U.S. Department of Labor

Office of Inspector General—Office of Audit

OFFICE OF THE
CHIEF FINANCIAL OFFICER

MANAGEMENT ADVISORY COMMENTS IDENTIFIED IN AN AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED SEPTEMBER 30, 2007

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

Elliot P. Lewis
Assistant Inspector General
U.S. Department of Labor

Date Issued: March 20, 2008
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Executive Summary

KPMG LLP, under contract to the United States Department of Labor (DOL or the Department), Office of Inspector General (OIG), audited the DOL's consolidated financial statements as of and for the year ended September 30, 2007. 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. 07-04, *Audit Requirements for Federal Financial Statements*. The objective of the audit was to express an opinion on the fair presentation of DOL's consolidated financial statements. Additionally, the objectives include expressing an opinion on DOL's compliance with requirements of the *Federal Financial Management Improvement Act (FFMIA) of 1996* (Public Law 104-278), based on an examination.

In planning and performing the audit, DOL's internal control over financial reporting was considered in order to determine auditing procedures for the purpose of expressing an opinion on the consolidated financial statements. The objective of the audit was not to provide assurance on DOL's internal control over financial reporting; accordingly, such an opinion was not provided. However, certain matters were noted involving internal control and its operation that were considered to be significant deficiencies, and certain other matters were noted that were considered to be management advisory comments. This report was prepared to provide information to management that could help in the development of corrective actions for the management advisory comments identified in the audit.

A separate report will be issued to the Chief Information Officer containing management advisory comments pertaining to the audit procedures performed over the Department's general controls and security over Information Technology (IT) systems that support the financial statements.

Significant Deficiencies

Details over the significant deficiencies, listed below, are included in the Independent Auditors' Report found in DOL's FY 2007 Performance and Accountability Report.

1. Lack of Adequate Controls over Access to Key Financial and Support Systems
2. Weakness Noted over Payroll Accounting
3. Weakness Noted over Budgetary Accounting
4. Lack of Segregation of Duties over Journal Entries

Management Advisory Comments

Although not considered to be significant deficiencies, certain other non-IT matters were noted during the audit which we would like to bring to management's attention. These findings and recommendations are presented in this report.

KPMG LLP
2001 M Street, NW
Washington, DC 20036

Mr. Douglas W. Webster
Chief Financial Officer
U.S. Department of Labor
Washington, DC 20210

January 11, 2008

Mr. Webster:

We have audited the consolidated financial statements of the U.S. Department of Labor (DOL) for the year ended September 30, 2007, and have issued our report thereon dated November 9, 2007. In planning and performing our audit of the consolidated financial statements of DOL, in accordance with auditing standards generally accepted in the United States of America, we considered DOL's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the consolidated 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.

During our audit we noted certain matters involving internal control and other operational matters that do not relate to information technology and are presented for your consideration. These comments and related recommendations, all of which have been discussed with the appropriate members of management, are intended to improve internal control or result in other operating efficiencies and are summarized in Exhibit I, Management Advisory Comments. Comments involving internal control and other operational matters noted that relate to information technology will be presented in a separate letter to the Chief Information Officer.

In addition, we identified certain deficiencies in internal control that we consider to be significant deficiencies, and communicated them in our *Independent Auditors' Report* dated November 9, 2007.

Our audit procedures are designed primarily to enable us to form an opinion on the consolidated financial statements, and therefore may not bring to light all weaknesses in policies or procedures that may exist. We aim, however, to use our knowledge of DOL's organization gained during our work to make comments and suggestions that we hope will be useful to you.

We would be pleased to discuss these comments and recommendations with you at any time.

This communication is intended solely for the information and use of DOL management, DOL's Office of Inspector General, the Office of Management and Budget, the Government Accountability Office, and the U.S. Congress, and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

KPMG LLP

1. Inadequate Evidence of Timing of Journal Voucher Review

On a monthly basis, federal agencies perform reconciliations to ensure the accuracy and completeness of their Fund Balance with Treasury (FBwT) accounts. The reconciliation process is designed to identify discrepancies between the records of the federal agency and the U.S. Department of the Treasury (Treasury). Federal agencies are required to research identified differences and determine the appropriate corrective action to resolve the issue. Some of the corrective actions require an adjusting entry or transaction code to be posted to the general ledger.

In FY 2006, we noted that select personnel within the U.S. Department of Labor (DOL) had the capability to record and authorize their own transactions in the general ledger when resolving differences detected during the FBwT reconciliation process. To correct this deficiency, in FY 2007, the Office of the Chief Financial Officer (OCFO) implemented a supervisory review control designed to have a supervisor or personnel other than the preparer review a journal voucher schedule prior to the transaction being posted in the general ledger.

Based on our examination of the documentation supporting the Government-Wide Account Statement (GWA) reconciliation and accompanying journal vouchers for the month of January 2007, we noted the reviewer signed the document indicating she had reviewed the support. However, she did not provide the date when this review took place. Thus, we were unable to obtain appropriate evidence to determine if the reviewer reviewed the journal vouchers prior to the adjustments being posted in the general ledger.

As a result of this exception, journal vouchers that had not been reviewed and approved may have been posted to DOL's general ledger, thus increasing the risk that a misstatement could have occurred and not been detected and corrected in a timely manner. The exception occurred as a result of the control DOL implemented which did not require that the reviewer both sign and date the support to indicate proper review and approval.

As required by the Federal Managers' Financial Integrity Act of 1982, the Government Accountability Office (GAO) issued the *Standards for Internal Control in the Federal Government (Standards),* which states, "Internal control and all transactions and other significant events need to be clearly documented, and the documentation should be readily available for examination. The documentation should appear in management directives, administrative policies, or operating manuals and may be in paper or electronic form. All documentation and records should be properly managed and maintained."

Recommendation

1. We recommend that the Chief Financial Officer ensure that the supervisor or separate personnel other than the preparer of the journal vouchers sign and date when his or her review occurred in order to provide evidence that the review and approval took place prior to the posting of the journal voucher to the general ledger.

Management's Response

Management concurs with this recommendation and has implemented policy changes that require all journal voucher authorizing and approving actions to be dated. A new form was developed to document journal voucher entries, which include the preparer's name, reviewer's name and the appropriate dates. In addition, we have implemented additional control procedures to monitor compliance with the policy change.

Auditors' Conclusion

This recommendation is considered **resolved and open**. FY 2008 audit procedures will determine whether this recommendation has been adequately addressed and can be considered closed.

2. Certain Improvements Needed in Financial Reporting

During the FY 2006 audit (Report No. 22-07-001-13-001), we noted the following related to DOL's *Performance and Accountability Report* (PAR):

1. Required Supplementary Stewardship Information (RSSI) – The Employment and Training Administration (ETA) and Job Corps disclosure omitted certain outputs and outcomes.
2. Required Supplementary Information (RSI) – Deferred Maintenance disclosure omitted asset condition information.
3. Programs and costs in the Statement of Net Cost (SNC) and the related suborganizations in Note 15 did not clearly link to the strategic goals included in Management's Discussion and Analysis (MD&A).

In FY 2006, we made the following recommendation:

We recommend that the Chief Financial Officer develop and implement procedures to compile and report the information discussed above in the FY 2007 and future PARs. Related supporting documentation should be maintained and made available to the auditors for review.

During our review of the RSSI, RSI, and MD&A during the FY 2007 audit, we noted the following:

- Findings 1 and 2 from the FY 2006 audit are considered **resolved and closed** as both were corrected during FY 2007.
- Finding 3 is **unresolved and open** as it was not corrected in FY 2007; therefore, we are issuing a modified recommendation below.

Also, during the FY 2007 audit we noted that MD&A is not consistent with reported financial statement information, as a Pension Benefit Guarantee Corporation (PBGC) performance result was included in the Performance Section; however, it was excluded from the financial statements.

As a result of the exceptions, PAR readers are unable to easily relate the audited costs presented in the SNC to the strategic goals discussed in the MD&A. Additionally, consistency of performance reporting and financial reporting is not maintained, as PBGC is included in one and excluded from the other.

The SNC is not linked to the strategic goals because Office of the Chief Financial Officer (OCFO) personnel do not believe the linkage between DOL's strategic goals and cost information is feasible due to the structure of the strategic goals. DOL has four strategic goals that are supported by several program level goals. The PBGC consistency exception occurred because DOL obtained a waiver to exclude PBGC's financial information from the consolidated financial statements, but absent discussion in the waiver about performance results and given the inclusion of PBGC in DOL's budget, DOL believes it should include PBGC performance results in its MD&A and Performance Section.

Section II.2.6 of Office of Management and Budget (OMB) Circular No. A-136 states, "Entities should strive to articulate efficiency and effectiveness by developing and reporting objective measures that, to the extent possible, indicate results achieved and related major goals and objectives in their strategic plan to cost categories (i.e., responsibility segments) presented in the entity's Statement of Net Cost (SNC)." In addition, section II.4.4 of OMB Circular No. A-136 states, "Preparers of the SNC should present responsibility segments that align directly with the major goals and outputs described in the entity's strategic and performance plans, required by [Government Performance and Results Act (GPRA)]."

Section II.1 of OMB Circular No. A-136 states, "Under the Reports Consolidation Act of 2000 (Pub. L. No. 106-531), agencies are permitted to submit combined reports in implementing statutory requirements for financial and performance management reporting to improve the efficiency of executive branch performance. These reports are combined in the PAR, which consists of the Annual Performance Report required by the GPRA (Pub. L. No. 103 – 62) with annual financial statements and other reports, such as agencies' assurances on internal control, accountability reports by agency heads and IGs' assessments of the agencies' most serious management and performance challenges. PARs provide financial and performance information that enables the

President, the Congress, and the public to assess the performance of an agency relative to its mission and to demonstrate accountability."

Section II.2.1 of OMB Circular No. A-136 states, "The MD&A should provide a clear and concise description of the reporting entity's performance measures, financial statements, systems and controls, compliance with laws and regulations, and actions taken or planned to address problems." In addition, section III.2.3 indicates, "The MD&A provides management with a vehicle for communicating insights about the entity, increasing the understandability of financial information, and providing information about the entity, its operations, service levels, successes, challenges, and future."

