

U.S. Department of Labor

Office of Inspector General
200 Constitution Avenue, N.W.
Room S5512 – Office of Audit
Washington, D.C. 20210



December 2, 2005

Faye McCreary
Financial Management Services
Department of the Treasury
3700 East-West Highway
Room 509B
Hyattsville, MD 20782

Dear Ms McCreary:

Enclosed is the Independent Accountant's Report on the Application of Agreed-Upon Procedures, for the Federal Intragovernmental Activity and Balances (Report No. 22-06-005-13-001). 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 4705.75.

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) 693-5164.

Sincerely,

A handwritten signature in cursive script that reads "Elliot P. Lewis".

ELLIOT P. LEWIS

Assistant Inspector General
for Audit

Enclosure

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

Gary T. Engel
Director, Financial Management and
Assurance
Government Accountability Office

U.S. Department of Labor

Office of Inspector General—Office of Audit

OFFICE OF THE
CHIEF FINANCIAL OFFICER



INDEPENDENT ACCOUNTANTS' REPORT ON AGREED-UPON PROCEDURES FOR FEDERAL INTRAGOVERNMENTAL ACTIVITY AND BALANCES

For the Year Ended September 30, 2005

This audit report was prepared by R. Navarro & Associates, Inc., 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.

A handwritten signature in cursive script that reads "Elliott P. Lewis".

Assistant Inspector General for Audit

Date Issued: December 2, 2005

Report Number: 22-06-005-13-001

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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, 2005. 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 findings are presented at Exhibit I, Fiscal Year 2005 IG Agreed-Upon Procedures Report for Federal Intra-governmental Activity and Balances.

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, 2005

Exhibits

EXHIBIT I

Agency Name	Department of Labor
2-Digit Agency Code	16

<p>INSTRUCTIONS: Indicate your findings upon completion of each procedure. Deliver this IG Agreed-Upon Procedures Report on Closing Package Intragovernmental Activity and Balances, as well as copies of any internal control findings, to your agency’s CFO, FMS, and GAO no later than December 2, 2005. (Please refer to the requirements stated in subsection 4705.75 of the TFM – IG Agreed Upon Procedures for Federal Intragovernmental Activity and Balances)</p>	<p>Findings</p>
<p><u>Procedure 1</u></p> <p>Obtain all <i>Intragovernmental Closing Package Line Item</i> reports from Module 4 of GFRS for intragovernmental activity/balances supporting the Closing Package Reclassified Balance Sheet Federal Assets and Liabilities, Reclassified Statement of Net Cost’s Federal Gross Cost and Federal Earned Revenue, and Reclassified Statement of Changes in Net Position’s Federal Nonexchange Revenue and Budgetary and Other Financing Sources.</p>	<p>We obtained all the <i>Intragovernmental Closing Package Line Item</i> reports from Module 4 of GFRS without exception.</p>
<p><u>Procedure 2</u></p> <p>Compare the <i>Intragovernmental Closing Package Line Item</i> reports from Module 4 of GFRS for intragovernmental activity/balances by Federal line item totals and/or trading partner activity/balances to the agency’s general ledger and the RSI data from the audited financial statements. Identify any differences.</p>	<p>We compared the Intra-governmental Closing Package Line Item reports from Module 4 of GFRS to the general ledger and the RSI data from the audited Financial Statements.</p> <p>We noted no differences between the Module 4 and the general ledger. In addition, we noted no differences between the Module 4 and the RSI data.</p>

<p><u>Procedure 3</u></p> <p>Compare trading partner activity/balances from Intragovernmental RSI schedules in agency's audited financial statements to the agency's <i>Intragovernmental Closing Package vs 4th Quarter Submission Comparative Data Report</i> and the <i>Intragovernmental Closing Package Material Differences/ Status of Disposition Certification Report</i> (Section II of the CFO Representations). For items where agency reporting differences exist, compare the explanations to supporting documentation and identify any discrepancies.</p>	<p>We compared the RSI schedules in the audited financial statements to the agency's <i>Intra-governmental Closing Package vs 4th Quarter Submission Comparative Data Report</i>.</p> <p>We noted no differences.</p> <p>We also compared the agency's <i>Intra-governmental Closing Package vs 4th Quarter Submission Comparative Data Report</i> and the <i>Intra-governmental Closing Package Material Differences/ Status of Disposition Certification Report</i>.</p> <p>Refer to Exhibit III for an explanation of the variances in the Closing Package versus the 4th quarter submission.</p>
<p><u>Procedures 4</u></p> <p>On November 29, 2005, FMS will generate and distribute the <i>Intragovernmental Comparative Closing Package Explanation of Differences Report</i> for Intragovernmental activity/balances to agency IGs. Agency IGs/Auditors will use this report to:</p> <ol style="list-style-type: none"> (1) Compare the differences between the agency and its trading partners by reciprocal category/line-item from FMS' <i>Intragovernmental Comparative Closing Package Explanation of Differences Report</i> to explanations from the agency supporting documentation. For items where agency reporting differences exist, compare the explanations to supporting documentation and identify any discrepancies. 	<p>Refer to Exhibit II for the detail explanations of the differences.</p>

