U.S. Department of Labor

Office of Inspector General—Office of Audit

OFFICE OF THE CHIEF FINANCIAL OFFICER

FINDINGS AND RECOMMENDATIONS IDENTIFIED IN AN AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED SEPTEMBER 30, 2006

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 for Audit

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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, 2006. 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. 06-03, *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 reportable conditions, 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 reportable conditions and 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.

<u>Summary of Reportable Conditions and Recommendations</u>

<u>1. Lack of Strong Application Controls over Access to and Protection of Financial Information</u>

The Fiscal Year (FY) 2004 and FY 2005 Federal Information System Controls Audit Manual (FISCAM) audits identified consistent weaknesses across the applications tested in various application control areas. **The OIG recommended that management correct specific security weaknesses identified during the audits timely, and coordinate efforts among the applicable agencies to develop and/or enforce procedures and controls to address systemic application control weaknesses in current financial management systems.** In the FY 2006 audit, we noted that weaknesses continue to exist in this area.

2. Lack of Strong Logical Security Controls to Secure DOL's Networks and Information

In FISCAM testing since FY 2001, the OIG had identified continuing weaknesses with DOL's technical security standards and policies; access controls; and segregation of duties. **The OIG recommended that management correct specific security weaknesses identified during the audits timely, and coordinate efforts among the applicable agencies to develop and/or enforce procedures and controls to address logical security weaknesses on current financial management systems.** Current year testing showed that improvements are still needed in several logical security control areas.

3. Weaknesses Noted over Property, Plant and Equipment

Internal-Use Software

In fiscal year (FY) 2005, the OIG identified more than $109 million of internal-use software costs that were not appropriately capitalized in accordance with U.S. generally accepted accounting principles and DOL policy. Specifically, DOL agencies did not capitalize software development costs, such as the direct salary and fringe benefit costs associated with Federal employees involved with software development, and the related indirect costs such as overhead, rent, and travel. **The OIG recommended that the Chief Financial Officer (CFO) monitor agency compliance with Federal and departmental accounting requirements for internal-use software.** Management concurred and recorded appropriate adjustments to the year-end financial statements. Management also agreed to monitor agency compliance and reissue guidance for capitalizing costs of internally-developed software. However, in the FY 2006 audit, we noted that weaknesses continue to exist in this area. **We further recommend that the CFO designate an official to be responsible for internal-use software accounting and reporting and to perform certain procedures in this role.**

Job Corps Property

The FY 2003 audit disclosed that the Employment and Training Administration (ETA) did not establish sufficient controls to ensure that capitalized real property was accurately recorded in the subsidiary system and general ledger. **The OIG recommended that management record property transactions timely and make other improvements over accounting for real property.** In response to the prior year finding and recommendations, management concurred, and developed corrective actions designed to improve the internal controls over Job Corps real property. However, in the FY 2006 audit, we noted the recurrence of many issues identified in prior audits, and we identified several new property-related issues including untimely transfer of acquisitions from the Capitalized Asset Tracking and Reporting System (CATARS) holding account, incorrect valuation of land transferred from other Federal agencies, and lack of documented analysis supporting the rationale for leased Job

Corps facilities not being recorded as capital leases and property**. We further recommend that management take specified actions to improve accounting for Job Corps property.**

Other Property

Our FY 2006 audit testing identified certain DOL-wide property issues, including abnormal balances in CATARS and the lack of timely reconciliation between CATARS and the general ledger. In addition, we tested a DOL-wide statistical sample of 200 assets to verify the assets existed and were in usable condition. For 40 of the 200 items, we did not receive timely and adequate evidence of the asset's existence and use. For 5 of the 200 items, the evidence provided indicated the asset had been transferred or disposed of, and for 9 of the 200 items, the evidence provided indicated the asset was no longer in usable condition. These 54 errors noted represented assets with a total cost of $21,315,130 and accumulated depreciation of $14,832,034. When projected to the entire population of assets, the projected misstatement is $81,527,396 of cost and $66,594,051 of accumulated depreciation. **We recommend that management develop and implement policies and procedures related to abnormal balances in CATARS, reconciliations between CATARS and the general ledger, and proper recording of acquired and disposed assets in CATARS.**

4. Weaknesses Noted over Grants

Grant Accrual Preparation and Validation

During our FY 2006 audit, we identified a segregation of duties weakness related to the ETA grant accrual, and we determined that procedures for the ETA grant accrual were not documented. **We recommend that management designate and train additional individuals in the grant accrual and validation process to correct this weakness, and that management formally document the grant accrual procedures.**

Controls over Compliance with the *Single Audit Act Amendments of 1996*

DOL has no monitoring procedures in place to ensure that audits of its grantees are completed and reports are received in a timely manner for each grantee that meets the audit threshold in OMB Circular No. A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, DOL cannot be certain that all required audits have been performed in a timely manner. **We recommend that management develop and implement a tracking system to identify each grantee for which an OMB Circular No. A-133 audit is required and the date that the audit report is due, and specifically identify the related responsibilities of each agency.**

5. Weaknesses Noted in the Change Control Process for a Benefits System

A documented and standard process for requesting, reviewing, developing, testing, and approving changes to an Employment Standards Administration (ESA) benefits system was not in place prior to February 2006. While change control procedures were established and documented in February 2006, the procedures were inconsistently followed during the months of February and March 2006, and we noted various weaknesses in our judgmental sample of 30 changes in the two month period. Additionally, procedures have not been established for priority and emergency changes or changes to the system test environment. **We recommend that management correct specific security weaknesses identified during the audit and coordinate efforts with the ESA to develop and/or enforce procedures and controls to address change control weaknesses.**

6. Weaknesses Noted in Federal Employees Compensation Act (FECA) Accounting and Financial Reporting

FECA Reconciliations

The DOL Office of the Chief Financial Officer (OCFO) does not adequately reconcile (1) the general ledger to the FECA subsidiary ledgers (FECA history databases), and ESA does not adequately reconcile (2) the FECA history databases to the charge-back report that is derived from the history databases and used to bill FECA customer agencies. **We recommend that management develop and implement quarterly procedures for adequate reconciliations over FECA ledgers and reports.**