Recommendations

We recommend that the Chief Financial Officer:

1. Develop and implement procedures to link the statement of net cost to DOL's strategic goals.

2. Formally consult with OMB to determine whether or not PBGC performance information should be reported in DOL's PAR.

Management's Response

Management does not concur with the auditors' recommendations. With respect to strategic goals, management concludes that DOL's strategic goals have been sufficiently linked to the Consolidated Statement of Net Costs. The MD&A section of DOL's FY 2007 PAR provides detailed information regarding its net costs at pages 22 through 27 of the report. The table presented on these pages provides details as to program net costs by strategic goal and performance goal, and provides a three year comparison for each. For each year presented, the total net costs is reconciled to the corresponding total presented on the Consolidated Statement of Net Costs.

With respect to PBGC performance data, management does not concur with the auditors' recommendation. However, to address this apparent inconsistency in DOL's FY 2007 PAR, we included a link to PBGC's Annual Management Report – which contains PBGC's financial statements. DOL also added the following footnote to the presentation of DOL's organization chart on page five of the PAR: "PBGC – a Federal corporation created by the Employee Retirement Income Security Act of 1974 – is not included in the DOL organization chart. However, PBGC's performance is included in the Annual Performance Report because PBGC's performance goals are included in the Department's performance budget." Furthermore, the July 18, 2007, waiver received from OMB did not address performance data – which we interpret as OMB's approbation for continuing DOL's long-standing practice of incorporating PBGC's performance information in our annual report. We note that prior to its publication, the

Department submits the draft PAR to OMB for review. OMB approved our publication of the PAR with the inclusion of PBGC performance data.

Auditors' Conclusion

We reviewed management's response, and we disagree with their conclusions because the information presented does not address our recommendations. Therefore, these recommendations are considered **unresolved** pending completion of corrective action plans with specified timeframes for implementation to address our recommendations.

3. Closing Balances Reported on the FMS-6655 are not Reconciled to the General Ledger 1010

Treasury Receipt Account Trial Balance (FMS-6655) presents receipt balances by fund account symbol and department, including current month and year-to-date totals. Federal agencies must reconcile their current month and year-to-date receipt activity to the balances disclosed on this report.

On a monthly basis, DOL's OCFO reconciles the FBwT closing balance reported on the FMS-6655 to equity accounts; however, no such reconciliation was performed against the FBwT (account 1010) ending balance as reported in the general ledger (i.e., the Department of Labor Accounting and Related Systems (DOLAR$)). Based on our examination of the OCFO's January 2007 receipt account reconciliation, the general ledger FBwT receipt account ending balances reported on the OCFO reconciliation did not represent the actual general ledger receipt accounts balances reported in account 1010. Thus, actual differences may have existed between the DOLAR$ FBwT receipt account ending balances and the FMS-6655 FBwT receipt account closing balances that were not included in the OCFO FMS-6655 reconciliation.

Specifically, the FMS-6655 FBwT receipt account ending balances are reconciled either (1) to equity accounts referred to as Unavailable Receipts – Collections (account 3621) and Unavailable Receipts – Disbursements (account 3622) reported in DOLAR$, or (2) to revenue accounts referred to as Interest Income (account 5310) or the total of Income – Fines and Penalties (account 5420) and Revenue Appropriation Receipts Income (account 5430) reported in DOLAR$. Our analysis disclosed that situation (1) occurred in Internal Accounting Codes (IAC) 720, 730, 735, 780, 799, and 869 and that situation (2) occurred in IAC 020 and IAC 024.

As a result of this exception, actual differences between the FMS-6655 FBwT closing balance and the general ledger FBwT ending balance (as reported in account 1010) may exist and may not be resolved. In addition, reconciling FMS-6655 FBwT closing balances to equity and revenue account ending balances increases the risk that: (1) the OCFO is not effectively performing its FMS-6655 reconciliation to identify differences between Treasury's records and DOL's records; and (2) FBwT reported in the general ledger is misstated.

The current design of the FMS-6655 reconciliation, and thus this exception, was caused by DOLAR$ not using general ledger account 1010 for DOL's receipt accounts. In addition, it was easier for the OCFO to reconcile the equity or revenue account ending balances to the FMS-6655 FBwT ending receipt balances based on how the OCFO tracks the receipt activity.

Treasury's *FBWT Reconciliation Procedures A Supplement to the Treasury Financial Manual (TFM) 1 TFM 2-5100 November 1999* (Reconciliation Procedures), states, "The procedures defined in this document provide step-by-step instructions on reconciling the FBWT….These procedures pertain to Federal agencies that must report receipt and disbursement activity to Treasury." Regarding the FMS-6655 reports Unappropriated Receipt Account Ledger, Receipts Trial Balance, and Report of Unavailable Receipts Transactions, the FBwT reconciliation procedures further state that "Federal agencies must reconcile their current month and year-to-date receipt activity to the balances disclosed in this report."

TFM Chapter 5100 section 5120, *Definition of Terms FBWT,* states, "Agencies must reconcile the corresponding SGL 1010 account balance for each Treasury account symbol reported, as shown on the monthly FMS 6653 and 6655 from FMS."

Recommendation

We recommend the Chief Financial Officer:

1. Ensure that account 1010 is used in DOLAR$ to record FBwT in DOL's receipt accounts.

2. Revise current reconciliation procedures for FBwT so that OCFO personnel reconcile the account 1010 balance for each Treasury account symbol reported, as shown on the monthly FMS-6655 from FMS. In doing so, the receipt account reconciliation should show the actual differences between the FBwT receipt account ending balance reported in DOLAR$ and the FBwT receipt account ending balance reported in the FMS-6655.

Management's Response

Management concurs with the auditors' recommendations and will initiate the necessary changes to ensure that miscellaneous receipts are recorded in the 1010 accounts in accordance with current Treasury requirements, and that these receipts are incorporated in the FBwT reconciliation process. New transaction codes will be developed to record miscellaneous receipts activity using general ledger account 1013, and any FY 2008 transactions recorded prior to this change will be reversed and recorded again using the revised codes. All agencies will be informed as to the proper use of the new transaction codes. This process will be completed by April 15, 2008.

Auditors' Conclusion

These recommendations are considered **resolved and open**. FY 2008 audit procedures will determine whether these recommendations have been adequately addressed and can be considered closed.

4. Improvements Needed in the Statement of Differences (FMS-6652) Reconciliation Process for Agency Location Code (ALC) 16012012

On a monthly basis, agencies report their deposit and disbursement activity to Treasury using the Statement of Transactions (SF-224). Upon receiving the SF-224 from DOL, Treasury compares its deposit and disbursement records to the deposit and disbursement data reported on the agency's SF-224. If any differences are noted, Treasury reports these discrepancies on the FMS-6652 for deposits or disbursements.

Treasury requires that federal agencies reconcile their account 1010 and any related sub-accounts with the FMS-6652. In addition, federal agencies must research and resolve differences reported on the monthly FMS-6652.

We noted the following in the Occupational Safety and Health Administration's (OSHA) FMS-6652 reconciliation process for ALC 16012012:

- Lack of an electronic or physical reconciliation document or worksheet that identifies the following: (1) what individual transactions represent the total difference reported on the FMS-6652; (2) an explanation regarding what caused the individual difference; (3) an explanation of how the differences were resolved; (4) who performed the reconciliation; (5) when the reconciliation was completed; (6) what supervisor or manager reviewed the reconciliation; and (7) when that review took place.

- Lack of supervisor and/or management review over the FMS-6652 reconciliation performed by a separate person other than the preparer.

Lack of formal documentation of a reconciliation and its subsequent review increases the risk that: (1) reconciliations may not be performed in a consistent and timely manner; (2) insufficient documentation (i.e., physical or electronic) exists to substantiate the performance of the FMS-6652 reconciliation and corrective actions; (3) incomplete reconciliations may be performed; (4) differences may not be adequately researched and resolved; and (5) significant differences may not be detected that could result in material misstatements to the FBwT account.

These exceptions occurred because OSHA believed that the OCFO was responsible for resolving the differences reported on the monthly FMS-6652 and reviewing and approving the final reconciliation.

GAO's Standards state, "Control activities are the policies, procedures, techniques, and mechanisms that enforce management's directives, such as the process of adhering to requirements for budget development and execution." The Standards further state, "Internal control and all transactions and other significant events need to be clearly documented, and the documentation should be readily available for examination. The documentation should appear in management directives, administrative policies, or operating manuals and may be in paper or electronic form. All documentation and records should be properly managed and maintained." In addition, "Key duties and responsibilities need to be divided or segregated among different people to reduce the risk of error or fraud. This should include separating the responsibilities for authorizing transactions, processing and recording them, reviewing the transactions, and handling any related assets. No one individual should control all key aspects of a transaction or event."

TFM Chapter 5100, section 5120 states, "Agencies should document their reconciliations and make them available to agency management, auditors, and Treasury, if requested. Agencies also should ensure that all adjustments are researched and traceable to supporting documentation."

Treasury's *FBWT Reconciliation Procedures A Supplement to the TFM 1 TFM 2-5100 November 1999* (Reconciliation Procedures), states, "The procedures defined in this document provide step-by-step instructions on reconciling the FBWT…These procedures pertain to Federal agencies that must report receipt and disbursement activity to Treasury." This document also states, "Reconciliation and related verifications ensure and demonstrate the integrity of the accounting system. These functions are necessary for a well regulated system. To increase the efficiency of reconciling the fund balance, each agency system should perform the following: each financial systems policies and documented procedures should provide for: (1) regular and routine reconciliation of G/L accounts, (2) thorough investigation of differences, (3) determination of specific causes of differences, and (4) initiation of corrective action. This includes having the ability to schedule coordinated cutoffs and systematically produce a trial balance of the G/L. These activities must be scheduled and conducted to facilitate rather than impede the reconciliation process." In addition, this document states, "When resolving differences, agencies should maintain detailed reconciliation worksheets…that, if needed, can be reviewed by the agency's auditors or Treasury."

