Financial Officer formally document the specific and measurable tolerance thresholds that will be used to review and respond to the estimate reviews conducted by ETA.

## **Management's Response**

Management concurs with the recommendation. Additionally, ETA and OCFO met to discuss the need to document the tolerance thresholds that will be used to review and respond to the reviews conducted by ETA, and the methodologies were revised to reflect the guidance from OCFO.

## **Auditors' Response**

Management indicated that action has been taken to address the matters identified in this comment. Follow-up procedures will be conducted in fiscal year 2020 to determine whether the corrective actions were implemented.

## **Prior Year Financial Comments and Recommendations Still Present in Fiscal Year 2019**

### **4. Untimely Grant Closeout**

During our fiscal year 2019 audit, we noted the Veterans' Employment and Training Service (VETS), ETA, and Mine Safety and Health Administration (MSHA) did not close out all expired grants within the required 365 days. Specifically, we identified the following exceptions during our testing of 30 grants as of March 31, 2019:

- MSHA closed one grant 125 days late.
- ETA closed one grant seven days late.
- VETS had one grant that should have been closed out as of December 31, 2018, but was still noted closed as of August 31, 2019.

There were no guidelines in place that specified when, and how frequently, closeout specialists were required to follow-up with grantees after the expiration of the grant to ensure the grant was closed timely. In addition, there was no monitoring control in place to track the status of the grants during the closeout period to ensure timely closeout. Specifically for MSHA, we noted the delay was due to an oversight by the grant closeout specialist.

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, Principle 10, 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 Recommendations**

We recommend that the Assistant Secretary for ETA, the Assistant Secretary for MSHA, and the Deputy Assistant Secretary for Operations for VETS:

6. Enhance current policies and procedures to include specific requirements to include when and how often closeout specialists should reach out to grantees during the close out process when supporting documentation is not submitted timely by the grantee.

7. Implement monitoring controls to track the status of the grant during the closeout process to ensure proper follow-up is conducted in a timely manner to ensure grants are closed out within the required timeframe.

### **Management's Response**

Management concurs. Specifically, ETA and VETS will review and update current policies and procedures to reflect the ongoing monitoring performed by both closeout specialist and the grant officer to ensure closeout occurs within the required timeline. Updates will be completed by the end of the first quarter in fiscal year 2020.

### **Auditors' Response**

Management indicated that action will be taken to address the matters identified in this comment. Follow-up procedures will be conducted in fiscal year 2020 to determine whether corrective actions have been implemented.

### **5. Untimely ETA-9130 Cost Report Acceptance by a Federal Project Officer**

During our fiscal year 2019 audit, we noted for 5 of the 15 sample items selected for testing as of March 31, 2019, the Federal Project Officer (FPO) was delinquent in accepting the cost report once it was submitted by the grantees. The number of days late ranged from 9 to 75 days late.

We noted that ETA did not have any monitoring controls in place to ensure FPOs were tracking the status of delinquent cost reports to avoid untimely acceptance. 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, Principle 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.

In addition, the GAO Standards, Principle 10, 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.

Furthermore, the GAO Standards, Principle 16, 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 Recommendations**

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

### **Current Year Recommendation**

We recommend that the Acting Assistant Secretary for ETA:

8. Implement monitoring controls to track the status of the delinquent cost report to ensure that FPOs are accepting ETA 9130s timely.

### **Management's Response**

ETA management concurs and will develop and implement a Corrective Action Plan in fiscal year 2020. The FPO created an Outlook reminder that notifies all FPOs within the Office of Workforce Investment's Division of National Programs, Tools, and Technical Assistance to review 9130s on a quarterly basis, this was implemented in May 2019.

### **Auditors' Response**

Management indicated that action will be taken to address the matters identified in this comment. Follow-up procedures will be conducted in fiscal year 2020 to determine whether corrective actions have been implemented.

## **6. Untimely Federal Project Officers Desk Review**

In fiscal year 2019, we noted that for 1 out of 30 grants selected for testing as of March 31, 2019, the FPO desk review was performed 3 days late. This occurred because the grant was not timely assigned to the relevant FPO due to an oversight by the point of contact in updating Grants Electronic Management System (GEMS) for the FPO. In addition, the GEMS configuration was not corrected as ETA was not able to obtain the approval for the required funds.