Management Review of Year-end Accrual

DOL prepares a schedule, *Liability for Current Federal Employees Compensation Act Benefits* as of September 30, which is available to other Federal agencies before fiscal year end via the internet. The OCFO uses an estimation process to prepare this schedule. However, management does not have procedures in place to review the estimate for the fourth quarter DOL receivable based on the *Liabilities for Current Federal Employees Compensation Act Benefits* schedule, and the estimate for the FY 2006 fourth quarter DOL receivable differed from the actual liability by approximately $96 million. **We recommend that management develop and implement procedures for management review of the estimate and periodic refinement of the estimation methodology.**

Delinquent Forms CA-1032, *Request for Information on Earnings, Dual Benefits, Dependents and Third Party Settlement Form*

DOL policy requires FECA claimants to annually certify their earnings information and dependent status on a *Request for Information on Earnings, Dual Benefits, Dependents and Third Party Settlements Form* (CA-1032). This information is used to determine if any changes are necessary to a claimant's benefit amount. Our FY 2006 audit tests identified that Claims Examiners (CE) were not consistently following-up with claimants to ensure that a CA-1032 was received annually for each claimant, as applicable; however, payments continued to be made to non-responsive claimants. In addition, we identified certain payments that were made at inaccurate amounts because of inadequate CE reviews of received CA-1032s. **We recommend that management improve procedures over tracking the receipt and review of CA-1032s and performing related management reviews.**

7. Lack of Segregation of Duties over Journal Entries

The general ledger system does not require journal entries (via transaction codes) to be entered and approved by separate individuals before they are posted. Hence, transaction codes and corresponding amounts entered into the general ledger are posted without any system-controlled review and approval. Various agencies do not have manual compensating review controls over journal entries. **We recommend that management implement system controls to require supervisory approval of all journal entries prior to their posting into the general ledger and that all agencies implement manual compensating review controls until the system controls have been implemented.**

8. Weakness Noted over Payroll Accounting

DOL does not have policies and procedures in place to reconcile the payroll information submitted by DOL to its third party payroll processor, the U.S. Department of Agriculture's National Finance Center (NFC), to ensure that data submitted is accurately received and processed by the NFC. In addition, although payroll-related policies and procedures have changed since October 1981, the payroll section of the Department of Labor Manual Series (DLMS) has not been updated since that time. **We recommend that management develop and implement procedures to be performed each pay period to reconcile the payroll information provided to the NFC to the payroll information processed by the NFC, and that management incorporate these procedures into a full update of the payroll section of DLMS.**

9. Weakness Noted over Budgetary Accounting

The OCFO does not complete timely reconciliations related to the *Apportionment and Reapportionment Schedules* (SF-132) and the *Report on Budget Execution and Budgetary Resources* (SF-133). In addition, once reconciled as of June 30, 2006, several necessary corrections to amounts posted in the general ledger were identified and various unexplained differences remained. Finally, although external budget-related requirements have changed since March 2004, the budget execution section of the DLMS has not been updated since that time. **We recommend that management develop and implement policies to ensure these reconciliations are performed timely and completely, and that management incorporate these procedures into an update of the budget execution section of DLMS.**

10. Weaknesses Noted over Custodial Activities

Our FY 2006 audit testing identified certain issues related to the assessment and collection of fines and penalties, including the lack of reconciliation between a subsidiary ledger and the general ledger, the lack of procedures to ensure compliance with certain applicable laws and regulations, improper cut-off of certain collections at year-end, and inaccurate calculations and untimely recording of accrued interest. **We recommend that management develop and implement policies to ensure subsidiary ledgers are reconciled periodically to the general ledger, applicable laws and regulations are complied with, and collections and interest receivable are recorded accurately at each period's end.**

Management Advisory Comments

Although not considered to be reportable conditions, 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 the Management Advisory Comments section of this report.

KPMG LLP
2001 M Street, NW
Washington, DC 20036

November 13, 2006

Mr. Samuel T. Mok
Chief Financial Officer
U. S. Department of Labor
Washington, DC 20210

Mr. Mok:

We have audited the consolidated financial statements of the United States Department of Labor (DOL) for the year ended September 30, 2006, and have issued our report thereon dated November 13, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standard*s, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 06-03, *Audit Requirements for Federal Financial Statements*. In planning and performing our audit of the consolidated financial statements of DOL, in accordance with those standards and OMB Bulletin No. 06-03, we considered DOL's 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.

We noted certain matters involving internal control and its operation that we consider to be reportable conditions under auditing standards generally accepted in the United States of America and OMB Bulletin No. 06-03. Reportable conditions are matters coming to our attention that, in our judgment, relate to significant deficiencies in the design or operation of internal control and could adversely affect the organization's ability to record, process, summarize, and report financial data consistent with the assertions of management in the consolidated financial statements. Our consideration of internal control would not necessarily disclose all matters in internal control that might be reportable conditions.

The reportable conditions noted during our audit, all of which have been discussed with the appropriate members of management, are summarized in the Reportable Conditions section of this report.

A material weakness is a reportable condition in which the design or operation of one or more internal control components does not reduce to a relatively low level the risk that errors or fraud in amounts that would be material in relation to the consolidated financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of internal control would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, none of the reportable conditions described above is believed to be a material weakness.

Although not considered to be reportable conditions, we also noted certain matters during our audit which we would like to bring to your attention. These items are summarized in the Management Advisory Comments section of this report.

These conditions were considered in determining the nature, timing, and extent of the audit tests applied in our audit of the 2006 consolidated financial statements, and this communication does not affect our report on the consolidated financial statements dated November 13, 2006. We have not considered internal control since the date of our report.

This report does not contain current or prior year Management Advisory Comments pertaining to audit procedures performed over DOL's general controls and security over Information Technology (IT) systems that support the consolidated financial statements. A separate report will be issued to the Chief Information Officer containing the results of all IT-related work conducted during the audit of the 2006 consolidated financial statements.

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

Very truly yours,

KPMG LLP

Reportable Conditions

Finding 1 – Lack of Strong Application Controls over Access to and Protection of Financial Information

In the FY 2005 Federal Information System Controls Audit Manual (FISCAM) Audit (Office of Inspector General (OIG) Report No. 23-06-009-07-001), the OIG reported consistent weaknesses across the Department of Labor's (DOL) applications tested in the following application control areas:

- Identification and documentation of supporting environments, such as process flow documentation and mapping;
- Application password settings, such as passwords that do not adhere to complexity requirements;
- User access, such as incomplete access request and termination forms;
- Lack of application segregation of duties policies or enforcement of segregation of duties policies;
- Periodic user account review and reauthorization, including lack of user authorization, or incomplete authorization documentation;
- Audit trails, such as lack of monitoring of sensitive application functions and incomplete audit logs; and
- Controls over output to other applications, including reconciliation of control totals and record counts.