Recommendation

1. We recommend that the Chief Financial Officer and the Assistant Secretary for Occupational Safety and Health coordinate to determine the most appropriate party to perform this monthly reconciliation. Once the appropriate party has been determined, that party should implement the proper internal controls over these reconciliations (e.g., reconciliation preparation, review, and authorization). For the preparation of these reconciliations, management should retain supporting documentation, whether electronic or hard copy, to identify: (1) that reconciliations

are performed; (2) that reconciliations are completed in a timely manner; (3) that reconciliations are reviewed by someone other than the preparer; (4) that a log of unresolved differences be maintained; (5) that explanations for causes of differences be provided; and (6) that show corrective actions were taken and when those actions were completed.

Management's Response

Management agrees with this recommendation. The OCFO will work with OSHA staff to ensure that appropriate internal controls are implemented, and will issue guidance to all DOL agencies by instructing these agencies to perform their own FMS-6652 reconciliations. In addition, the guidance will require agencies to maintain adequate documentation that provides supporting details such as whether the reconciliations are completed properly, who reviewed the reconciliation, and how differences identified in the reconciliation were resolved. These guidelines will be issued by February 29, 2008.

Auditors' Conclusion

This recommendation is considered **resolved and open**. FY 2008 audit procedures will determine whether this recommendation has been adequately addressed and can be considered closed.

5. <u>Improper Source Documents for Deposits Recorded in the General Ledger and Subsequently Reported to Treasury and Collections Cut-off</u>

OSHA generates revenue by assessing fines and penalties to businesses that do not meet safety and health standards. During our FY 2006 audit (Report No. 22-07-001-13-001), we noted that OSHA collections were not properly cut-off at year-end. As such, we made the following recommendation:

We recommend that the Chief Financial Officer and the Assistant Secretary for Occupational Safety and Health develop policies and procedures to record collections received near year-end in the general ledger in the proper fiscal year.

However, while testing the reconciliation of collections per the Integrated Management Information System (IMIS) and collections per DOLAR$ provided to us by OSHA during our FY 2007 audit, we again noted that collections that had been received by OSHA at year-end were reported as collections in DOLAR$ in FY 2008 ($1,180,492) based on Treasury CA$H-LINK reports instead of information within IMIS.

Throughout the year, the CA$HLINK Deposit Activity Report is the only source document OSHA uses to record cash collection information into DOLAR$, as required by DOL procedures. Subsequently, the OCFO uses the deposit information that is entered into DOLAR$ to prepare and submit the monthly SF-224 to Treasury.

Since Treasury also uses CA$HLINK as a source for deposit information to compare with the amounts reported by the OCFO on the SF-224 regarding OSHA's monthly transactions, Treasury will not identify differences that may actually exist. Additionally, if collections are not recognized when they are received, then reported collections related to civil monetary penalties may be overstated or understated for the fiscal year.

This exception is a result of the Disbursement and Deposit Reconciliation Procedures, prepared by the OCFO, outlined in such away to allow an interpretation that one should use the confirmed deposits reported by the Federal Reserve Bank as the source document to record into DOLAR$.

According to Statement of Federal Financial Accounting Standards (SFFAS) No.7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounts*, "the source and disposition of revenue from taxes, duties (which are a type of tax), and related fines, penalties and interest should be measured by the collecting entities in a manner that enables reporting of (1) cash collections, refunds, and the "accrual adjustment" necessary to determine the total revenue and (2) cash or cash equivalents transferred to each of the recipient entities and the revenue amounts to be recognized by each of them….Cash collections should be based on amounts actually received during the fiscal period, including withholdings, estimated payments, final payments, and collections of receivables. Cash collections include any amounts paid in advance of due dates unless they are deposits."

The *U.S. Government Standard General Ledger (USSGL) – Accounts and Definitions* indicates that account 1110 should be used for "collections on hand, not yet deposited within the same accounting period."

We consider the FY 2006 recommendation to be **unresolved** pending completion of a corrective action plan with specified timeframes for implementation. Additionally, we make the following new recommendations:

Recommendations

1. We recommend that the Chief Financial Officer update current policies and procedures to specifically indicate what source documents are appropriate to use in order to record deposit transactions into DOLAR$ (and indicate what source documents are not appropriate source documents for deposit transactions recorded in the general ledger).

2. We recommend that the Assistant Secretary for Occupational Safety and Health use the deposit information reported in IMIS as the source documentation for deposits to be recorded into DOLAR$.

Management's Response

Management does not concur with the auditors' recommendations. The Treasury Financial Manual specifies that the SF 215 is an appropriate source record for recording receipts within the core accounting system (this fact was verified via telephone conversation with Treasury's FMS). OSHA deposits are recorded in DOLAR$ using SF 215 information based on the date the deposit is confirmed by the U.S. Treasury, as shown in CA$HLINK reports. This process ensures that deposits are posted to the proper fiscal year. Accordingly, OSHA believes that it properly follows relevant U.S. Treasury guidelines for recording collections received, and that amounts recorded in the general ledger are adequately supported.

The receipts recorded in IMIS are based on Lockbox deposit information obtained from the bank. These are reconciled on a monthly basis to amounts recorded in DOLAR$, which in turn are reconciled to Treasury via the SF 224 process. This methodology ensures that the receipts recorded in both IMIS and DOLAR$ are complete, accurate, and valid receipts, which have been forwarded to the U.S. Treasury. The reconciliations for FY 2007 did not detect differences between amounts recorded in IMIS, DOLAR$ and Treasury, and management concludes that the controls in place produced complete and accurate results. Based on these facts, we do not concur with the auditors' conclusion that our process is somehow deficient.

With respect to written procedures, OCFO will update existing procedures to ensure clarity, and to ensure that appropriate source records for deposit transactions are identified.

Auditors' Conclusion

Although management stated that they do not concur with our recommendations, they have taken steps to address them. Therefore, these recommendations are considered **resolved and open**. FY 2008 audit procedures over the monthly reconciliations will determine whether these recommendations have been adequately addressed and can be considered closed.

6. Weaknesses Noted over Interest Calculations

During the FY 2006 audit (Report No. 22-07-001-13-001), we noted that OSHA only records interest receivable when debt letters are sent to employers or when debt is transferred to Treasury for debt collection. OSHA does not ensure that its interest receivable balances are appropriately accrued between the time of the last debt letter and the time that the debt is sent to Treasury. As a result of this exception, the interest receivable balance is understated.

Additionally in FY 2006, we identified that since November 2005, one day of interest was omitted from the Mine Safety and Health Administration's (MSHA) interest calculation each month.

In FY 2006, we made the following recommendations:

We recommend that the Chief Financial Officer and the Assistant Secretary for Occupational Safety and Health develop procedures to accrue and record interest receivable on a quarterly basis.

We recommend that the Chief Financial Officer and the Assistant Secretary for Mine Safety and Health design, test, and implement changes to MSHA's subsidiary ledger to correct errors in the calculation of interest and ensure that controls are in place to detect such system errors in the future.

However, in FY 2007, we noted that OSHA still only records interest receivable when debt letters are sent to employers or when debt is transferred to Treasury for debt collection. This exception occurred because interest is not automatically calculated and updated by OSHA's sub-ledger, IMIS. IMIS calculates the interest, but OSHA has to tell the system to update each case when the first demand letter is issued, when the Treasury Notification Letter is issued, or when the debt is submitted to Treasury. This is a limitation of IMIS.

Although MSHA implemented corrective action on December 24, 2006 to address the finding from FY 2006 related to its interest-related system error, the correction was not applied retroactively to previously reported accounts receivable. As of result of the error in MSHA's interest calculation in the past and the lack of retroactive implementation of the corrective action its subsidiary ledger, the balance of accounts (interest) receivable is understated.

OMB's Circular No. A-129, "Policies for Federal Credit Program and Non-Tax Receivables", states that,

> "Interest, penalties and administrative costs should be added to all debts unless a specific statute, regulation, loan agreement, contract, or court order prohibits such charges or sets criteria for their assessment. Agencies shall assess late payment interest on delinquent debts. Further, agencies shall assess a penalty charge of not more than six percent (6%) per year for failure to pay a debt more than ninety (90) days past due, unless a statute, regulation required by statute, loan agreement, or contract prohibits charging interest or assessing charges or explicitly fixes the interest rate or charges. A debt is delinquent when the scheduled payment is not paid in full by the payment due date contained in the initial demand letter or by the date specified in the applicable agreement or instrument. Agencies shall assess administrative costs to cover the cost of processing and handling delinquent debt. Agencies must adjust the interest rate

on delinquent debt to conform to the rate established by a U.S. Court when a judgment has been obtained."

According to SFFAS No. 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounts*, the balance of accounts receivable for each reporting period should "include only unpaid assessments made through the end of the period plus related fines, penalties, and interest."

Based on the results of the FY 2007 audit testwork, we consider the prior year OSHA recommendation as **unresolved** pending completion of a corrective action plan with specified timeframes for implementation. In addition, we consider the prior year MSHA recommendation as **resolved and open** pending a retroactive system correction of the error or implementation of a procedure to record a journal entry quarterly to correct errors in the calculation of interest from November 2005 to December 2006.

OSHA Management's Response

Management believes that the amount of interest involved with this finding is minimal. From a practical standpoint, OSHA's experience with delinquent penalty debt is that substantially less than half of the account values are ultimately collected. For this reason, a substantial allowance for loss on delinquent debt is taken beginning at 90 days delinquent. Debt over two years delinquent is written off for financial reporting. We believe that the interest accrual that is being recommended falls far short of meeting a level of materiality that would justify the recommended type of journal voucher process.

Nevertheless, we will perform procedures to determine the actual interest amount impacted by this finding, and will evaluate whether or not to record quarterly accruals based on the dollar amount and level of effort involved in the process. These procedures will be performed beginning in the second quarter of FY 2008.