Without adequate 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, Principle 16, 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 Recommendations**

The prior year recommendations remain open:

We recommend the Assistant Secretary for ETA:

- Continue its efforts to obtain the funding necessary to 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, additional monitoring procedures should be implemented to verify that desk review submission dates correspond with the appropriate quarterly review timeframe; and



- Provide training to staff to ensure adherence to their policies and procedures to ensure FPO's are timely assigned to grants and employees are performing desk reviews timely.

### **Management's Response**

Management concurs. The Office of Foreign Labor Certification (OFLC) will dedicate additional resources to grant desk review in order to ensure that OFLC meets all desk review submission deadlines. OFLC detailed an employee to help with grant review on July 22, 2019 for 120 days.

OFLC will also institute training sessions to ensure adherence to policies and procedures and to emphasize that FPOs and other staff are performing desk reviews in a timely fashion. OFLC will establish a 30-60-90 calendar in order to proactively track and schedule desk reviews.

### **Auditors' Response**

Management indicated that action will be taken to address the matters identified in this comment. Follow-up procedures will be conducted in fiscal year 2020 to determine whether corrective actions have been implemented.

## **7. Untimely Filing of On-Site Monitoring Review Reports**

During our testing of on-site monitoring as of March 31, 2019, we noted ETA did not review on-site monitoring reports timely. Specifically, for the 28 site visits selected for testing, we noted the following:

- Four site visit reports were not completed and available within 45 days of the exit conference date.
- Five site visit reports were not included in GEMS within 30 days of the issuance of the report.

In addition, we noted ETA did not have policies and procedures in place to demonstrate the existence of a complete and accurate annual work plan for grants subject to monitoring.

The deficiencies occurred because ETA did not have formal monitoring controls in place to ensure that staff were submitting and issuing monitoring reports timely. Furthermore, ETA concluded that the implementation of a centralized process to track the grants that were subject to monitoring was not necessary because ETA believed it was meeting its performance metrics for monitoring reports. However, these performance metrics were based on ensuring a certain percentage of total grants were reviewed and did not

ensure that all review requirements were met at the grant level. For example, metrics did not ensure that each grant was monitored at least once in their life cycle or that all high risk grants were reviewed.

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 1<sup>st</sup>.

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 1<sup>st</sup> 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, Principle 10, 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 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.

### **Prior Year Recommendations**

The following prior year recommendations remain open:

We recommend the Assistant Secretary for ETA:

- Develop and implement monitoring controls to ensure that on-site monitoring review reports are timely issued and uploaded into GEMS with appropriate documentation.
- Develop and implement policies and procedures to ensure a complete and accurate listing of annual work plan which includes grants to be monitored is maintained.

### **Management's Response**

Management concurs. Management will consider the auditors' recommendation and develop and implement a Corrective Action Plan in fiscal year 2020.

### **Auditors' Response**

Management indicated that action will be taken to address the matters identified in this comment. Follow-up procedures will be conducted in fiscal year 2020 to determine whether corrective actions have been implemented.

## **8. Untimely Issuance of Single Audit Determination Letters**

During our testing over DOL's compliance with the Single Audit Act, we noted the following in regards to the 58 Single Audit Reports selected for testing as of June 30, 2019:

- Management decision letters for three Single Audit reports were not yet issued as of August 27, 2019. These reports were between 251 to 357 days late.
- A management decision letter for one Single Audit Report was not issued until five days after the deadline.

These exceptions occurred because ETA, VETS, and OIG did not have sufficient policies and procedures in place to ensure management decision letters are issued timely. 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

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 [Federal Audit Clearinghouse] 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 following prior year recommendation remains open:

We recommend that the Assistant Inspector General for the Office of Audit, the Assistant Secretary for ETA, and Deputy Assistant Secretary for Operations for VETS:

- Enhance policies and procedures 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**

ETA does not concur. Specifically for ETA, the Departmental Administrative Regulation which provides an exception from the Uniform Guidance allows six months from the date of receipt of the audit. ETA provided OMB confirmation of 2 CFR 2900.21 approval.

2 CFR 2900.21 Management Decision- In the DOL, ordinarily, a management decision is issued within six months of receipt of an audit from the audit liaison of the Office of Inspector General and is extended an additional six months when the audit contains a finding involving a subrecipient of the pass-through entity being audited.

In May 2019, the OIG and VETS reached an agreement on the delivery method of Single Audits to VETS. VETS also agreed to establish written internal processes to ensure that all single audit reports from the FAC addressing VETS programs are addressed accordingly, accurately tracked, and responded to timely in accordance to the applicable guidance.

OIG concurs with the finding. 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 with the applicable guidance.