The OIG had reported similar weaknesses as a result of FY 2004 FISCAM testing (OIG Report No. 23-05-004-07-001). The OIG made the following recommendations:

We recommend the Chief Financial Officer and the Chief Information Officer:

- ***Verify that specific security weaknesses identified during the audits and communicated to DOL agencies are included in each individual agency's Plan of Action and Milestones (POA&M), and that appropriate and timely corrective action is taken on the identified weaknesses; and***
- ***Coordinate efforts among the DOL agencies to develop and/or enforce procedures and controls to address systemic application control weaknesses in current financial management systems.***

From current year testing, we found the continued presence of numerous weaknesses in the information protection controls over applications. We identified 43 prior year recommendations, 35 from the Office of the Chief Financial Officer (OCFO), 6 from the Employment and Training Administration (ETA), and 2 from the Employment Standards Administration (ESA), related to application controls that have not been corrected.

These findings are a result of a breakdown in the implementation and monitoring of Departmental processes and procedures for application controls. These application control weaknesses could lead to users with inappropriate access to financial systems; inefficient processes; lack of completeness, accuracy, or integrity of financial data; and/or the lack of detection of unusual activity within financial systems. In addition, as a result of these weaknesses, DOL is not in full compliance with the *Federal Information Security Management Act* (FISMA) passed as part of the *Electronic Government Act of 2002.*

OCFO Management's Response

"The Office of the Chief Financial Officer (OCFO) is responsible for the department's core accounting system (i.e., Department of Labor Accounting and Related Systems – DOLAR$), which has a defense-in-depth scheme to protect its access. For example, user access to DOLAR$ is accomplished only from a pre-configured workstation. Any request for access to DOLAR$ requires two levels of authorizations. First, the DOLAR$ application security officer forwards a request to the Director, Office of Financial Systems to establish the User ID in the database (IDMS) management security utility. Second, and only after that approval, the DOLAR$ security officer would then enable the new user ID. To ensure privacy and prevent network sniffing (e.g., copying sensitive information while data is being transferred on the network), OCFO has implemented encryption for all types of access to DOLAR$."

OCIO Management's Response

"The report should reflect that the Office of the Chief Information Officer (OCIO) made substantial progress during FY 2006 to strengthen application security controls in response to the OIG's recommendations.

A fair accounting reflects that of the 68 prior year OIG recommendations related to this finding, 37 % (25 recommendations) are classified by the OIG as "closed", and 54% (37 recommendations) are classified as "resolved", with closure dependent on the outcome of the FY 2007 OIG audit. Considering that "resolved" recommendations connotate agreement from the OIG that the corrective measures and target completion timeframes are reasonable, 91% of the OIG's recommendations related to this finding have been effectively addressed, as evidenced by their classification as either "closed" or "resolved".

For the remaining 9% (6 recommendations) the OIG concluded that the corrective actions of the Office of the Chief Financial Officer (OCFO) did not adequately address the OIG's recommendation. In FY 2007, the OCIO will work with the OCFO to resolve these recommendations.

The foregoing progress is the result of institutionalized improvements in monitoring and oversight of application controls, including the following—

- *Expanded Security Control Test & Evaluation (SCT&E) program to review selected security controls for all major information systems quarterly;*
- *Quarterly Control Reviews of major information systems;*
- *Quarterly and annual FISMA Reports to OMB with security and privacy metrics;*

- *Semi-annual internal e-Government Reviews of DOL component agency information technology investments;*
- *Coordinating the Annual FISMA Security Self-Assessment (SSA) for all major information systems;*
- *Revisions to the DOL Computer Security Handbook (CSH); and*
- *Implemented Secretary's Order 14-2006, defining responsibilities with regard to internal controls.*

These efforts, combined with the Department-wide implementation of the National Institute of Standards (NIST) Federal Information Processing Standard (FIPS) 200, Minimum Security Requirements for Federal Information and Information Systems, and Special Publication (SP) 800-53, Recommended Security Controls for Federal Information Systems on DOL major information systems, led to a significant improvement in the consistent application of internal controls at DOL.

Building on the progress of FY 2006, the OCIO will continue to improve internal control monitoring activities across DOL. Based on the schedule defined in the DOL NIST SP 800-53 Implementation plan, DOL agencies will complete the OCIO coordinated implementation of SP 800-53 by January 31, 2007, two months ahead of the mandated completion date of March 31, 2007. This effort requires that agencies address the majority of application controls as part of the System and Information Integrity (SI) control family. To ensure compliance with the NIST SP 800-53 required controls, the OCIO will continue compliance verification of required control implementation through the SCT&E program. This verification addresses all major information systems across the Department.

Additionally, the OCIO will continue to work with the agencies to ensure that their resolution strategies are fully implemented and documented in agency system Plans of Action and Milestones (POA&M)."

Auditors' Conclusion

These recommendations are considered **resolved and open**. FY 2007 audit procedures will attempt to determine whether these recommendations have been adequately addressed and can be closed.

<u>Finding 2 – Lack of Strong Logical Security Controls to Secure DOL's Networks and Information</u>

In the FY 2005 FISCAM Audit (OIG Report No. 23-06-009-07-001), the OIG identified continuing weaknesses with DOL's technical security standards and policies; access controls; and segregation of duties. The OIG had reported similar weaknesses as a result of FY 2001, 2002, 2003, and 2004 FISCAM testing. The OIG made the following recommendations:

We recommend the Chief Financial Officer and the Chief Information Officer:

- ***Verify that specific security weaknesses identified during the audits are communicated to DOL agencies and included in each individual agency's Plans of Action and Milestones (POA&M), and that appropriate and timely corrective action is taken on the identified weaknesses; and***
- ***Coordinate efforts among the DOL agencies to develop and/or enforce procedures and controls to address logical security control weaknesses on current financial management systems.***

DOL continues to lack strong logical security controls to secure its networks and information. Current year testing showed that improvements are still needed in the following areas:

- Technical security standards and policies need to be updated and implemented to include stronger logical security controls.
- Segregation of duties policies need to be created and enforced for general support systems of financial applications.
- Access controls need to be improved concerning account management, passwords, and audit log reviews.