<p>(2) Identify any inconsistencies in amounts or explanations between FMS' <i>Intragovernmental Comparative Closing Package Explanation of Differences</i> reports and agency's supporting documentation.</p> <p>(3) In the event of non-reporting by trading partners, as indicated in the footer section of FMS' <i>Intragovernmental Comparative Closing Package Explanation of Differences</i> reports, identify whether the difference is due to a non-reporting partner and do not proceed further with the review of the differences.</p>	<p>Refer to Exhibit II for the detail explanations of the differences</p> <p>Refer to Exhibit II for the detail explanations of the differences</p>
<p><u>Procedure 5</u></p> <p>Identify and include copies of internal control findings related to intragovernmental activities from the financial statements audit, including items cited in the management letter. Also, identify and report auditor-proposed intragovernmental adjustments that were waived by the agency.</p>	<p>There were no internal control findings related to intra-governmental activity.</p> <p>Exhibit IV shows the passed adjustment to the Audited Financial Statements of the Department of Labor. Each transaction is coded as G for Government and NG for Non-Government.</p>

EXHIBIT II

**Intragovernmental Reporting & Analysis System
Schedule of Comparative Status of Disposition Report
Fiscal Year 2005
Reporting Entity 16 Department of Labor**

Trading Partner	RC Code	Reported	Trading Partner	Difference
15 Justice	24	\$1,565,000	\$103,150,000	\$101,585,000

Finding

Based on our review of the documentation, we provide the following explanation of the variance:

The Department of Labor contacted the trading partner and was notified that the trading partner had incorrectly classified \$59,878,000 included in their reported amount. This reduced the reported amount to \$43,272,000 and the difference to \$41,707,000 rather than the \$101,585,000 reported.

DOL misclassified a payment to Justice of \$23,200,000 as non-governmental. DOL will make the appropriate correction. In addition, in prior years DOL expensed the advances made to the Justice Department. Justice has approximately \$30.6 million as an advance in Reciprocal Code 23 on funds received from DOL. DOL does not have an advance balance from Justice in Reciprocal Code 23 because DOL expensed the payments in the year the payment was made. DOL will adjust their general ledger in FY 2006 to reflect the advance of \$30.6 million

Department of Justice also recorded revenue of \$10 million from the prior year advance as revenue in Reciprocal Code 24. Since DOL expensed the advances when the payment was made it has no offsetting expense in FY 2005.

Since DOL will make the correction in FY 2006 for the advance of \$30.6 million, this difference should not exist in the future. In addition, DOL will ensure that this activity is properly coded as a governmental transaction.

As mentioned above, the net difference to Reciprocal Code 24 was adjusted to \$41,707,000. With the two items mentioned above, of which we concur with, the \$23,200,000 and the \$10,000,000, DOL has stated that they will reflect the transactions as a governmental transactions, the net remaining difference after these two items is reduced to \$8,507,000. **DOL stated that they will continue to work with the Trading Partner to identify the remaining difference.**

Trading Partner	RC Code	Reported	Trading Partner	Difference
18 Postal Service	21	\$296,418,000	\$240,000,000	\$56,418,000

Finding

Based on our review of the documentation, we provide the following explanation of the variance:

The Reciprocal Code 21 balance of @96,418,000 is comprised of UI receivable amounting to \$22 million and FECA receivable of \$274 million. According to DOL Management, the Postal Service uses a different method of calculating the FECA accrual. Discussions have been held with Postal Service, however, according to DOL Management, the Postal Service concluded that they will continue to use their accrual methodology which is different from the method used by DOL. As long as the two entities continue using different methods of calculating the FECA accrual, a difference will exist. The receivable has been audited at the DOL level and invoiced to Postal Service.

Trading Partner	RC Code	Reported	Trading Partner	Difference
36 VA	21	\$362,389,000	\$357,243,581	\$5,145,419

Finding

Based on our review of the documentation, we provide the following explanation of the variance:

The difference of \$5,145,419 represents the accounts receivable recoded by DOL as due from VA for UCFE benefits (unemployment benefits) paid by DOL for ex-VA employees. The \$5,145,419 represents the receivable due from VA as of September 30, 2005. DOL is not certain as to why VA is not reflecting the UCFE receivable as a governmental transaction. VA is also not recording the benefit expense as a governmental transaction. Refer below for the explanation of the differences between VA and DOL for Reciprocal Code 26. In addition, the Trading Partner misclassified the \$357,243,581 in GFRS and subsequently corrected the error.

