

U.S. Department of Labor

Office of Inspector General  
Washington, D.C. 20210



DEC 2 2004

Director, Financial Reports Division  
Financial and Budget Report Directorate  
Governmentwide Accounting  
Financial Management Service  
Department of the Treasury  
3700 East-West Highway, Room 509B  
Hyattsville, MD 20782

Enclosed is the Independent Accountant's Report on the Application of Agreed-Upon Procedures, for the Federal Intragovernmental Activity and Balances (Report No. 22-05-006-13-001). The Office of Inspector General contracted with the independent certified public accounting firm of R. Navarro & Associates, Inc., CPAs (RNA) to perform the agreed-upon procedures. The contract required that this report be prepared as required by the Treasury Financial Manual, Part 2, Chapter 4700, Section 4706.

We reviewed RNA's report and related documentation and inquired of its representatives. However, RNA is responsible for the enclosed agreed-upon procedures and the conclusions expressed in the report. Our review disclosed no instances where RNA did not comply, in all material respects, with attestation standards generally accepted in the United States of America (GAAS), Government Auditing Standards (GAS), and Office of Management and Budget audit requirements.

If you have any questions, please contact Michael McFadden, Office of Accountability Audits, on (202) 693-5144.

Sincerely,

*for: Joseph R. Lewis*

Elliot P. Lewis  
Assistant Inspector General for Audit

Enclosure

cc: Mr. Samuel T. Mok  
Chief Financial Officer  
Department of Labor

Mr. Gary Engel  
Government Accountability Office

**INDEPENDENT ACCOUNTANTS' REPORT ON THE  
APPLICATION OF AGREED-UPON PROCEDURES  
FEDERAL INTRAGOVERNMENTAL ACTIVITY AND BALANCES  
AS OF AND FOR THE YEAR ENDED SEPTEMBER 30, 2004**

**R. Navarro & Associates, Inc.  
Certified Public Accountants**

Report Number: 22-05-006-13-001  
Date Issued: December 2, 2004

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## ACRONYMS

BPD	Bureau of the Public Debt, Department of the Treasury
CFO	Chief Financial Officer
DOL	Department of Labor
FACTS I	Federal Agencies' Centralized Trial-Balance System
FMS	Financial Management Service, Department of the Treasury
GAO	General Accounting Office
GFRS	Government-wide Financial Report System
OCFO	Office of Chief Financial Officer
OIG	Office of Inspector General
OMB	Office of Management and Budget
RSI	Required Supplementary Information
SGL	Standard General Ledger
TFM	Treasury Financial Manual



## **INDEPENDENT ACCOUNTANTS' REPORT ON THE APPLICATION OF AGREED-UPON PROCEDURES**

Director, Financial Reports Division  
Financial Management Services  
Department of the Treasury

We have performed the procedures described at Exhibit I, which were agreed to by the Department of the Treasury's Financial Management Service (FMS), the U. S. Government Accountability Office (GAO), and the Office of Management and Budget (OMB) as stated in the *FMS Agency Reporting Requirements for the Financial Report of the United States Government* guidance, solely to assist FMS in the preparation of, and GAO in the audit of the consolidated financial statements of the U.S. Government as of and for the year ended September 30, 2004. The Department of Labor's management is responsible for the proper accounting, presentation and reporting of its consolidated financial statements and reporting of information to FMS.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and the *Government Auditing Standards*, issued by the Comptroller General of the United States. The sufficiency of these procedures is solely the responsibility of FMS, GAO and OMB. Consequently, we make no representations regarding the sufficiency of the procedures described in Exhibit I, either for the purpose for which this report has been requested or for any other purpose.

The procedures we performed and our associated results are presented at Exhibit I.

We were not engaged to, and did not perform an audit of the matters addressed herein, the objective of which would be the expression of an opinion on such information. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Department of Labor, OMB, FMS and GAO and is not intended to be, and should not be, used by those who have not agreed to the procedures and taken responsibility for the sufficiency of the procedures for their purposes.

*R. Navarro & Associates, Inc.*

December 2, 2004

## EXHIBIT I - AGREED-UPON PROCEDURES AND RESULTS

### **Procedure 1**

Obtain all Closing Package trading partner data for intragovernmental activity/balances supporting the Closing Package Reclassified Balance Sheet's Federal Assets and Liabilities, Reclassified Statement of Net Cost's Federal Gross Cost and Federal Earned Revenue, and Reclassified Statement of Change in Net Position's Federal Non-exchange Revenue and Budgetary and Other Financing Sources.