We identified 55 prior year recommendations (7 related to the OCFO, 12 related to ETA, 23 related to ESA, and 13 related to the Office of the Assistant Secretary for Administration and Management (OASAM)) addressing logical security controls that have not been corrected. Additionally, 24 new recommendations related to logical security controls were issued in FY 2006 (8 related to ETA, 6 related to ESA, and 10 related to OASAM).

These findings are a result of a breakdown in the implementation and monitoring of Departmental processes and procedures for logical security controls. These logical security control weaknesses could lead users to gain unauthorized access to the agency applications and data, and allow users to potentially modify or disclose agency data. Additionally, individuals who have the ability to perform incompatible job duties could perform fraudulent, malicious, or accidental actions that could result in unauthorized access, disclosure, and/or modification of DOL data. In addition, as a result of these weaknesses, DOL is not in full compliance with the *Federal Information Security Management Act* (FISMA) passed as part of the *Electronic Government Act of 2002.*

OCIO Management's Response

"For better balance and improved accuracy, the report should reflect that the Office of the Chief Information Officer (OCIO) made substantial progress during FY 2006 to strengthen logical security controls in response to the OIG's recommendations.

A fair accounting reflects that of the 70 prior year OIG recommendations related to this finding, 21% (15 recommendations) are classified by the OIG as "closed" and 76% (53 recommendations) are classified as "resolved", with closure dependent on the outcome of the FY 2007 audit. Considering that "resolved" recommendations connote agreement from the OIG that the corrective measures and target completion timeframes are reasonable, 97% of the OIG's recommendations related to this finding have been effectively addressed, as evidenced by their classification as either "closed" or "resolved".

For the remaining 3% (2 recommendations) the OIG concluded that the corrective actions taken by the Employment Standards Administration (ESA) did not adequately address the OIG's recommendations. In FY 2007, the OCIO will work with the ESA to resolve these recommendations.

The foregoing progress is the result of institutionalized improvements in monitoring and oversight of logical security controls, including the following—

- *Expanded the Security Control Test & Evaluation (SCT&E) program to review selected logical security controls for all major information systems quarterly, including the testing of logical access controls in FY 2006, Q3;*
- *Quarterly and annual FISMA Reports to OMB with security and privacy metrics;*
- *Coordinating the Annual FISMA Security Self-Assessment (SSA) for all major information systems;*
- *Executed significant revisions to the DOL Computer Security Handbook (CSH); and*
- *Implemented Secretary's Order 14-2006, defining responsibilities with regard to internal controls.*

DOL component agencies also began the implementation of the National Institute of Standards (NIST) Federal Information Processing Standard (FIPS) 200, Minimum Security Requirements for Federal Information and Information Systems, and Special Publication (SP) 800-53, Recommended Security Controls for Federal Information Systems, using the DOL NIST SP 800-53 Implementation Plan. This led to a significant improvement in the consistent application of logical security controls for all DOL major information systems.

Building on the progress of FY 2006, the OCIO will continue to improve logical security control monitoring activities across DOL. Based on the schedule defined in the DOL NIST SP 800-53 Implementation plan, DOL agencies will complete the OCIO coordinated implementation of SP 800-53 by January 31, 2007, two months ahead of the Federal mandated completion date of March 31, 2007. This effort requires that agencies address the majority of general system support controls as part of the Access Control (AC) and Identification and Authentication (IA) families of controls. To ensure compliance with the NIST SP 800-53 required controls, the OCIO has initiated compliance verification of required control implementation through the SCT&E program.

This verification is currently underway and addresses all major information systems across the Department.

Additionally, the OCIO will continue to work with the agencies to ensure that their resolution strategies are fully implemented and documented in agency system Plans of Action and Milestones (POA&M)."

OCFO Management's Response

"The Department's core financial system (i.e. DOLAR$) has implemented controls such as role-based access and separation of duties embedded in its operations. While these network related finding could present a risk to DOLAR$, its financial information will be minimally, if at all, impacted as a result of such vulnerabilities.

With regards to the PeoplePower system, guidance from the Office of Management and Budget (OMB) and the Office of Personnel Management (OPM), which are aligned with several Presidential Management Agenda (PMA) efforts, has limited funding for PeoplePower. Consequently, enhancement and mitigation strategies that would have normally been considered to address this finding have been restrained by the fact that OCFO management is prohibited from undertaking expenditures that are not strictly tied to the goal of maintaining the system in its current operational state. Nevertheless, within the context of the aforementioned constraints, OCFO will adopt mitigating controls where possible and practical."

Auditors' Conclusion

These recommendations are considered **unresolved** pending completion of corrective action plans with specified timeframes for implementation.

In response to the OCIO comment that 76% of the recommendations are resolved, a resolved recommendation is defined as:

1) The agency providing a positive/negative response to the condition;
2) A corrective action plan detailing the steps that will be taken to correct the issue; and
3) A date as to when the corrective action will be completed.

A resolved recommendation has not been verified by the OIG or the auditor in order to assess that the appropriate corrective action has been taken to properly close the recommendation. A resolved recommendation should not be construed, for audit purposes, to present a conclusion that the weaknesses were effectively addressed.

In response to the OCFO comment regarding the PeoplePower recommendation, while we understand that OMB has limited funding for enhancement and mitigation strategies for the PeoplePower application, we are required to continue to present these findings as weaknesses that present risks to the integrity of DOL financial data.

Finding 3 – Weaknesses Noted over Property, Plant and Equipment

DOL did not consistently implement or follow policies and procedures designed to ensure that property, plant and equipment (PP&E) balances, including construction-in-progress, are stated in accordance with Federal accounting standards.

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, such as (1) direct salary and fringe benefit costs of Federal employees involved and (2) related indirect costs such as overhead, rent, and travel, in accordance with Statement of Federal Financial Accounting Standard (SFFAS) No. 10, *Accounting for Internal Use Software*. As a result, the balances in Department of Labor Accounting and Related Systems (DOLAR$) asset account 1830 - *Information Technology Software*, and the related account 1839 - *Accumulated Amortization Automated Data Processing (ADP) Software*, were understated, and the current annual expense was overstated. 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. Subsequent actions taken by the OCFO ensured internal-use software relating to direct cost was accurate by the end of FY 2005.