### **Auditors' Response**

We were not able to validate the policy exception noted in the response above as management did not provide evidence to support it. Therefore, we have not made any revisions to the related recommendations noted above. Management has indicated that certain other actions will be implemented in fiscal year 2020. Follow-up procedures will be conducted in fiscal year 2020 to determine whether the corrective actions have been implemented.

## **Prior Year Information Technology Comments and Recommendations Still Present in Fiscal Year 2019**

### **9. Improvements Needed in Account Management**

During our testing in fiscal year 2019, we identified deficiencies associated with account management with certain DOL systems as follows:

- Certain new users were improperly authorized and provisioned before approval had been granted or without appropriate documentation;
- Certain reports used for re-certifications were not designed to capture all required users;
- Certain application and network user accounts were not timely removed for separated users; and
- Certain password configuration controls were not in compliance with DOL requirements.

Control deficiencies related to account management and system access settings increase the risk that current employees, separated employees, and/or contractors may conduct unauthorized activities and/or obtain inappropriate disclosures of sensitive data. System access setting control deficiencies may be exploited, in either a singular fashion or in combination, by a malicious user, which may affect the confidentiality, integrity, and/or availability of DOL systems and data. The specific nature of these deficiencies, their specific causes, and the system impacted by them, have been communicated separately to management. These deficiencies were the result of issues in the monitoring or operation of departmental procedures and controls.

The following defines the criteria for the controls in which the deficiencies were identified:

- DOL Computer Security Handbook (CSH), Volume 1, Edition 5.0, Access Control Policy, Procedures and Standards, dated December 2018;
- DOL CSH, Volume 7, Edition 5.0, Identification and Authentication Policy, Procedures and Standards, dated December 2018;
- DOL CSH, Volume 13, Edition 5.0, Personnel Security Policy, Procedure and Standards, dated December 2018; and
- National Institute of Standards and Technology (NIST) Special Publication (SP) 800-53, Revision 4, Security and Privacy Controls for Federal Information Systems and Organizations.

## **Current Year Recommendations**

We recommend that the Chief Information Officer:

9. Coordinate efforts among the DOL agencies to design and implement procedures and controls to address account management, in key financial feeder systems; and
10. Monitor the agencies' progress to ensure that established procedures and controls are operating effectively and maintained.

## **Management's Response**

Management concurs with the recommendations and has established procedures to strengthen review processes of agency users with privileged system permissions. During Quarter 1 and Quarter 3 of each fiscal year, agencies will be required to produce a report on access levels of all back-end users. OCIO will establish a review process of all privileged system permissions, and maintain documentation as evidence of the review.

## **Auditors' Response**

Management indicated that action will be taken to address the matters identified in this comment. Follow-up procedures will be conducted in fiscal year 2020 to determine whether corrective actions have been implemented.

## **10. Improvements Needed in IT Segregation of Duties**

During our fiscal year 2019 audit procedures, we determined the least privilege and segregation of duties controls for certain IT systems were not appropriately designed as we identified segregation of duties conflicts among certain users. Furthermore, risk exemption waivers had not been obtained for these conflicts. The specific nature of these deficiencies, their specific causes, and the system impacted by them, have been communicated separately to management.

Without appropriate segregation of duties and least privileged access appropriately designed, it increases the risk that unauthorized privileged permissions or commands could be performed without detection. These potential unauthorized permissions or commands could ultimately impact the integrity, availability, or confidentiality of DOL data.

The following defines the criteria for the controls in which the deficiencies were identified:

- DOL CSH, Volume 1, Edition 5.0, Access Control Policy, Procedures and Standards, last reviewed December 2018; and
- DOL CSH, Volume 12, Edition 5.0, Security Planning Policy, Procedures and Standards, dated December 2018.

### **Current Year Recommendation**

11. We recommend that the Chief Information Officer enforce separation of duties among users assigned access to the DOL's systems' infrastructure layers to the extent possible. When not possible, an approved risk exemption waiver should be obtained and effective monitoring controls should be developed and implemented.

### **Management's Response**

Management concurs with this recommendation and will work with agencies to address. While OCIO has oversight of enterprise systems, agencies are responsible for management of agency specific systems and applications. OCIO has implemented the requisite policies and procedures that governs segregation of duties, to include a risk waiver process. OCIO will work with the agencies to ensure these policies and procedures are followed.

As noted in the initial management response to the auditors' finding, DHRIS management concurs with the finding indicated that the agency will work closely with the contractor, and OCIO to resolve this finding. Management created a Plan of Action and Milestones (POA&M) to monitor the finding.