MSHA Management's Response

MSHA will implement a procedure to record a quarterly journal entry to account for the interest error from November 2005 to December 2006.

A request was submitted to the software development team to create a report to show interest calculations for outstanding debt with interest calculated during the dates specified above. The estimated completion date is March 14, 2008.

An enhancement ticket was submitted to add the last interest calculation date to the accounts receivable detail report (Sub-Ledger). The inclusion of the last interest calculation date will be used for validation of interest amounts reported

Auditors' Conclusion

These recommendations are considered **resolved and open**. FY 2008 audit procedures, including procedures over OSHA's periodic evaluation of the significance of the actual interest amount and MSHA's newly implemented procedure, will determine whether these recommendations have been adequately addressed and can be considered closed.

7. Improvements Needed in Grant Controls

DOL is charged with preparing the American workforce for new and better jobs and ensuring the adequacy of America's workplaces. As part of accomplishing this mission, ETA, Veterans' Employment & Training Service (VETS), and the Bureau of International Labor Affairs (ILAB) issue grants to various organizations.

The ETA, VETS, and ILAB grantees are required to submit quarterly Financial Status Reports (SF 269) which document the costs incurred by the grantee. The assigned Federal Project Officer/Grant Officer (FPO) initially performs a cursory review of the SF 269 and then performs a more comprehensive review and analysis of the financial reports within 30 days of receipt of the reports. The FPO is responsible for ensuring that the grantee is submitting its required reports in a timely manner. The financial review includes determining whether the amounts are reasonable, accurate, complete, and in accordance with the project. Additionally, the FPO reviews the cash draw downs to ensure that the cash drawn down is being used to meet the grantee's immediate cash needs. If any discrepancies or issues are noted, the FPO contacts the grantee.

ETA grantees are also required to submit performance-based progress reports on a quarterly basis. The assigned FPO performs a comprehensive review and analysis of the performance reports within 30 days of receipt of the reports.

For ETA grants, it is ultimately the responsibility of the FPO to monitor his/her grantees to ensure that the appropriate financial and performance reports are submitted in a timely manner. To aid in this monitoring, the Division of Financial and Systems Services (DFSS) generates a "Delinquent Cost Report" quarterly from the Enterprise Business Support System (EBSS/E-Grants), which denotes those grantees who are delinquent in reporting its costs to ETA. For those grantees identified, the DFSS staff notifies the assigned FPO who is responsible for contacting the grantee to ascertain the reason for the delinquency before further action is taken.

During our testing over the grants process in FY 2007, we noted the following weaknesses in internal control:

- During testwork over ETA Delinquent Cost Reports through March 31, 2007, we noted that adequate documentation supporting that the FPO had followed-up with the grantees on the delinquencies report did not exist for 2 of the 15 delinquent grantees selected.

- A progress report desk review was not completed for 2 of the 62 ETA reports tested through June 30, 2007.

- For 2 of 117 statistically-selected FY 2007 grant expenses recorded in DOLAR$ through March 31, 2007, we noted that the expense amount in DOLAR$ did not agree to the grantees' SF 269. Of the two noted exceptions, one item relates to VETS and the other item relates to ILAB.

  For the VETS exception, the cumulative cost reported in DOLAR$ was greater than the cumulative cost reported on the SF-269 by $3,623 as of March 31, 2007, which was not detected by the VETS. We also noted that this issue was subsequently resolved during the submission of the June 30, 2007 SF-269.

  For the ILAB exception, the cumulative cost reported in DOLAR$ was less than the cumulative cost reported on the SF-269 as of March 31, 2007 by $45,538.

Without adequate controls over the grant process, grantees may be misusing grant funding, and grant expenses, advances, payables, and undelivered orders (UDOs) could be misstated.

Several circumstances contributed to these conditions as follows:

- ETA did not consistently maintain adequate support for communications with grantees to resolve issues such as delinquent reporting.

- ETA did not adequately verify that all required progress report desk reviews were completed, as no supervisory review was performed to ensure that the FPOs were performing all of their assigned grantees' progress report desk reviews.

- VETS and ILAB did not have adequate procedures in place to ensure that data submitted on SF-269s were recorded correctly and reconciled to DOLAR$ in a timely manner.

GAO's Standards state, "Control activities occur at all levels and functions of the entity. They include a wide range of diverse activities such as approvals, authorizations, verifications, reconciliations, performance reviews, maintenance of security, and the creation and maintenance of related records which provide evidence of execution of these activities as well as appropriate documentation. Control activities may be applied in a computerized information system environment or through manual processes." In addition, it provides examples of control activities, which include "reviews by management at the functional or activity level."

Recommendations

We recommend that the Assistant Secretary for Employment and Training:

1. Reinforce procedures which require a detailed review of the "Delinquent Cost Report" every quarter for the entire year. Additionally, FPOs or the individuals contacting the delinquent grantee should be required to maintain accurate records of the communication and results. Supervisors should review a sample of delinquent cost reports to confirm that the FPOs are resolving these situations timely; this review should be documented.

2. Require supervisors to review a sample of grantees' progress report desk reviews to confirm that the reports are being completed timely; this review should be documented.

Management's Response

Since the results of a sample of 15 can not be statistically extrapolated to the population, we do not necessarily agree that there is a systematic problem with the ETA grant management systems and processes. Nevertheless, the Employment & Training Administration is committed to the following actions to address KPMG's findings and recommendations for improving controls over grants management:

- *Ensure that all existing FPOs and their supervisors have access to the appropriate systems needed to perform their duties. This is ongoing as new FPOs are assigned. (January 2008).*
- *Reinforce existing procedures. This will be done through agency directives and training of staff. A memorandum to employees will be prepared reinforcing to FPOs and their supervisors agency requirements for quarterly desk reviews, and the appropriate steps to take when reporting is not timely or is otherwise problematic. Also, OFAM is developing Core Training for FPOs to address core competencies and technical skills required of the job. Training will be required and provided as part of Employment and Training Administrations Innovate University (EIU). (June 2008).*
- *Independently assess the effectiveness of agency procedures through confirmation that grantee cost reports are being submitted timely, and desk reviews are being done within required timeframes. This review will be completed by the Division of Financial Accountability and Control in the quarter in which reports are due. (Beginning Q2, FY08 for Q1 reports).*
- *Complete a review of Agency grants management procedures and update, as appropriate, existing procedures. This includes "ETA Order 01-03, Improving the Administration of Grants with the Employment and Training Administration." (March 2008).*

Auditors' Conclusion

These recommendations are considered **resolved and open**. FY 2008 audit procedures will determine whether these recommendations have been adequately addressed and can be considered closed.

3. We recommend that the Assistant Secretary for the Veterans' Employment and Training Service and the Deputy Undersecretary for International Affairs implement adequate procedures to ensure that submitted cost reports are recorded correctly and reconciled to DOLAR$ in a timely manner.

VETS Management's Response

VETS has met the proposed milestones below and will continue implementing adequate procedures in FY 2008.

<u>First Quarter FY 2008:</u>

<u>Milestone:</u> VETS Deputy Assistant Secretary issued a memorandum to all of VETS' National Office staff revising current Program grant(s) processes and procedures.

<u>Milestone:</u> All applicable SF 269 reports that were manually submitted by VETS' grantees were forwarded directly to the Agency Budget Officer by applicable Program staff.

<u>Milestone:</u> The Agency Budget Office ensures that the SF 269 reports are properly reconciled to the Federal Cash Transactions Report PSC 272 and the PSC 272 recorded and reconciled with the DOL core financial system (i.e., DOLAR$).

<u>Milestone:</u> All manually submitted grantee SF 269 reports were reconciled to the PSC 272 and the PSC 272 recorded and reconciled against the DOL DOLAR$ core financial system starting in the fourth quarter of FY 2007.

<u>Milestone:</u> All applicable grantee SF 269 reports submitted through the E-Grants system for the fourth quarter ending September 30, 2007, are reviewed by the Agency Budget Officer in partnership with the Grant Officer for any anomalies or inconsistencies with the core financial system. Subsequent quarterly reviews of all grantee financial reports are performed by the Agency Budget Officer and VETS' budget staff.

<u>In summary:</u>
VETS will reconcile the SF 269s to the status reports submitted by the grantee. VETS will reconcile the SF 269s to the PSC 272 from the quarterly HHS system. VETS will also reconcile the PSC 272 posted to DOLAR$ timely each quarter. When differences are identified, VETS will perform research to resolve differences. VETS will coordinate with OFMO as needed on concerns related to the cost in DOLAR$.

ILAB Management's Response

ILAB concurs with the auditors findings and is fully committed to ensuring appropriate internal controls as part of its oversight of grant funding. ILAB has written procedures and policies for Grant Officer Technical Representative (GOTR) review of SF 269s, and the Management Procedures and Guidelines (MPG) cited in ILAB cooperative agreements outline grantee responsibilities for submission of SF 269s. ILAB written procedures call for follow-up communication with grantees if they are late in submitting SF 269s and/or when ILAB has questions regarding information submitted by a grantee in its SF 269.

In keeping with ILAB's commitment to proper oversight of funds, ILAB fully intends to take all necessary steps to address and remedy the exception noted in the report. ILAB agrees that program staff should perform a review of the SF 269 reports submitted by the grantees against the cost data submitted in the PSC 272 through the HHS/PMS system and review this against the cost data in DOLAR$. ILAB will review all internal processes to ensure that all project managers are carrying out this 3 way review of SF 269s, PSC 272s and the DOLAR$ system. In addition, ILAB has initiated discussion with OFMO to ensure proper and timely reconciliation of all cost report information from SF 269s submitted by ILAB grantees against information based on grantee submissions of PSC 272s into the HHS/PMS system and a reconciliation to DOLAR$. ILAB will also work to ensure this issue is addressed for new awards that will be using the E-Grants system.

Auditors' Conclusion

This recommendation is considered **resolved and open**. FY 2008 audit procedures will determine whether this recommendation has been adequately addressed and can be considered closed.