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. Although the OCFO has informally been communicating with the agencies to monitor the implementation of this guidance, no documentation exists to support this monitoring and the OCFO did not maintain a listing of internal use software projects in development. In addition, no one in the OCFO has been designated to be responsible for the Department's internal-use software accounting and reporting to ensure the amounts recorded in the Department's subsidiary ledger, the Capitalized Asset Tracking and Reporting System (CATARS), is correct for internal-use software assets.

We also noted that although the guidance issued discusses transaction codes used to record related indirect costs, the guidance does not provide detailed enough instructions on how indirect costs related to internal-use software should be captured, calculated, and documented. Also, the OCFO has 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.

Therefore, the status of this recommendation is changed from **resolved and open** to **unresolved** pending completion of a corrective action plan with specified timeframes for implementation. Additionally, we make the following new recommendations that should be specifically addressed in this corrective action plan.

Recommendations

We recommend the Chief Financial Officer:

1. **Designate an official within the OCFO to be responsible for DOL's internal-use software accounting and reporting.**

2. **Develop and implement a quarterly reporting process for all agencies to report the status and costs of software projects in development, and maintain a current, comprehensive listing of all software in development projects based on this quarterly reporting.**

3. **Develop and implement a review process to determine that each 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.**

OCFO Management's Response

"The OCFO disagrees with the OIG decision to change the status from resolved and open to unresolved.

From FY 2005 through FY 2006, OCFO has made substantial progress on the capitalization of internal use software in response to previous OIG recommendations. Specifically, OCFO provided guidance and assistance and monitored agencies in the capitalization of internal-use software projects. Additionally, various agencies have continued to do monthly and/or quarterly entries in DOLAR$ to record contractors' costs, federal salaries, travel, and other costs into CIP.

On April 20, 2006, OCFO re-issued a memorandum for agency administrative officers and agency financial officers updating the department's policy on Management of Capitalized Assets. In addition to the memorandum, OCFO established a Property Management webpage to provide the agencies with information concerning Federal Law, Regulations, and DOL policies that relate to the accounting for all types of property.

Last July, the OCFO designated a senior accountant to monitor the capitalized assets. The individual provided guidance to the agency CAMO's, conducted a year-end meeting to review responsibilities, and completed reconciliations for June and September between CATARS and DOLAR$. This individual is responsible for monitoring PP&E, including internal-use software, and reviewing the CATARS CIP file to ensure that agencies are capitalizing costs for projects identified by the agency management as internal-use software.

Additionally, OCFO maintained contact with DOL financial managers inquiring about any new internal-use software projects for their agencies. To further enhance the capitalization of internal-use software, the OCFO will require a quarterly reporting process for all agencies to report the status or any new projects that meet the capitalization threshold. Recommendation # 2 will be completed and implemented by January 31, 2007.

We do not agree with the finding that DOL agencies did not capitalize software development costs, such as the direct salary and fringe benefit costs associated with Federal employees involved with software development, and the related indirect costs such as overhead, rent, and travel. For example, OCFO has been capitalizing the cost for the new accounting system, including federal employees' salaries, travel, rent, and other costs. OCFO will develop and implement a review process to ensure that each agency is capitalizing all appropriate costs. Recommendation # 3 will be completed by January 31, 2007.

OCFO will enhance procedures to compare the internal-use software assets recorded in CATARS to the amounts reported by the agencies. Recommendation # 4 will be completed by January 31, 2007.

OCFO will perform, document, and maintain an analysis of indirect cost associated with software in development to determine whether these costs are material. Recommendation # 5 will be completed by January 31, 2007."

Auditors' Conclusion

These recommendations are considered **resolved and open**. FY 2007 audit procedures will determine whether these recommendations have been adequately addressed and can be considered closed.

<u>Job Corps Property</u>

In the FY 2004 audit (OIG Report No. 22-05-001-13-001), the OIG reported that the Employment and Training Administration (ETA) did not sufficiently use CATARS as a complete property management system in accordance with the CATARS user guide. The OIG also found that ETA did not establish sufficient controls to ensure that Job Corps' capitalized real property was accurately reported in CATARS and in DOLAR$.

In the FY 2004 report, the OIG made the following recommendations:

We recommend the Chief Financial Officer and the Assistant Secretary for Employment and Training ensure that additions and dispositions are recorded timely in CATARS by developing and implementing quarterly procedures to:

- ***Transfer CIP balances recorded in CATARS to the appropriate depreciable-asset account, where the Division of Budget and Facilities Support (DBFS) records of contracts/structures indicate that Certificates of Substantial Completion have been issued;***
- ***Reconcile DBFS records for dispositions to the Architecture and Engineering (A&E) contractor records and to entries in CATARS; and***
- ***Reconcile DBFS records of additions and deletions to Office of Financial and Administrative Services (OFAS) records of additions and deletions recorded in CATARS.***

In the FY 2005 audit, the OIG noted that ETA had developed the appropriate policies and procedures to implement the above recommendations in the issuance of Section 4.5.2 of its National Accounting Policies and Procedures Manual. However, the testing of additions and dispositions in FY 2005 identified instances where such procedures were not consistently applied resulting in instances where completed projects continued to be carried in construction-in-progress (CIP) and assets that had been disposed were continuing to be carried in CATARS and DOL's financial statements.

In the FY 2006 audit, we noted the recurrence of many issues identified in prior audits. We believe that many of these issues stem from the fact that the ETA Capitalized Asset Management Officer (CAMO) position remained vacant for much of the fiscal year under audit. Additionally, during FY 2006, the Job Corps program was transferred from ETA to a separate office within the Office of the Secretary. As a result, we noted the following issues in our FY 2006 audit of ETA and Job Corps PP&E:

- An acquisition that was not transferred from the CATARS holding account timely.
- Projects amounting to approximately $61.7 million that were completed primarily in FY 2005 or prior but were not transferred from CIP to the appropriate in-service PP&E account until September 2006.
- 54 buildings being used at a Job Corps Center site for staff housing that are not in CATARS with no explanation as to why they are not included in CATARS.
- Land assets that were transferred to the DOL Job Corps program from another Federal agency that are reflected in CATARS at a fair value of $7 million, when the carrying value on the books of the other Federal agency was less than $100,000.
- 40 disposal transactions of the 140 selected for testing that were not supported by an appropriately executed Transaction Form/Survey Report DL-55C in accordance with DOL policies and procedures or that are not recorded in the correct period (100 disposals of 140 were recorded as disposals in FY 2006 but were disposed of in prior years; as a result, the asset account historical cost and accumulated

depreciation were overstated by approximately $2,476,163 and $1,929,351, respectively).