OCIO will reiterate its policies and procedures to agencies and provide training as needed.

### **Auditors' Response**

Management indicated that action will be taken to address the matters identified in this comment. Follow-up procedures will be conducted in fiscal year 2020 to determine whether corrective actions have been implemented.

### **11. Improvements Needed in Audit Log Configurations and Reviews**

During our fiscal year 2019 audit procedures, we noted that certain audit log review controls were not designed and/or operating effectively. Specifically, we noted the following:

- Audit logs related to the operating system for IT system were not appropriately configured to prevent privileged users whose actions were logged from modifying the log data;



- Audit logs for one of the IT systems did not include certain user activity at the application layer;
- Audit logs for the one of the IT systems was not reviewed for a period of time; and
- There was no evidence that audit logs were reviewed for the two of the IT systems.

The specific causes of these deficiencies, and the system impacted by them, have been communicated separately to management.

Without effective controls in place over audit logs, there is an increased risk that unauthorized changes made by personnel with privileged access permissions will not be detected and corrected in a timely manner. This could ultimately impact DOL's ability to accurately and timely perform its financial reporting duties.

The following defines the criteria for the controls in which the deficiencies were identified:

- The DOL CSH, Volume 3, Edition 5.0, *Audit and Accountability Policies, Procedures, and Standards*, last reviewed December 2018, section 3.1.1 and 3.2.1; and
- The National Institutes of Standard and Technology Special Publication 800-53 Revision 4, dated April 2013 states the following for control AU-6 Audit Review, Analysis, and Reporting.

### **Current Year Recommendations**

We recommend that Chief Information Officer:

12. Segregate permissions such that production system administrators who have their privileged activities logged are not able to modify, update, or delete source log data to the extent possible and if not possible, include this risk consideration in a formal, signed risk exemption waiver;
13. Update configuration of audit logs to capture all relevant privileged user activity; and
14. Enforce the requirement for applicable personnel to formally document and maintain evidence for the audit log review.

### **Management's Response**

While management concurs that at the time of the audit some audit log review reports were not readily available, evidence of the audit log review and management's acknowledgement was provided subsequent to the auditors' finding being issued. Going forward, OCIO will ensure that periodic review of audit log reports are formally

documented, complete and timely available each month; and include a statement that audit logs were reviewed even if anomalies were not found.

SQL scripts to validate the information in the audit reports as well as information needed to perform both daily role assignments and segregation of duties validation has been incorporated in the daily audit process. In fiscal year 2020, DOL will develop an enterprise process for audit logs to include enhancement to its SIEM capabilities, pre-determined timeline for review of OS, DB and application logs, and also incorporate training for responsible agency personnel. Additionally, OCIO plans to expand Information Systems Security Officer (ISSO) support, which will increase the overall IT security support for information systems, to include the review of audit logs.

### **Auditors' Response**

Management was not able to provide evidence to support that the log reviews were completed prior to our finding; however, we were able to corroborate certain audit log reviews were completed subsequent to the communication of our finding. Management indicated that action will be taken to address the matters identified in this comment. Follow-up procedures will be conducted in fiscal year 2020 to determine whether corrective actions have been implemented.

### **12. Improvements Needed in Patch Management**

We identified instances in which certain controls related to patch management requirements were not operating effectively during fiscal year 2019. We noted certain database and operating system infrastructures were configured on unsupported or outdated versions instead of the latest supported versions from the vendors. There were also instances where vulnerability scans that showed “high” and “critical” risks were not reviewed and remediated in a timely manner.

Controls related to patch management are designed to prevent weaknesses in IT systems from being exploited. IT control deficiencies pose a risk to the integrity of DOL’s data, which could ultimately impact DOL’s ability to accurately and timely perform its financial reporting duties. The specific nature of these deficiencies, their specific causes, and the system impacted by them, have been communicated separately to management.

The DOL CSH, Volume 17, edition 5.0, version 1.0, dated December 2018, System and Information Integrity Policy, Procedure and Standards, define the criteria for the controls in which the deficiency was identified.

## **Current Year Recommendations**

15. We recommend the Chief Information Officer maintain a current and accurate population of production servers and work with system owners to update that population when server transitions or changes occur outside of any regularly scheduled maintenance updates;
16. Enhance vulnerability scanning monitoring controls and procedures to track and remediate outstanding vulnerabilities in a timely manner; and
17. Provide annual training to enforce vulnerability review and flaw remediation procedures.