<u>8. Grant Closeouts</u>

During the FY 2006 audit (Report No. 22-07-001-13-001), we identified various exceptions related to the closeout of grants, including timeliness and inconsistent review of closeout documentation. As such, we made the following recommendations:

We recommend that the Assistant Secretary for Employment and Training develop and implement review procedures within the Closeout Unit that the supervisor will perform over the closeout inventory tracking system. These procedures should include:

1. ***Following up on any grants that have not been closed within the required timeframes;***
2. ***Contacting the Closeout Specialists who are assigned to grantees that have not submitted the closeout packages and are nearing the end of the required***

time frame (90 days) to confirm that communication is occurring with the grantees;

3. ***Reviewing the status of grants where the closeout package has been submitted by the grantee;***
4. ***Ensuring that the grant specialists are reviewing and reconciling the closeout documents within the required 30 day timeframe;***
5. ***Ensuring that grants that are with DFSS are properly and timely being deobligated in DOLAR$; and***
6. ***Reviewing, on a sample basis, closeout documentation, specifically the Grant Closeout Preliminary Record, Accounting Checklist, and deobligation entries, to ensure that they are all properly approved and agree to all supporting documentation.***

Starting November 2006, all grant information initially recorded in the Grants Tracking System (GTS) and EBSS was transferred into the E-Grants system. Currently, grant close-out data is generated from E-Grants; this data indicates the beginning and end date for all grants.

During our testing over grant closeout procedures in FY 2007, we noted the following weaknesses in internal control:

- For 3 of the 45 closed grants selected, the folders could not be located; therefore, these sample items could not be tested.
- For 2 of the 42 closed grants tested, the Closeout Specialists did not consistently review, analyze, and reconcile the closeout documentation within 45 days from the receipt of the final grant forms. No evidence in the grant file indicated what delayed the reconciliation process.
- For 3 of the 42 closed grants tested, the Closeout Specialists were not adequately monitoring the grantee's closeout status. We noted the grantees submitted their closeout documents after the allowed 90 days and no evidence existed in the grant files showing that the Closeout Specialist followed-up with the grantees to ascertain that the grantees submitted their documentation timely (either within 90 days after the grant expiration date or 90 days after receipt of closeout notification).
- For 1 of the 42 closed grants tested, the Grants Officer did not approve the Grant Closeout Preliminary Record (evidenced by a signature).
- For 28 of the 42 closed grants tested, we noted a lack of coordination between the Closeout Unit and DFSS regarding when the grant closeout files are given to DFSS for authorization/certification of the deobligation in DOLAR$ and when the grant closeout files are received back by the Closeout Unit. Per the dates provided by the Closeout Unit, we noted that these 28 items tested appeared to have taken more than 7 days to be certified by DFSS. However, per discussion with DFSS, we noted that 9 of the 28 items were actually certified within 7 days, but the Closeout Unit did not record the date accurately.

Although the closeout supervisors perform periodic reviews (e.g., weekly or monthly), these reviews have not consistently ensured that the Closeout Specialists are adequately communicating with the grantees and that grants are timely closed. In addition, the Closeout folders are not currently filed/stored in a manner where they can be easily accessible.

Because folders could not be located for 3 of the 45 closed grants selected, documentation does not exist to support the closure of these grants, and these sample items could not be tested.

Without adequate controls over the grant closeout process, including certification and/or de-obligation of funds when applicable by DFSS, grants are not closed in a timely manner. Additionally, undelivered orders (UDO) may be overstated since remaining UDO balances of expired grants are not de-obligated in a timely manner.

GAO's Standards state the following: "Control activities occur at all levels and functions of the entity. They include a wide range of diverse activities such as approvals, authorizations, verifications, reconciliations, performance reviews, maintenance of security, and the creation and maintenance of related records which provide evidence of execution of these activities as well as appropriate documentation. Control activities may be applied in a computerized information system environment or through manual processes." In addition, the Standards also provide examples of control activities, which include "reviews by management at the functional or activity level."

In FY 2007, ETA's *Closeout Manual* provided the internally developed closeout procedures and documentation on the timeframe for the assignment of grants scheduled to be closed, the receipt of closeout documents from the grantee, and the reconciliation of the closeout documents by the closeout specialist. The *Closeout Manual* indicates, "Within 15 work days after the case is assigned, the specialist sends an email notification via GCS to the grantee to initiate the closeout process. The grantee had 90 days from the expiration date to complete the required closeout documents. Within 45 work days after closeout documents are received, review & reconcile closeout documents. If reconciliation cannot be reached within 45 days, complete the Closeout Delay form to document the reasons(s) why. Once reconciliation is completed, a notification is sent to DFSS via a shopping cart in E-Grants; once DFSS has certified, the specialist has 2 days to send the final letter to grantee and close the grant."

Per discussion with ETA DFSS management, DFSS should complete the certification process within 7 days.

We consider this recommendation **resolved and open** pending improvements to the supervisory review process.

Management's Response

ETA agrees with the recommendation and will reinforce existing procedures in order to improve performance. However, we take exception to KPMG preparing the entire finding based on timeframes outlined in the Closeout Unit Handbook. These deadlines are internal deadlines established by the supervisory staff, used as a management tool, and modified as the need arises. To prevent further confusion, ETA will revise the Closeout Unit Handbook to remove stated timeframes (June 2008). We will continue to adhere to standard operating procedures to ensure timeframes mandated by law, regulation, and the Department are met.

In regard to the FY 2007 testing, we are taking the following steps to mitigate the exceptions noted:

- *Contracted for the installation of radio frequency identification (RFID) equipment and procedures to assist in signing out and tracking of files. New file room procedures should be in place in February 2008 and will cure the file problem.*
- *Revise ETA's Closeout Manual to incorporate procedures to implement the E-Grants and E-Procurement System (EPS), and ensure that the closeout Specialists are adequately communicating with grantees for a timely notification and closure (June 2008). The supervisor will continue to meet individually with staff on a monthly basis as well as periodically monitor the closeout process for each open case to ensure a timely closure, if possible.*

Auditors' Conclusion

This recommendation is considered **resolved and open**. FY 2008 audit procedures addressing management's corrective action related to grant closeouts will determine whether this recommendation has been adequately addressed and can be considered closed.

9. Monitoring of Audit Completion in Accordance with the *Single Audit Act Amendments of 1996* and OMB Circular No. A-133

In response to an FY 2006 reportable condition, "Weaknesses Noted over Grants", the OCFO implemented new monitoring procedures to ensure that FY 2005 audits of grantees that expended $500,000 or more were completed and reports were received in a timely manner. In monitoring grantees compliance, the OCFO tested a sample of 350 ETA grantees and 150 grantees from other DOL agencies and verified, among other attributes, that the grantees submitted their audit reports within 9 months from the end of their fiscal year.

Although the OCFO determined that 129 grantees of 500 grantees tested did not submit their audit reports timely, DOL did not contact those grantees directly or follow-up with them to determine the reasons for the delay in submission and to ensure that audit reports for subsequent years are submitted timely. However, DOL added a reminder in the standard grant agreements to indicate that grantees must submit their audit reports in accordance with the *Single Audit Act Amendments of 1996* and OMB Circular No. A-133.

As a result of these exceptions, DOL is not in full compliance with OMB Circular No. A-133. However, DOL believes that the majority of the grantees' audit reports were not significantly delayed and that the reminder added to the standard grant agreements is sufficient.

According to Section 7504 of the *Single Audit Act Amendments of 1996*, "Each Federal agency shall, in accordance with guidance issued by the Director under section 7505, with regard to Federal awards provided by the agency…monitor non-Federal entity use of Federal awards." According to OMB Circular No. A-133, non-Federal entities that expend $500,000 or more in a year in Federal awards shall have a single or program-specific audit conducted for that year. In addition, OMB Circular No. A-133, Subpart B, section 220 and section 320 require the Federal awarding agency to "perform the following for the Federal awards it makes:

- Except for the provisions for biennial audits (…), audits required by this part shall be performed annually…
- The audit shall be completed and the data collection form (…) be submitted within the earlier of 30 days after receipt of the auditor's report(s), or nine months after the end of the audit period, unless a longer period is agreed to in advance by the cognizant or oversight agency for audit …"

In addition, OMB Circular No. A-133, Subpart D, section 400(c) requires the Federal awarding agency to perform the following for the Federal awards it makes: "Ensure that audits are completed and reports are received in a timely manner and in accordance with the requirements of this part…"

GAO's Standards state that "Internal control should generally be designed to assure that ongoing monitoring occurs in the course of normal operations"

Recommendation

1. We recommend that the Chief Financial Officer amend existing procedures to require the grant officers to contact their delinquent grantees in writing to determine the reason for the delay and ensure that the audit reports for subsequent years are submitted on time.

Management's Response

We disagree with the auditors' conclusion that our monitoring procedures are not in substantial compliance with OMB A-133. Our monitoring of the single audit process provides sufficient assurance that grantees obtain single audits in compliance with OMB A-133 requirements. Our latest monitoring efforts determined the following facts: (1) the overwhelming majority of our grantees have an annual single audit, (2) DOL funding is included in the scope of the single audits, (3) DOL programs are routinely selected and tested as major programs, (4) single audit reports forwarded to granting agencies by the OIG are processed through an approved audit resolution process, and (5) the disallowed costs related to DOL programs identified in the single audits are very insignificant. Accordingly, we conclude that DOL funds are being audited in accordance with the requirements of OMB A-133, and that our monitoring of the single audit process is sufficient.

As to the issue of timeliness raised by the auditor, the effect or impact of untimely audit reports, at worst, is a delay in the initiation of audit resolution, and this would only apply to the very small portion of the single audit reports that actually require resolution. (We note that the auditor does not identify an effect or impact for this finding, other than to say that DOL is not in full compliance with OMB A-133, which merely restates their condition). The latest single audit process identified that only 29 of the FY 05 audit reports researched were referred to the granting agencies for audit resolution. For this reason, we do not believe that the impact of untimely reports justifies the resources necessary to individually monitor each grantees single audit submission, as would be required if we followed the recommendation made by the auditor.