- Lack of documented analysis to support the rationale for leased Job Corps facilities not being recorded as capital leases and PP&E of the Job Corps program.
- Documentation to support PP&E related transactions or balances were not readily available or did not exist. Specifically, we were unable to obtain sufficient audit evidence for:

    - Disposal documentation for three of five Job Corps disposals selected for testing
    - Invoices for 4 of 50 CIP additions
    - Approval memos for 3 of 50 CIP additions
    - The period of performance for 47 of 50 CIP obligating documents
    - Payment information linking to the obligation for 11 of 50 CIP sample items
    - Documentation for 14 of 50 CIP-related UDO balances
    - Existence of 239 of 345 Job Corps equipment items

- Assets that no longer exist or are not in usable condition continue to be carried in CATARS; specifically, 11 of 345 Job Corps assets selected for testing should have been recorded as disposed.
- Serial numbers on the assets do not agree to the serial numbers in CATARS. For 7 of 345 Job Corps items tested, the serial numbers on the assets did not agree to the serial numbers in CATARS.
- Controls over transfers from CIP to the related asset account, including the proper completion and authorization on the Substantial Completion Information Summary, the Certificate of Substantial Completion, and the review of the associated DL 1-55c, were not being performed for most of the fiscal year.

The Government Accountability Office's (GAO) *Standards for Internal Control in the Federal Government* state that "Transactions should be promptly recorded to maintain their relevance and value to management in controlling operations and making decisions. This applies to the entire process or life cycle of a transaction or event from the initiation and authorization through its final classification in summary records. In addition, control activities help to ensure that all transactions are completely and accurately recorded." In addition, "Internal control and all transactions and other significant events need to be clearly documented, and the documentation should be readily available. The documentation should appear in management directives, administrative policies, or operating manuals and may be in paper or electronic format. All documentation and records should be properly managed and maintained."

The *Department of Labor Manual Series (DLMS) 6 Chapter 700 section 732.4a* states, "The CAMO will record in the CATARS system capitalized asset transactions for acquisitions, repairs and maintenance, betterments and extraordinary repairs, removals from service, disposals, adjusting entries as a result of the annual physical count and system reconciliation, and changes in accounting estimates for residual value, and useful life."

OMB Circular No. A-127 incorporates, by reference, all federal financial management systems requirements published by JFMIP (the Joint Financial Management Improvement Program). Per JFMIP *Property Management Systems Requirements*, the core financial system must:

- Capture quantity, date of physical receipt or date real property is available for use or placed into service, and condition of item received when a condition assessment was made.
- Capture the acquisition cost of an asset and any changes in the valuation, where applicable for reporting purposes.
- Capture the estimated useful life, depreciation/amortization/depletion method, and salvage/residual value for each asset or group of assets, when applicable.

Federal law (31 U.S.C. 3512 (c) (B)) requires the Department to maintain effective control over, and accountability for, assets for which the agency is responsible, and to safeguard these assets against waste, loss, unauthorized use and misappropriation.

SFFAS No. 6 paragraph 31 states, “The cost of general PP&E transferred from other Federal entities shall be the cost recorded by the transferring entity for the PPE net of accumulated depreciation or amortization. If the receiving entity cannot reasonably ascertain those amounts, the cost of the PP&E shall be its fair value at the time transferred.”

Based on these facts noted as part of our FY 2006 audit, we revised the status of the recommendations related to this finding from resolved and open to unresolved. Additionally, we make the following new recommendations that are intended to address the specific issues identified during our FY 2006 audit.

Recommendations

We recommend the Chief Financial Officer, the Assistant Secretary for Employment and Training, and the Director of Job Corps:

1. **Develop and implement procedures to review the acquisitions in the CATARS holding account on a timely basis.**

2. **Develop and implement procedures, including improved communication methods between DBFS and the Job Corps property accounting officer, to transfer completed projects from CIP to the appropriate in-service PP&E account on a timely basis.**

3. **Perform an inventory of all Job Corps Center buildings being used for staff housing and determination of whether or not they should be included in CATARS.**

4. **Reemphasize existing policies and accounting standards for recording**

capitalized assets that are transferred from other Federal agencies, and correct for the overvaluation of the land assets noted above.

5. **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 were recorded in the correct accounting period.**

6. **Develop and maintain an analysis to support the basis for not capitalizing existing Job Corps facility leases, and implement procedures to document an assessment of new leases to ensure compliance with accounting standards for leases.**

OASAM Management's Response

"The Employment and Training Administration (ETA) made significant progress towards closing out the FY 2004 audit findings by implementing procedural changes in the documentation of Job Corps facilities and the recording of substantially completed construction projects into CATARS. However, the implementation of many of these procedural improvements was suspended after hurricane Katrina destroyed the New Orleans and Gulfport Job Corps Centers. Job Corps Division of Budget and Facilities Support (DBFS) efforts were diverted to ensuring the safety of Job Corps students and counselors in those areas and re-establishing facilities for the Job Corps program in these areas. Efforts were further delayed as the Congress transferred the Job Corps program from ETA to the Office of the Secretary in the FY 2006 Labor, HHS, and Education Appropriation Act, thereby transferring administrative support for the Job Corps program from ETA to the Office of the Assistant Secretary for Administration and Management (OASAM).

With completion of the transfer in August 2006, OASAM has initiated a full-scale review of the program's policies and procedures to accommodate proper accounting in DOL financial systems, including CATARS, for Job Corp Property, Plant, & Equipment as well as Job Corps personal property. This review is being conducted by OASAM's Capital Asset Management Officer (CAMO), who has substantial experience in the Department's policies and procedures for asset management. This review will address all of the OIG findings as noted above and will result in the implementation of corrective action that will bring the recording of Job Corps assets into compliance with Departmental and federal government standards. The OASAM CAMO will work closely with Job Corps property management staff to provide additional training and reemphasize the Department's policy for property management and build upon ETA's efforts to timely record transactions. All corrective actions will be completed and documented by the end of FY 2007."

OCFO Management's Response

"This year, OCFO significantly increased monitoring activities. To that end, OCFO designated a senior accountant to monitor capitalized assets. The staff provides assistance to the agency CAMO's and APO's, and conducts meetings with CAMO's to monitor compliance. As discussed in management's response to 'Internal-Use Software', the staff reviews the CIP and the holding file, and the CATARS for abnormal balances."