## **Management's Response**

Management concurs with the finding. However, while the finding indicates several flaws in the current OCIO server patching process, the reported number of both critical and high vulnerabilities are much higher than the actual numbers because the scan addressed a server cluster, which results in duplicate reported vulnerabilities. In addition, numerous vulnerabilities have already been eliminated as a result of decommissioning a scanned legacy environment that was only online in the event the new environment failed or required a roll back.

While OCIO receives notifications from vendors, if a non-critical patch is not immediately addressed the next release typically covers the previous patch release if it is a rollup. OCIO will establish a process to document the disposition for all patches and vulnerabilities as required.

OCIO will continue to administer role based training for responsible individuals pertaining to vulnerability review and flaw remediation to address vulnerabilities in a timely manner. For the systems identified as not having updated patches. Management has created POA&Ms to monitor the finding.

## **Auditors' Response**

Management indicated that action has been taken to address the matters identified in this comment. Follow-up procedures will be conducted in fiscal year 2020 to determine whether corrective actions have been implemented.

## **13. Improvements Needed in Contingency Planning**

During our fiscal year 2019 audit procedures, we determined that backup jobs for multiple production systems did not complete successfully for certain periods during the

year. This occurred because management did not have sufficient monitoring controls in place to ensure that data backup failures were resolved timely.

Proper controls over backups help decrease the risk that relevant data would not be available upon restoration. Frequent backups of data minimizes the risk of a data lost in the event of an outage and management needs to ensure that these backups are successfully completed.

The following defines the criteria for the controls in which the deficiencies were identified:

- The DOL CSH, Volume 6, Edition 5.0, Contingency Planning Policy, Procedure and Standards, last reviewed December 2018, section 3.2.6, page 12.; and
- The NIST SP 800-53 Revision 4, dated April 2013, Control CP-9 – Information System Backup.

### **Current Year Recommendation**

We recommend that the Chief Information Officer enhance its monitoring controls to ensure that:

18. Backups are monitored for successful completion; and
19. Actions are taken timely to resolve data backup failures and documentation is maintained for the remediation action.

### **Management's Response**

Management does not concur with this recommendation, however agrees with the condition encountered. The required backup monitoring controls were already in place at the time of the audit. As discussed with KPMG during the audit, the Catalogic backup had a hardware failure. While OCIO worked to fix the issue, OCIO ensured that backups were completed using other controls. As an alternate backup during the outage, daily NetApp Snapshots were taken and stored to an on-premises server for 30 days. However, by the time the audit request came in the NetApp Snapshots had aged out and OCIO was not able to provide the proper evidence to show that the Snapshots were completed. Additionally, a risk analysis was performed of the gap between the original measure and the proposed alternate measure which determined that at no time was data at risk if and when the alternate backup method was used.

### **Auditors' Response**

As noted by management, we were unable to corroborate the compensating controls that management had put in place. Therefore, we have not made any revisions to the

related recommendations noted above. We will perform follow up audit procedures on this control in fiscal year 2020 to determine if this deficiency remains open.

#### **14. DOL General Support System (GSS) Incident Reporting Weakness**

We noted during our fiscal year 2019 audit procedures that one of five cyber incidents selected for testing was not reported to US-CERT within 1 hour. The incident was ultimately reported in three hours.

The incident was not reported timely to the US-CERT because relevant parties responsible for the initial detection, analysis, and information sharing did not follow proper reporting procedures because of an oversight of the reporting requirements. Furthermore, the monitoring and reporting controls were not sufficient to detect that the incident was not reported timely.

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 delay of actions to detect and protect against malicious code or other critical DOL information systems, increasing those systems and information may be compromised.

The DOL CSH, Volume 8, Edition 5.0, *Incident Response Policies, Procedures and Standards*, dated December 2018, Section 1.5.3 define the criteria for the controls in which the deficiency was identified.

#### **Prior Year Recommendation**

The following prior year recommendation remains open:

- We recommend that the Chief Information Officer continue to periodically conduct training over the incident response monitoring and reporting policies and procedures with all agencies, and those personnel with Incident Response responsibilities, so they are aware of the procedures prior to incident occurrence.

#### **Current Year Recommendation**

We also recommend that the Chief Information Officer:

20. Enhance incident monitoring and reporting controls to verify that incidents are reported to US-CERT in a timely manner.