### **Result**

We obtained all Closing Package data for intra-governmental activity/balances.

### **Procedure 2**

Trace the intragovernmental transactions Closing Package trading partner data by Federal line item totals and/or trading partner activity/balances to the agency general ledger and the audited financial statements. Identify any differences.

### **Result**

We traced all intra-governmental transactions shown on the Closing Package by Trading Partner to the general ledger and to the audited financial statements of the Department of Labor and noted no differences.

### **Procedure 3**

Trace trading partner activities/balances from the intragovernmental transactions Closing Package trading partner data to the agency's supporting schedules (Agency Fourth Quarter Intragovernmental Reconciliation and CFO Representations using Closing Package data). For items where agency reporting differences exist, trace the explanations to supporting documentation and identify any discrepancies.

### **Result**

We traced all trading partner activities/balances from the intra-governmental transactions Closing Package trading partner data to the agency's supporting schedules.

Attachment B to the CFO Representations shows that some of the information on the RSI differs from the Closing Package. In addition, the Attachment B shows three trading partners F57, F70 and other, whereby a period was inadvertently inserted making it appear that the amounts are shown in thousands rather than millions of dollars. For example F57 shows \$79,782.00 whereas the amount was intended to be \$79,782,000.

The Attachment B prepared by the OCFO lists three exceptions, as follows:

1. The first part shows three trading partners with earned revenue. F57 Department of the Air Force was shown in RSI as \$79,782,000 when it should have been \$190,978,000. The Closing package properly reflected the correction. The \$79,782,000 represents FEMA's (Homeland Security) amount. F70 Homeland Security was shown in RSI as \$131,402,000 when it should have been \$211,184,000. The Closing package reflected the correct amount. The difference of \$79,782,000 was transferred when the RSI incorrectly classified it as Air Force. The "Other" category in RSI showed the \$190,978 that belonged to Air Force. The correction mentioned earlier reduced the Closing package amount for other to \$75,546,000.
2. The FUTA Taxes and Black Lung Excise Taxes were originally classified as 9999 rather than 9900.
3. The accounts receivable for other agencies was reported as TP 99 rather than TP 95.

We concur with the explanations provided on Attachment B.

We also found on the FY 2004 CFO Representations for Federal Intra-governmental Activity and Balances, the OCFO represented that would only contact trading partner 13 and 97 because their differences deemed to be potentially material. We believe that they should also include trading partner 47 since their difference is larger than trading partner 13.

#### **Procedure 4**

Obtain FMS' *Comparative Closing Package Explanation of Differences Report* for intragovernmental activities/balances.

- Trace the differences between the agency and its trading partners by reciprocal category/line-item from FMS' comparative reports to explanations from agency supporting documentation.
- Identify any inconsistencies in amounts or explanations between FMS' comparative reports and agency supporting documentation.

In the event of non-reporting by trading partners, as indicated in the footer section of FMS' comparative reports, identify that the difference is due to a non-reporting partner and do not proceed further with the review of the differences.

#### **Result**

We traced the differences listed on FMS' report to the explanations provided by OCFO, and found that they were complete and properly explained. We also found no inconsistencies in the explanations based on the OCFO's supporting documentation. The OCFO has explained that they used incorrect Reciprocal Categories in the GFRS, however each correction was properly explained in Attachment A to the OCFO Representation submitted to FMS, the GAO and the OIG.

In addition, we provide the following schedule showing the differences with additional explanations. The differences were caused by the manner in which the Closing Package classified intra-governmental transactions. The total account balances reported on the Closing Package were correct, however, certain of the Reciprocal Categories were not correct :

<b>Trading Partner</b>	<b>RC Code</b>	<b>Reported by DOL</b>	<b>Reported by Trading Partner</b>	<b>Difference</b>	<b>Note</b>
13	24	\$ 71,793,116	\$ 83,233,000	\$ (11,439,884)	1
18	21	\$ 310,415,000	\$ 312,157,000	\$ (1,742,000)	2
20	17	\$8,740,557,000	\$8,741,000,000	\$ (443,000)	3
33R	21	\$ 10,566,421	\$ 8,040,876	\$ 2,525,545	4
47	24	\$ 229,225,248	\$ 248,000,000	\$ (18,774,752)	5
60	19	\$ -	\$ 129,810,341	\$ (129,810,341)	6



Retirement Board activity in the Unemployment Trust Fund (UTF) it was determined that the activity should be treated as a Non-Entity asset and a liability to the Railroad Retirement Board and that transfers (SGL 57XX) between Railroad Retirement Board and UTF should not be recorded. The Unemployment Trust Fund Liability and the Receivable of the Trading Partner is what gets tracked as intra-governmental activity. The liability is properly reported refer to Note 9.