Job Corps Management's Response

No separate response was provided as Job Corps has now been transferred to OASAM, whose response is noted above.

Auditors' Conclusion

These recommendations are considered **resolved and open**. FY 2007 audit procedures will determine whether these recommendations have been adequately addressed and can be considered closed.

Other Property

Our FY 2006 audit testing disclosed the following DOL-wide property issues:

- Abnormal balances exist in CATARS that should be researched and resolved, including:

    - 14 buildings capitalized in FY 2002 or after, totaling $1,755,157, which appear to be below the $500,000 capitalization threshold for buildings
    - 248 equipment assets capitalized in FY 2002 or after, totaling $2,275,848, which appear to be below the $50,000 capitalization threshold for equipment
    - 92 information technology software assets capitalized in FY 2002 or after, totaling $6,837,513, which appear to be below the $300,000 capitalization threshold and
    - Negative additions of approximately $2,460,669 on the June 30, 2006 PP&E rollforward schedule)

- Reconciliations between CATARS and the general ledger are not performed timely. Of the 53 June 30, 2006 reconciliations we selected for testing, 32 were not provided, 19 did not contain sufficient evidence of when the reconciliations were actually performed, and 2 had no issues.
- Documentation to support certain PP&E-related transactions or balances was not readily available or did not exist. Specifically, we were unable to obtain sufficient audit evidence for:
    - 16 assets sold to the General Services Administration
    - 65 non-CIP and non-software in development additions
    - 8 of 27 obligating documents and invoices for software in development additions

  - 13 of 27 Form DL 1-55c for software in development additions
- For additions other than CIP and non-software in development, we noted 5 instances where an obligating document was signed by an unauthorized person, and 1 instance where the Contracting Officer signed an obligating document in excess of the officer's warrant authority.
- We identified 12 capitalized PP&E additions for which the unit cost was below the capitalization threshold.
- We noted 6 capitalized items that represented costs incurred after the software was placed in service and were not software enhancements. These costs should have been expensed in accordance with U.S. generally accepted accounting principles.
- We identified 5 items related to Employee Benefits Security Administration software that were capitalized based on obligations rather than costs.
- Physical inventories are not being adequately performed and documented. Of the 1,763 physical inventory reports we requested, 1,486 were not provided to us. In addition, 30 of the reports we reviewed were not certified by the Accountable Property Officer (APO).

GAO's *Standards for Internal Control in the Federal Government* state that "internal control and all transactions and other significant events need to be clearly documented, and the documentation should be readily available. The documentation should appear in management directives, administrative policies, or operating manuals and may be in paper or electronic format. All documentation and records should be properly managed and maintained."

The CATARS Users Guide states, "On a monthly basis, for each IAC, reconciliations should be performed between the CATARS and DOLAR$ systems. These reconciliations should first focus on whether the ending balances for property and accumulated depreciation agree between the CATARS and DOLAR$ systems."

DLMS Chapter 731, Policy – Management of Capitalized Assets states, "FY 2002 and Subsequent Years until Revised by Management. Depreciable personal property items which cost $50,000 or more (including WCF items) and have a useful life of two (2) or more years will be recorded in CATARS and treated as assets, not expenses."

Regarding recognition, measurement, and disclosure, SFFAS No. 10 states, "Entities should capitalize the cost of software when such software meets the criteria for general property, plant, and equipment (PP&E). General PP&E is any property, plant, and equipment used in providing goods and services."

SFFAS No. 10 further states, "Cost is the monetary value of resources used or liabilities incurred to achieve an objective. Cost may be charged to operations immediately or, in cases where the cost relates to goods or services that will benefit future periods, to an asset account for recognition as an expense of subsequent periods."

In addition, we tested a DOL-wide statistical sample of 200 assets to verify the assets existed and were in usable condition. For 40 of the 200 items, DOL could not provide timely and adequate evidence of the asset's existence and use. For 5 of the 200 items, the evidence provided indicated the asset had been transferred or disposed of, and for 9 of the 200 items, the evidence provided indicated the asset was no longer in usable condition. These 54 errors noted represented assets with a total cost of $21,315,130 and accumulated depreciation of $14,832,034. When projected to the entire population of assets, the projected [1]misstatement is $81,527,396 of cost and $66,594,051 of accumulated depreciation. These errors were partially caused by DOL's inability to readily identify an asset based on the inventory number, serial number, or description in CATARS. We noted that the inventory numbers and serial numbers on the assets were not consistently recorded in CATARS. In addition, some errors resulted from the inventory certification process not adequately identifying assets that no longer exist or that were no longer in usable condition. DOL management considered the identified differences to be immaterial to the FY 2006 consolidated financial statements, and as such, these differences were included in the Summary of Unadjusted Audit Differences attached to management's FY 2006 representation letter.

Recommendations

We recommend the Chief Financial Officer:

1. **Develop policies and procedures to resolve all abnormal balances in CATARS (e.g., items below the capitalization threshold and negative additions on the PP&E rollforward), and implement them to perform such analysis periodically throughout the year.**

2. **Develop and implement procedures to perform reconciliations between CATARS and the general ledger on a timely basis.**

3. **Develop and implement procedures to ensure that CAMOs are recording assets with the proper inventory number and proper serial number in CATARS.**

4. **Develop and implement procedures to ensure that CAMOs maintain records of assets such that each asset and related documentation can be readily identified and located.**

5. **Instruct CAMOs and APOs during their physical inventory to identify assets that are no longer in usable condition and to properly dispose of the assets in CATARS.**

6. **Either update the CATARS user guide to require that the PP&E reconciliation between the DOLAR$ and CATARS system be performed on a quarterly basis or ensure that the agency CAMOs are following the procedures outline currently in the CATARS user guide.**

[1]This statistical projection utilized a confidence level of 96% and precision of 3%.