Trading Partner	RC Code	Reported	Trading Partner	Difference
36 VA	26	\$166,880,000	\$155,294,585	\$11,585,415

Finding

Based on our review of the documentation, we provide the following explanation of the variance:

The \$11,585,415 difference represents the reimbursable revenue for the annual reimbursements by VA to DOL for benefits paid plus the net change in the accounts receivable due from VA. DOL is not certain as to why VA is not showing the benefit expense as a governmental transaction. In addition, the Trading Partner misclassified the \$155,294,585 to TP 00 in error and subsequently corrected the error.

Trading Partner	RC Code	Reported	Trading Partner	Difference
60 - Railroad Board	19	\$0	\$97,161,821	97,161,821

Finding

Based on our review of the documentation, we provide the following explanation of the variance:

The Department of Labor records the Railroad Retirement Board's equity in the Unemployment Trust as a liability and as a governmental transaction. According to management, meetings with the Board, FMS, and OMB resulted in agreement that the equity would be shown as governmental liability due to the Railroad Retirement Board and no other activity would be reflected as governmental.

The Railroad Retirement Board reported \$97,161,821 in SGL 5755 as a Trust Fund Non-expenditure transfer out. DOL does show, in their general ledger, in SGL 5765 as a Trust Fund Non-expenditure transfer out a similar amount. However, DOL only reports the Board's equity in the Trust Fund as a governmental transactions as agreed to between the parties mentioned above. The Railroad Retirement Board mentioned that they have contacted FMS for a proper solution. As mentioned above FMS has already concurred with DOL's position.

EXHIBIT III

AUP Procedure 3 – Compare the trading partner activity/balances as reported in the Closing Package and the 4th quarter Submission Comparative Data Report.

FMS identified one transaction as material:

Trading Partner	Reciprocal Code	Closing Package	4th Qtr Submission	Reporting Difference
47	22	\$10,667,000	\$6,861,221	\$3,805,779

Finding

This transaction was originally reported as intra-governmental but should have been recorded as a non-governmental transaction. DOL subsequently corrected the transaction and reclassified it in the general ledger as non-governmental.

While FMS **did not** require an explanation of the following transaction, we felt a discussion of the difference is warranted because of the large difference:

Trading Partner	Reciprocal Code	Closing Package	4th Qtr Submission	Reporting Difference
12	28	\$116,762,000	\$(110,781,181)	\$227,543,181
14	28	\$ 64,521,000	\$(62,391,933)	\$126,912,933

Finding

In the fourth quarter submission, DOL netted the transfers-in and transfers-out. According to management, FMS subsequently instructed DOL to separate the transfers-in from the transfers-out to properly classify the trading partner activity. DOL, in entering the information for the closing package, complied with FMS’s request and showed the transfers-in separate from the transfers-out. The amounts from the Closing Package and the 4th Quarter Submission are the same; however, the Closing Package is showing the absolute value of the transfers-in and out and the fourth quarter submission shows the amounts netted to SGL 3102 transfers-in which is a negative account

EXHIBIT IV

USDOL
 CONSOLIDATED FINANCIAL STATEMENTS AUDIT
 PROPOSED AND PASSED ADJUSTMENTS
 30-SEP-05

INTRAGOVERNMENTAL TRANSACTIONS

F/S	GOV OR NON-GOV	F/S LINE ITEM	ADJ NO.	GL ACCT	DEBIT	CREDIT	NET
Unemployment Trust Fund adjustment between BPD and DOL:							
B/S	G	FwT	16	1013	\$1,220,593		\$1,220,593
SBR	G	UDO	16	4620	\$1,220,593		\$1,220,593
SBR	G	Exp. Auth.	16	4902		\$1,220,593	\$(1,220,593)
SNC	G	Inc. Maint.	16	5760		\$1,220,593	\$(1,220,593)
Carry-forward of FY 2004 Passed Adjustments for:							
FEMA (DHS) Trading Partner 70							
SNC	G	Reim. Rev.	20	5200		\$57,960,000	\$(57,960,000)
B/S	G	Prior Period	20		\$57,960,000		\$57,960,000
FUTA Taxes Trading Partner 99							
SCNP	G	Emp. Taxes	20	5800		\$17,092,061	\$(17,092,061)
B/S	G	Prior Period	20		\$17,092,061		\$17,092,061

Appendices

APPENDIX A

ACRONYMS AND ABBREVIATIONS

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