Finally, we note that there are valid reasons why a single audit report may be submitted late, and that OMB A-133 allows the cognizant or oversight agencies to authorize extensions of the single audit report due date without notifying the awarding agencies. Accordingly, it is not appropriate to assume that a grantee is not in compliance with A-133 just because the report is not filed within nine months after the grantees fiscal year end.

Our current procedures call for written notifications to be sent to the grantee, and a copy to the cognizant or oversight agency, when the audit reports were submitted more than three months past the due date. The letters serve to remind the grantee of the timeframes established in OMB A-133, to ensure that the cognizant or oversight agency is aware that the reports were submitted untimely, and to prevent future untimely submissions. We believe that our process is compliant with OMB A-133 requirements.

Auditors' Conclusion

Although management disagreed with our conclusion, this recommendation is considered **resolved and open** because management developed procedures that require written notifications to be sent to the grantees. FY 2008 audit procedures will test these new procedures and will determine whether this recommendation has been adequately addressed and can be considered closed.

10. Training of Property Officers

During our testing over property, plant and equipment (PP&E) in FY 2006, we noted the following weakness in internal control design and/or operating effectiveness:

- 40 disposal transactions of the 140 selected for testing were not supported by an appropriately executed Transaction Form/Survey Report DL-55C in accordance with DOL policies and procedures, and
- 100 disposal transactions of the 140 tested were not recorded in the correct period as the disposals were recorded as FY 2006 disposals but were disposed of in prior years.

As a result, we recommended the following in Report No. 22-07-001-13-001:

We recommend the Chief Financial Officer, the Assistant Secretary for Employment and Training, and the Director of Job Corps provide additional training for property officers to ensure they use an appropriately executed Transaction Form/Survey Report DL-55C for all property dispositions and the disposals are recorded in the correct accounting period.

During FY 2007, DOL did not provide additional training for its property officers. However, DOL had begun planning for the training event. Therefore, we consider the recommendation **resolved and open** pending implementation of the periodic training event.

Management's Response

Management concurs with this recommendation. OCFO management, in coordination with OASAM, will provide property officers with additional training to address this issue. In preparation for the training, OCFO has already prepared a draft agenda that addresses the proper use of form DL-55C to document property dispositions. Relevant training materials will be developed and training will be conducted by March 31, 2008.

Auditors' Conclusion

This recommendation is considered **resolved and open**. FY 2008 audit procedures will determine whether this recommendation has been adequately addressed and can be considered closed.

11. Internal-Use Software

In the FY 2005 Findings and Recommendations to the Chief Financial Officer (OIG Report No. 22-06-001-13-001), the OIG identified that DOL has not capitalized all project costs for internal-use software in accordance with SFFAS No. 10, *Accounting for Internal Use Software*. Specifically, the OIG determined there were 22 internal-use software projects either developed or completed during FYs 2004 and 2005 for which the agencies did not initially capitalize the costs. In the FY 2005 report, the OIG made the following recommendation:

We recommend OCFO again notify DOL agencies of their requirements to account for costs related to internal-use software and monitor to ensure they properly account for these costs in accordance with Federal and departmental requirements.

During FY 2006, the OCFO re-issued relevant guidance to the agencies and conducted a meeting with the agencies. Although the OCFO had informally been communicating with the agencies to monitor the implementation of this guidance, there was no documentation to support this monitoring, and the OCFO did not maintain a listing of internal use software projects in development. In addition, we noted documentation of indirect costs had not improved and the OCFO had not developed an analysis to support its position that the amount of indirect costs associated with the development of internal-use software is not material to the financial statements. As such, in FY 2006, we made the following additional recommendations:

We recommend the Chief Financial Officer:

1. ***Designate an official in the OCFO to be responsible for DOL's internal-use software accounting and reporting***
2. ***Develop and implement a quarterly reporting process for agencies to report the status and costs of software projects in development, and maintain a comprehensive listing of all software in development projects based on this quarterly reporting.***
3. ***Develop and implement a review process to determine that the agency is reporting all costs that are required to be capitalized.***
4. ***Develop and implement procedures to compare the internal-use software assets and amounts recorded in CATARS to the internal-use software assets and amounts reported by the agencies***
5. ***Perform, document, and maintain an analysis of indirect costs associated with software in development to determine whether or not these costs are material.***

In FY 2007, the OCFO took several corrective actions to address internal-use software, including assigning an official in OCFO to monitor internal use software and implementation of a quarterly certification process from the agencies. Therefore, the FY

2005 recommendation and FY 2006 recommendation nos. 1 through 4 are considered **closed**.

However, the OCFO has not yet performed an analysis of indirect costs associated with internal-use software to determine whether or not these costs are material. Therefore, FY 2006 recommendation no. 5 remains **resolved and open**, pending management's completion of an indirect cost analysis.

Management's Response

Management concurs with the recommendation. The OCFO will prepare an analysis of indirect cost associated with internal-use software by March 31, 2008, and will evaluate the materiality of such costs in accordance with appropriate guidelines.

Auditors' Conclusion

This recommendation is considered **resolved and open**, pending management's completion of an indirect cost analysis. FY 2008 audit procedures will determine whether this recommendation has been adequately addressed and can be considered closed.

12. Improper Source for Recording of Costs on National Training Center Contracts

The Office of Job Corps has several National Training Center (NTC) contracts with various trade unions and other organizations to provide various training services. These contracts are administered by the National Office of Job Corps. These contractors draw down funds through the U.S. Department of Health and Human Services' Payment Management System (HHS/PMS) and submit monthly or quarterly cost reports to the Office of Job Corps. Job Corps total expenses approximated $1 billion in 2007. The total value of Job Corps contracts that are administered using this process total approximately $62 million.

DOL is not in compliance with SFFAS No. 1, *Accounting for Selected Assets and Liabilities* relating to the recording of expenses and advances for these Job Corps contracts. We noted that DOL records drawdowns by contractors as expenses in general ledger account 6105, Current Operating Expense – Other, for costs related to Job Corps' NTC contracts. However, these drawdowns do not represent actual costs (goods and services received) incurred by the contractor, but rather the amount that is supposed to cover the contractor's immediate cash needs (an advance). However, until the contractor submits a cost report detailing its actual costs for the period, DOL does not have any evidence to support the amount of costs incurred.

In our testwork over 59 FY 2007 Job Corps expenses, we noted 6 expenses where the amounts recorded as the expense varied by the amounts reported on the contractors' monthly cost reports by a total of $1,122,992. In one instance, we noted the contractor's cost report appeared to contain erroneous information, as it reported costs for one month totaling approximately $11.8 million, while the total DOL budget was only $5.6 million. However, based on further follow-up, we noted that subsequent cost reports reported a corrected cumulative cost of $1.9 million.

As a result of these exceptions, DOL is misstating its costs and advances related to Job Corps NTC contractor activity. Based on our testwork, the known overstatement of expenses and corresponding understatement of advances is $1,122,992, with a likely net overstatement of expenses and understatement of advances of $16,000,285. In addition, without accurate contractors' cost reports, DOL can not properly record or report its costs.

DOL has not established a process for the recording of NTC contractor cost reports, but instead, relies on the amount of the drawdowns to record the costs. DOL's rationale is that the contractors should only be drawing down what they have expended; therefore, the drawdowns should equal the costs. Since cost reports are not being used to record activity in DOL's general ledger, no review process is in place to ensure contractors are submitting accurate cost reports. Additionally, DOL does not have written policies and procedures addressing the recording of NTC costs.

SFFAS No. 1, *Accounting for Selected Assets and Liabilities*, defines Advances as "Cash outlays made by a federal entity to its employees, contractors, grantees, or others to cover a part or all of the recipients'' anticipated expenses or as advance payment for the cost of goods and services the entity acquires. Examples include . . . assets disbursed under a contract, grant, or cooperative agreement before services or goods are provided by the contractor or grantee."

Per GAO's Standards, "Control activities occur at all levels and functions of the entity. They include a wide range of diverse activities such as approvals, authorizations, verifications, reconciliations, performance reviews, maintenance of security, and the creation and maintenance of related records which provide evidence of execution of these activities as well as appropriate documentation."

Recommendations

We recommend that the Assistant Secretary for Administration and Management:

1. Develop and implement written policies and procedures to properly record NTC contractor activities in accordance with SFFAS No. 1, including identification of source documents necessary to support the recording of these activities.

2. Establish procedures to require the review of the contractor cost reports for accuracy and completeness prior to the recording of the associated costs into the general ledger, and to take corrective action when a contractor submits an inaccurate or incomplete cost report.

Management's Response

We concur with the auditor's recommendation, and plan to develop specific procedures for recording NTC activity by April 30, 2008. The procedures will include provisions for obtaining and retaining appropriate documentation to support recorded costs.

Auditors' Conclusion

These recommendations are considered **resolved and open**. FY 2008 audit procedures will determine whether these recommendations have been adequately addressed and can be considered closed.

13. Inaccurate Employee Accrued Leave Amounts

In FY 2006, we noted that certain accrued leave hours were not accurate, leading to incorrect liability balances recorded in DOLAR$. As a result, we made the following recommendations:

1. ***Investigate all 9 exceptions noted in our sample and correct the employee accrued leave balances as needed based on the results of this investigation.***
2. ***Develop and implement procedures to periodically review the accrued leave detail to ensure that the hours are accurate and valid. These reviews should be documented, reviewed and approved by an appropriate supervisor, and maintained.***
3. ***Investigate the accrued leave balances at August 31, 2006 for the former OIG personnel, determine the cause, and take appropriate corrective action to remove their balances and prevent future reoccurrences.***

In following up on this prior year finding, we noted that employees identified by the OIG in FY 2006 as having either resigned or transferred from DOL during FY 2006 continued to have accrued leave balances as of September 30, 2007.

As a result of the exceptions, the accrued leave balances may be misstated. The inclusion of OIG employees who resigned or transferred in the prior fiscal year overstates the accrued leave balance as of September 30, 2007, by $32,956. The total error due to retired or otherwise separated employees being included in the accrued leave balance is not known. The cause of these errors appears to be a lack of appropriate policies and procedures related to the removal of employees' accrued leave balances' from the general ledger once an employee has retired or otherwise separated from DOL.