Note 7	Receivable FECA Navy	1320	\$	565,884,611
	Receivable FECA Army	1320	\$	328,674,052
	Receivable FECA Army Corps of Engineers	1320	\$	46,768,218
	Receivable FECA Air Force	1320	\$	304,420,873
	Receivable FECA Defense	1320	\$	186,376,444
	Receivable UTF UCX Navy	1320	\$	77,002,224
	Receivable UTF UCX Army	1320	\$	134,591,767
	Receivable UTF UCX Air Force	1320	\$	26,175,089
	Receivable UTF UCX Defense	1320	\$	5,047,990
	<b>Total Reported</b>		<b>\$</b>	<b>1,674,941,268</b>

Note 8 We have no other activity on the general ledger for the Defense Department that equals the liability of \$161,900,000 reported by them.

Note 9 DOL categorized the \$86,208,934 as other liability which defaults to reciprocal code 29. The proper code should be 27. The Trading partner classified the amount under code 22 when it should be 27.

We found that there are other differences that are not shown on the Comparative Status of Disposition Report. The differences are not shown, we believe, because they were not material. For example, the OCFO reported on the Statement of Net Costs other costs of \$1,552,572, which was reported under reciprocal code 29. The total amount is correct and derived from the general ledger, however, it should have been reported in the Closing Package as follows:

Reciprocal Code	Amount
26	\$ 232,851,153
25	\$ 110,343,577
24	\$ 555,378,002
5	\$ 653,999,426
<b>Total</b>	<b>\$1,552,572,158</b>

The OCFO has indicated that the \$1.5 billion in other costs was reclassified in GFRS from a financial statement perspective. GFRS did not indicate Reciprocal Codes by line item within the reclassification module. Identifying the Reciprocal Codes would provide additional clarification on how to capture Intra-governmental Activity in GFRS. Additionally, GFRS training session should allot more time towards the Intra-governmental Trading Partner module to include the use of Reciprocal Codes.

On the Statement of Net Costs for earned revenue, the agency reported \$3,316,237,774 under reciprocal code 26 Benefit Program Expense when approximately \$120 million should have been for code 24, as follows:

24	\$ 120,418,616
26	\$3,195,819,158
<b>Total</b>	<b>\$3,316,237,774</b>

On the Reclassified Balance Sheet, the agency reported accounts receivable of \$3,916,673,833 under reciprocal code 21, however, approximately \$7 million should have been for code 22, as follows:

21	\$3,909,885,594
22	\$ 6,788,239
<b>Total</b>	<b>\$3,916,673,833</b>

On the Reclassified Balance Sheet, the agency reported Advances from the U.S. Treasury of \$8,740,557,000 under reciprocal code 23; however, it should have been reciprocal code 17.

**Procedure 5**

Identify and include copies of internal control findings related to intragovernmental activities from the financial statements audit. Also, identify and report auditor-proposed intra-governmental adjustments that were waived by the agency, including items cited in the management letter.

**Result**

There were no internal control findings related to intra-governmental activities from the financial statement audit.

The following represents the passed adjustment that were waived by the Department:

Trading Partner 70 Home Land Security (FEMA). The Department of Labor recognized revenue (General ledger 5200) of \$50,400,000. No revenue should have been recognized since the services had not been provided. The adjustment was:

Debit	Revenue GL 5200	\$50,400,000	
Credit	Advances from Federal Sources GL 2310		\$50,400,000

Trading Partner 99 Unidentified (IRS). The Department of Labor did not record a \$17,092,061 cash adjustment refund. The adjustment was:

Debit	FUTA Tax Revenue	\$17,092,061	
Credit	Funds With Treasury		\$17,092,061

There were no management letter findings pertaining to intra-governmental activities.