### **Management's Response**

Management concurs with the finding. All Incident Response (IR) personnel immediately received on the spot, in person, refresher training in accordance with the existing IT SOP for reporting. OCIO considers this finding remediated as the corrective actions were made immediately. IR personnel will continue to receive ongoing training and follow the appropriate policies and 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 fiscal year 2020 to determine whether the corrective actions have been implemented.

## Prior Year Comments and Related Recommendations Closed in Fiscal Year 2019

The following comments reported in the *Management Advisory Comments Identified in an Audit of the Consolidated Financial Statements for the Year Ended September 30, 2018*, dated November 15, 2018, were closed in fiscal year (FY) 2019.

Prior Year Comment Number	Fiscal Year Comment Originated	Title of Comment Reported in FY 2018 MAC	Recommendation(s) Reported in the FY 2018 MAC
2018-01	2018	Insufficient Review of the Grant Accrual Lookback Analysis	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.
2018-02	2018	Improvements Needed in Management's Review of the Benefits Disbursement Estimate	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.
2018-03	2018	Improvements Needed in Management's Review of Unemployment Trust Fund (UTF) Accounts	We recommend the Acting Assistant Secretary for ETA update policies and procedures to:  3. Clarify when variances for allowance review should be investigated.

Prior Year Comment Number	Fiscal Year Comment Originated	Title of Comment Reported in FY 2018 MAC	Recommendation(s) Reported in the FY 2018 MAC
		Receivable Estimates and Related Allowances	4. Require only the use of actual data for the look back analysis.
2018-05	2012	Untimely Resolution of Differences Identified in the Reconciliation of Fund Balance with Treasury	<ul style="list-style-type: none"> <li>• 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.</li> </ul> <p>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.</p>
2018-10	2015	Improvements Needed in Management's Review of the Federal Employees' Compensation Act Existing Claims Accrual	<p>We recommend that the Acting Assistant Secretary of ETA:</p> <ul style="list-style-type: none"> <li>• Develop and implement monitoring controls to enforce the management review requirements per the <i>FECA Existing Claims Accrual Methodology</i> and ensure that the results of the review are sufficiently documented.</li> <li>• Update the <i>FECA Existing Claims Accrual Methodology</i> to require outliers that fall outside of management expected range be properly researched and documented.</li> </ul>
2018-11	2014	Improvements Needed in Management's	<ul style="list-style-type: none"> <li>• 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</li> </ul>



Prior Year Comment Number	Fiscal Year Comment Originated	Title of Comment Reported in FY 2018 MAC	Recommendation(s) Reported in the FY 2018 MAC
		Documentation of the Review of the Due and Payable Estimate	<p>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.</p> <p>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.</p>

The following comments reported in the *Management Advisory Comments Identified in an Audit of the Consolidated Financial Statements for the Year Ended September 30, 2018*, dated November 15, 2018, were partially re-issued during FY 2019 but included recommendations that were closed during the year.

Prior Year Comment Number	Fiscal Year Comment Originated	Title of Comment Reported in FY 2018 MAC	Recommendation(s) Reported in the FY 2018 MAC
2018-04	2013	Untimely Issuance of Single Audit Final Determination Letters and Untimely Grantee submission into the Federal Audit Clearinghouse (FAC)	We recommend the:  6. Acting Assistant Secretary for ETA enhance policies and procedures for ensuring that grantee’s timely submit their Single Audit Reports into FAC.
2018-06	2015	Untimely ETA-9130 Cost Report Acceptance by a Federal Project Officer	We recommend that the Acting Assistant Secretary for ETA:  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.
2018-08	2015	Untimely Filing of On-Site Monitoring Review Reports	We recommend the Acting Assistant Secretary for ETA:  14. Provide training to employees to ensure compliance with ETA's written policies and procedures.

<b>Prior Year Comment Number</b>	<b>Fiscal Year Comment Originated</b>	<b>Title of Comment Reported in FY 2018 MAC</b>	<b>Recommendation(s) Reported in the FY 2018 MAC</b>
2018-09	2014	Untimely Grant Closeout	<p>We also recommend that the Deputy Assistant Secretary for Operations for VETS, the Deputy Undersecretary for ILAB, and the Acting Assistant Secretary for ETA:</p> <p>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.</p> <p>19. Implement routine edit checks on their systems to ensure that system issues do not cause the delays in the close out process.</p>

# Appendix A

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## 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 <i>Standards for Internal Control in the Federal Government</i>
GEMS	Grants Electronic Management System
GSA	General Services Administration
GWA	Government-wide Accounting
iFECS	Integrated Federal Employees Compensation System
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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