OMB Circular No. 123, *Management's Responsibility for Internal Control*, states, "Application control should be designed to ensure that transactions are properly authorized and processed accurately and that the data is valid and complete. Controls should be established at an application's interfaces to verify inputs and outputs, such as edit checks. General and application control over information systems are interrelated and both are needed to ensure complete and accurate information processing. Due to the rapid changes in information technology, controls must also adjust to remain effective."

Per GAO's Standards, "Internal control should generally be designed to assure that ongoing monitoring occurs in the course of normal operations. It is performed continually and is ingrained in the agency's operations. It includes regular management and supervisory activities, comparisons, reconciliations, and other actions people take in performing their duties."

Therefore, we consider FY 2006 recommendation no. 1 as **closed**, and we consider recommendation nos. 2 and 3 as **unresolved** pending completion of a corrective action plan with specified timeframes for implementation.

Management's Response

Management's preliminary analysis of this issue indicates that employees with a non-active status (separated employees) can, in fact, have valid non-zero accrued leave balances. For example, an outstanding indebtedness at the point of separation may result in actions being taken by the Servicing HR Office to prevent a cash payout of the accrued leave until the debt is paid; consequently imposing a freeze on the employee's leave balance.

To distinguish between valid and invalid cases, the OCFO will perform the following:

1. *By March 31, 2008, develop a report to identify separated employees who continue to carry Annual Leave or Compensatory Leave balances.*
2. *On a bi-weekly basis, generate and distribute this report to all relevant Servicing HR Offices.*
3. *Obtain relevant feedback from, and follow up with, the Servicing HR Offices as to the leave balances identified, until the balance is fully resolved.*

In addition, the OCFO will develop and implement procedures to verify that data sent from the HR-Payroll System (PeoplePower) to DOLAR$ properly reflects the change in the value of leave from one pay period to the next. This procedure will be implemented by March 31, 2008, and exercised at least once per quarter, and will compare the two most recent consecutive pay periods for a sample of Responsibility Center Codes (RCCs). The results will be documented and signed by the verifier, and reviewed and signed by the appropriate supervisor/manager.

Auditors' Conclusion

These recommendations are considered **resolved and open**. FY 2008 audit procedures over management's corrective action plan listed above will determine whether these recommendations have been adequately addressed and can be considered closed.

14. Lack of Adequate Monitoring of Child Agency Financial Data

ETA annually allocates approximately $170 million to four federal entities (U.S. Forest Service, National Park Service, Bureau of Indian Affairs, and Bureau of Reclamation) (i.e., the child entities) to operate 28 Job Corps Centers (Civilian Conservation Centers (CCC)) throughout the country. In prior years, the child entities reported the proprietary accounts and activities of these budget allocations in their consolidated financial statements. Effective in FY 2007, DOL (i.e., the parent entity) is required by OMB Circular No. A-136 to report in its consolidated financial statements both the budgetary and proprietary accounts and activities related to these allocations.

In response to this new accounting requirement, during FY 2007, DOL performed the following procedures over the activities of the child entities:

- The Office of Fiscal Integrity (OFI) received monthly trial balances from child entities and recorded these balances into DOLAR$ for financial reporting purposes.
- OFI performed analytical reviews of quarter to quarter expenses and reviewed for abnormal balance activities.
- OFI reconciled child trial balance reporting between the SF-132 and SF-133 with the related trial balance.

In addition, Office of Job Corps program management officials receive quarterly cost reports for each of the 28 CCCs operated by the child entities. These cost reports detail the program expenditures by line item (e.g., salaries and utilities). This information is obtained for program monitoring and budgeting purposes, and is maintained in a separate database that does not feed into DOLAR$.

Although DOL obtained the summary level trial balances from the child entities and is reporting this information in DOL's financial statements, DOL had not implemented sufficient monitoring controls to provide DOL management with assurance that the information being reported by the child entities is accurate and complete. For example, DOL had not established monitoring controls to ensure the operating effectiveness of the child entities' controls over FBwT and the other balance sheet accounts. Additionally, no reconciliation was performed between the detailed cost reports submitted by each of the CCCs to the aggregate trial balances submitted by each of the child entities and reported in DOL's financial statements.

The lack of effective monitoring controls over the child entities' trial balances increased the risk that amounts being reported in DOL's financial statements may be misstated. This situation occurred because DOL had not established adequate processes to manage the child financial data being reported in the DOL financial statements beginning in FY 2007. Additionally, the National Office of Job Corps did not provide specific guidance to the regional offices of Job Corps to require a process be implemented to monitor the costs being reported by the federally-operated CCCs. We surveyed six Regional Offices and noted they were not consistently performing monitoring procedures. Two of the Regional Offices indicated they did not perform any formal monitoring procedures. One of these two Regional Offices indicated it was the child entity's responsibility to monitor these costs and when DOL has attempted to obtain explanations for variances, the child entities told DOL they were not required to provide explanations to DOL.

OMB Circular No. A-123, *Management's Responsibility for Internal Control*, states that "The agency head must establish controls that reasonably ensure that obligations and costs are in compliance with applicable law, funds, property, and other assets are safeguarded against waste, loss, unauthorized use, or misappropriation, and revenues and expenditures applicable to agency operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports . . ."

Per GAO's Standards, "Internal control should generally be designed to assure that ongoing monitoring occurs in the course of normal operations. It is performed continually and is ingrained in the agency's operations. It includes regular management and supervisory activities, comparisons, reconciliations, and other actions people take in performing their duties."

Recommendation

1. We recommend that the Chief Financial Officer and the Assistant Secretary for Administration and Management work together to develop procedures to consistently monitor the amounts being reported on the child entities' trial balances. At a minimum, these procedures should include procedures to monitor the child entities' controls over FBwT and the other significant balance sheet accounts and to perform quarterly comparisons of amounts being reported on the CCC cost reports to the amounts being reported in the child entities' trial balances.

Management's Response

We agree with the general recommendation made by the auditor, and plan to develop and implement child agency monitoring procedures by April 30, 2008. The extent of specific monitoring procedures will be subject to the provisions of interagency agreements currently being negotiated with the child agencies, and on the outcome of *certain initial procedures to be performed by the OCFO over the next few months. These procedures potentially include:*

1. *Obtain and review each child agency's annual audit report to determine if there are any significant deficiencies that may impact amounts reported to the DOL by the child agency;*
2. *Determine if independent auditors for the child agencies have reported additional deficiencies specific to the operation of the Job Corps program that would impact amounts reported to the DOL by the child agency;*
3. *Visit the child agencies' finance centers to gain an understanding of existing financial systems and controls over financial reporting that are relevant to amounts reported for their Job Corps activities;*
4. *Visit four centers to evaluate existing financial procedures and controls over financial reporting;*
5. *Summarize each centers' quarterly cost reports submitted to the Office of Job Corps, compare these totals to amounts reflected on the quarterly child agency trial balances, and reconcile significant differences; and*
6. *Review actual versus budgeted costs as reported on the quarterly cost reports for each center, and discuss significant variances with the respective Job Corps project managers.*

However, we disagree with the internal control citations quoted by the auditor and find that these do not apply to the Child/Parent relationship. The allocation transfers of funds to the child agency do not cause child agencies' operations to become subject to the internal management controls of DOL, rather, the child agency is responsible for establishing, maintaining, operating and reporting on internal controls over their own internal operations. Accordingly, our final monitoring procedures will be designed in recognition of the fact that the child agency's transactions and balances are subject to their own financial systems and internal controls.

Auditors' Conclusion

This recommendation is considered **resolved and open** because management agreed with the general recommendation and is developing procedures to address it. FY 2008 audit procedures over management's corrective action plan listed above will determine whether this recommendation has been adequately addressed and can be considered closed.

15. Unemployment Compensation Advisory Council Not Established

In the FY 1997 audit (OIG Report No. 12-98-002-13-001), the OIG reported that the Unemployment Compensation Advisory Council (UCAC) required by the Social Security Act had not been reestablished. Section 908 of the Social Security Act makes no provision for delaying the establishment of a new advisory council, and the issues for which the UCAC is responsible are significant to the unemployment insurance program.

In the FY 1997 report, the OIG made the following recommendation:

Recommendation

We recommend that the Assistant Secretary for Employment and Training ensure that the Unemployment Compensation Advisory Council is reestablished as required by Section 908 of the Social Security Act.

ETA does not believe that the UCAC is the most effective way to evaluate the unemployment compensation program and has proposed a related amendment to the Social Security Act in the Unemployment Compensation Program Integrity Act of 2006. However, DOL is not currently in compliance with section 908 of the Social Security Act.

According to section 908 of the Social Security Act, starting in 1992 and "every 4th year thereafter, the Secretary of Labor shall establish an advisory council to be known as the Advisory Council on Unemployment Compensation." The purpose of this council is to "evaluate the unemployment compensation program, including the purpose, goals, countercyclical effectiveness, coverage, benefit adequacy, trust fund solvency, funding of State administrative costs, administrative efficiency, and any other aspects of the program and to make recommendations for improvement."

ETA has taken appropriate steps to resolve this issue, but Congress has not yet approved DOL's proposed amendment. As a result, we considered this issue **resolved and open** until the legislation is amended.

Management's Response

ETA agrees with the recommendation to continue pursuing amendment of the Social Security Act with language similar to that found in the Unemployment Compensation Program Integrity Act of 2006. A copy of the proposed language has been provided to the auditors for their reference.

Auditors' Conclusion

This recommendation is considered **resolved and open**. FY 2008 audit procedures will determine whether this recommendation has been adequately addressed and can be considered closed.

16. Claimant Receiving Improper Benefit Payments

The Longshore and Harbor Workers' Compensation Act and its extensions, administered by DOL's Employment Standards Administration, Office of Workers' Compensation Programs, provide medical benefits, compensation for lost wages, and rehabilitation services to employees who are injured during the course of employment or contract an occupational disease related to employment. Survivor benefits also are provided if the work-related injury causes the employee's death.

We tested a sample of 45, FY 2007, benefit payments and noted one exception. We noted that the Order and the initial letter to the claimant contained the correct bi-weekly rate; however, the weekly compensation rate was erroneously being paid as the bi-weekly compensation rate. Since this is a scheduled injury award, the error would double the amount of time it would have taken to pay the award in full.
Improper compensation disbursements may lead to accuracy and existence issues related to the compensation expense. The exception was caused when the Senior Certifying Officer's review of the procedures performed by the Data Entry Operator (DEO) failed to identify the improper payment amount.

GAO's Internal Control Management and Evaluation Tool (8/01), Page 40, states that "…Key duties and responsibilities [should be] divided or segregated among different people to reduce the risk of error or fraud. … This should include separating the responsibilities for authorizing transactions, processing and recording them, reviewing the transactions, and handling any related assets. No one individual should control all key aspects of a transaction or event…"

GAO's Standards, states that, "Within the agency, there are mechanisms in place to monitor and review operations and programs….Control activities occur at all levels and functions of the entity. They include a wide range of diverse activities, such as approvals, authorizations, verifications, reconciliations, performance reviews, maintenance of security, and the creation and maintenance of related records which provide evidence of execution of these activities as well as appropriate documentation.. Control activities may be applied in a computerized information system environment or through manual processes...Monitoring of internal control should include policies and procedures for ensuring that the findings of audits and other reviews are promptly resolved."

Per Title 33 Navigation and Navigable Waters – Chapter 18, § 914. Payment of compensation:

(a) Manner of payment. Compensation under this Act shall be paid periodically, promptly, and directly to the person entitled thereto, without an award, except where liability to pay compensation is controverter by the employer.

(f) Additional compensation for overdue installment payments payable under terms of award. If any compensation, payable under the terms of an award, is not paid within ten days after it becomes due, there shall be added to such unpaid compensation an amount equal to 20 per centum thereof, which shall be paid at the same time as, but in addition to, such compensation, unless review of the compensation order making such award is had as provided in (921of this title) and an order staying payment has been issued by the Board or court.

Recommendation

1. We recommend that the Assistant Secretary for Employment Standards continue to stress the importance of adhering to existing controls and policies.

Management's Response

ESA concurs with the auditor's recommendation and corrective action has already been taken. ESA currently utilizes a template for calculating benefit payments which was not available at the time the case cited by the auditors was established. We believe that the template eliminates possible confusion between the weekly and bi-weekly rates, and would preclude errors of the nature described by the auditors.

Auditors' Conclusion

This recommendation is considered **resolved and open**. FY 2008 audit procedures will determine whether this recommendation has been adequately addressed and can be considered closed.

17. Error Noted in FECA Compensation Processing

The Federal Employees' Compensation Act (FECA) provides workers' compensation coverage to three million Federal and Postal workers around the world for employment-related injuries and occupational diseases. Benefits include wage replacement, payment for medical care, and where necessary, medical and vocational rehabilitation assistance in returning to work. DOL's Division of Federal Employees' Compensation adjudicates new claims for benefits and manages ongoing cases; pays medical expenses and compensation benefits to injured workers and survivors; and helps injured employees return to work when they are medically able to do so.

For the period October 1, 2006 through March 31, 2007, we tested 110 continuing eligibility transactions and determined that the information recorded in the Integrated Federal Employees' Compensation System (iFECS) (i.e., number of dependents and earnings information) agreed to the information on the CA-1032, *Employment Dependency and Benefit Verification Form* or CA-12, *Claim for Continuance of Compensation Under the FECA Program,* with one exception. We noted that one claimant was paid at a compensation rate of 75% instead of 66⅔% for two years. According to the most recent CA-1032, dated March 17, 2007, the claimant indicated no spouse and no child dependents. This would result in benefits being calculated at 66⅔% as required by the FECA Procedure Manual Section 2-0901-5. Through further investigation of the claim file, the claimant indicated her son graduated school on May 15, 2005 before which time he was properly claimed as a dependent as he attended a college as a full time student as defined under §8101 of FECA. Upon her son's graduation, the claimant timely claimed no spouse and no dependents on her CA-1032s consistently beginning in 2005 through the present. However, the case examiner (CE) did not adjust the payment calculation to reflect this change, and management review of the CE's review of the CA-1032 failed to identify this error, resulting in recurring overpayments totaling approximately $7,400 during the period of May 15, 2005 through May 12, 2007.

The exception occurred because the Senior CE did not adequately perform the management review process and subsequent authorization function related to received CA-1032s. Therefore, the iFECS payment information related to the case was not updated.

The FECA Procedure Manual states the following:

- *2-0812-4 Placement and Monitoring of Claims and Periodic Roll*
  b. Monitoring. All Cases on the periodic roll will be monitored closely to:

  (1) Verify continuing entitlement to compensation and the appropriate level of payments

- *2-0901-5 Compensation Rate*

  5. Compensation Rate. This paragraph addresses the percentage of the pay rate to which a beneficiary is entitled. This percentage is known as the compensation rate.

     a. Disability Cases. The basic compensation rate is 66⅔ percent, which is increased to 75 percentage if there is at least one eligible dependent as defined in Section 5 U.S.C. §8110. Basic compensation for disability is obtained by multiplying the pay rate times the compensation rate.

- *2-0811-10 Dependents*

  10. Dependents. Augmented compensation is paid to a claimant with at least one dependent, including a spouse. Where only one dependent is claimed, and that person is a student, a child whose marriage has ended, a child incapable of self-support, or a parent, the CE must ensure that entitlement exists.

Per FECA §8110:

  (3) an unmarried child while living with the employee or receiving regular contributions from the employee toward his support, and who is

    (A) under the age of 18

    (B) over 18 years of age and incapable of self-support because of physical or mental disability; and

(4) a parent, while wholly dependent on and supported by the employee.

Notwithstanding paragraph (3) of this subsection, compensation payable for a child that would otherwise end because the child has reached 18 years of age shall continue if he is a student as defined by section 8101 of this title at the time he reaches 18 years of age for so long as he continues to be a student or until he marries.

Recommendation

1. We recommend that the Assistant Secretary for Employment Standards continue to stress the importance of the Senior CE review and payment certification policy.

Management's Response

ESA concurs that the item cited by the auditors was an error, and corrective action has already been taken. The compensation rate was corrected to 2/3 on 05/09/2007, and an overpayment established. OWCP has taken steps to provide automated support and tracking of CA-1032 processing, which we believe will achieve continuing improvements in the efficacy of this benefit review process.

In addition, we note that the sample results identified in this finding (one error out of a sample of 110) actually indicate a very strong system of internal controls. These sample results project to approximately 3% (at the upper limit), which is considered in all relevant audit guidance to be a very low level of risk. Accordingly, management believes that the error identified is not an indication of systemic internal control weaknesses.

Auditors' Conclusion

This recommendation is considered **resolved and open**. FY 2008 audit procedures will determine whether this recommendation has been adequately addressed and can be considered closed.

Appendix A

ACRONYMS AND ABBREVIATIONS

ALC	Agency Location Code
APO	Accountable Property Officer
BPC	Benefit Payment Control
CAMO	Capitalized Asset Management Officer
CATARS	Capitalized Asset Tracking and Reporting System
CCC	Civilian Conservation Centers
CE	Claims Examiner
CFO	Chief Financial Officer
CFOA	Chief Financial Officers Act
CIO	Chief Information Officer
CIP	Construction in Progress
CY	Calendar Year
DCAA	District of Columbia Compensation Act
DEO	Data Entry Operator
DFEC	Division of Federal Employees Compensation
DFSS	Division of Financial and System Services
DLHWC	Division of Longshore and Harbor Workers' Compensation
DLMS	Department of Labor Manual Series
DOL	U. S. Department of Labor
DOLAR$	Department of Labor Accounting and Related Systems
EBSS	Enterprise Business Support System
ESA	Employment Standards Administration
ETA	Employment and Training Administration
FAR	Federal Acquisition Regulations
FBwT	Fund Balance with Treasury
FECA	Federal Employees Compensation Act
FFMIA	Federal Financial Management Improvement Act
FMS	Financial Management Service
FPO	Federal Project Officer
FY	Fiscal Year
GAAP	Generally Accepted Accounting Principles
GAO	Government Accountability Office
GCS	Grants Closeout System
G/L	General Ledger
GPRA	Government Performance and Results Act
GTS	Grants Tracking System
GWA	Government Wide Account Statement
HHS/PMS	Health and Human Services/ Payment Management System
IAC	Internal Accounting Code
IG	Inspector General
iFECS	Integrated Federal Employees Compensation System

ILAB	Bureau of International Labor Affairs
IMIS	Integrated Management Information System
IT	Information Technology
LHWCA	Longshore and Harbor Workers’ Compensation Act
MD&A	Management’s Discussion and Analysis
MSHA	Mine and Safety and Health Administration
NTC	National Training Center
OASAM	Office of the Assistant Secretary for Administration and Management
OCFO	Office of the Chief Financial Officer
OFI	Office of Fiscal Integrity
OIG	Office of Inspector General
OMB	Office of Management and Budget
OPS	Office of Procurement Services
OSHA	Occupational Safety and Health Administration
OWCP	Office of Workers' Compensation Programs
OWS	Office of Workforce Security
PAR	Performance and Accountability Report
PBGC	Pension Benefit Guaranty Corporation
PP&E	Property, Plant and Equipment
PRB	Procurement Review Board
RCC	Responsibility Center Code
RSI	Required Supplementary Information
RSSI	Required Supplementary Stewardship Information
SFFAS	Statement of Federal Financial Accounting Standards
SGL	Standard General Ledger
SNC	Statement of Net Cost
TFM	Treasury Financial Manual
UCAC	Unemployment Compensation Advisory Council
UDO	Undelivered Orders
UI	Unemployment Insurance
USSGL	U.S. Government Standard General Ledger
VETS	Veterans’ Employment and Training Service