7. **Implement an internal control that is designed to have a manager or supervisor review the PPE reconciliation between the DOLAR$ and CATARS systems performed by the agency CAMO. The manager or supervisor's review should consist of the following: (1) determining whether the reconciliation was perform correctly (i.e., verifying that the PP&E balances reported on the reconciliation match the PP&E balances reported in the two systems); (2) ensuring that differences are adequately research and resolved (i.e., explanations and supporting documentation); (3) verifying that the reconciliation was performed in a timely manner; and (4) documenting that the manager or supervisor reviewed the PP&E reconciliation (i.e., stamp, tick marks, date, and signature).**

8. **Identify and train backup personnel for key positions such as the CAMO.**

9. **Meet with each agency to gain understanding of the agency process for capitalizing internal-use software. If any discrepancies are noted that deviate from the appropriate accounting literature, implement internal controls to ensure only the appropriate costs are being capitalized. In addition, for any costs that may conflict with SFFAS No. 10, document the agency's methodology.**

10. **Implement controls to ensure the APO completes the DL 1-55C in order that disposals can be recorded into CATARS in a timely manner.**

11. **Implement controls to ensure each agency APO performs an annual physical inventory in accordance with DOL policies.**

12. **Develop and implement policies and procedures to ensure DOL contractors adhere to policies and procedures in regards to the authorization of disposals relating to PP&E items.**

13. **Ensure that all agencies adhere to policies and procedures in regards to the authorization of disposals relating to PP&E items. OCFO management should revisit with each agency CAMO and APO and ensure that they are aware of the capitalization threshold outline currently in the DLMS Chapter 731.**

14. **Require the following: (1) each agency's APO or accountant forward a copy of the invoice to the CAMO for any property items to be capitalized; (2) the CAMO review not only the DL 1-55C but also the invoice before moving items out of the CATARS holding; and (3) the agency manager or supervisor implement review procedures to ensure that the CAMO is reviewing the DL 1-55C and invoices prior to removing assets from the CATARS holding file.**

15. **Develop a consistent method for tracking PP&E within CATARS and develop processes for obtaining necessary data from DOL contractors.**

OCFO Management's Response

"At the present time, staff is effectively carrying out the required reconciliation procedures. The CAMO for each agency completed a quarterly reconciliation between CATARS and DOLAR$. Staff completed a property, plant and equipment (PP&E) reconciliation to the subsidiary and the financial statement that was approved by management.

During FY 2006, the OCFO re-issued relevant guidance to the agencies and conducted quarterly meetings with the agencies. Last July, the OCFO designated a senior accountant to monitor capitalized assets. The staff provided guidance to the agency CAMO's, conducted a year-end meeting to monitor compliance, and completed reconciliations for June 2006 and September 2006 between CATARS and DOLAR$. This individual is responsible for monitoring PP&E, including internal-use software, reviewing the CATARS for abnormal balances, and ensuring that agencies are capitalizing costs for projects identified by the agency management as internal-use software.

OCFO will strengthen procedures to ensure that CAMOs are recording assets with the proper inventory number and proper serial number in CATARS. Recommendation # 3 will be completed by January 31, 2007.

OCFO will strengthen procedures to ensure that CAMOs maintain records of assets such that each asset can be readily identified and located. Recommendation # 4 will be completed by January 31, 2007.

OCFO will instruct CAMOs and Accountable Property Officers during their physical inventory to identify assets that are no longer in usable condition and to properly dispose of the assets in CATARS. Recommendation # 5 will be completed by January 31, 2007."

Auditors' Conclusion

Recommendation nos.1 through 5 are considered **resolved and open**. FY 2007 audit procedures will determine whether these recommendations have been adequately addressed and can be considered closed.

Recommendation nos.6 through 15 are considered **unresolved** pending completion of corrective action plans with specified timeframes for implementation.

Finding 4 – Weaknesses Noted over Grants

Grant Accrual Preparation and Validation

The ETA grant accrual process for the fiscal year-end and quarter-end accruals takes a snapshot of general ledger data for all ETA grants at the end of the period and calculates, at the individual grant level, the probable costs incurred based on the amount of drawdowns recorded at the end of the period. For the fiscal year-end September 30, 2006, the ETA grant accrual was approximately $569 million. An accuracy analysis is performed on an annual basis to compare the actual costs reported by the grantees to the previous year-end's accrual. During our FY 2006 audit work, we identified the following segregation of duties and other issues related to the ETA grant accrual and validation process:

- No independent, comprehensive management review of the quarterly grant accrual calculation performed by the Financial Systems Specialist was completed.
- No other employees were trained to calculate the quarterly grant accrual using the current accrual methodology in the event that the Financial Systems Specialist is absent. Further, the database used by the Financial Systems Specialist to calculate the grant accrual was housed only on the Specialist's machine, and no other employees had access to or were trained to utilize the database.
- Unless a change was made in the factors or methodology of the grant accrual as a result of the annual accuracy analysis, no other individuals performed a detailed review of the annual accuracy analysis.
- No official detailed procedures manual (e.g., DLMS or the ETA National Accounting Policies and Procedures Manual) documents (1) how to calculate the ETA grant accrual, including the utilization of the respective database, and (2) how to calculate the annual accuracy analysis of ETA's grant accrual, including the utilization of the respective database.

Per GAO's *Standards for Internal Control in the Federal Government,* "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." Additionally, "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."

Without a proper management review of the quarterly grant accrual and annual accuracy analysis, the risk increases that the grant accrual could be misstated in the consolidated financial statements. Additionally, without another employee trained to calculate the quarterly grant accrual using the current accrual methodology, a risk exists that the accrual would not be prepared timely and/or accurately in the event that the Financial Systems Specialist is absent.

Recommendations

We recommend that the Chief Financial Officer and the Assistant Secretary for Employment and Training ensure that additional employees are designated and trained to:

1. **Perform a detailed review of the quarterly grant accrual calculation prepared by the Financial Systems Specialist before submission to the OCFO for posting.**

2. **Act as alternate preparers in the absence of the Financial Systems Specialist responsible for calculating the grant accrual and the annual accuracy analysis.**

3. **Perform a detailed review of the results of the annual accuracy analysis prepared by the Financial Systems Specialist.**

4. **Develop and implement ETA grant accrual procedures to be included in the ETA National Accounting Policies and Procedures Manual.**

ETA Management's Response

"ETA concurs that backup procedures and personnel should be in place for calculating the quarterly grant accrual and for performing the annual accuracy analysis. The responsibility for calculating the quarterly accrual was transferred to the accounting office effective for the FY 2006 year-end accrual. Two additional employees have been trained on how to perform the accrual in addition to the financial systems specialist. The financial systems specialist now performs the management review of the accruals. Additional accounting office personnel will be trained to perform the accuracy analysis during FY 2007, and ETA has engaged a contractor who has the expertise to perform this analysis. Management believes that this finding is resolved, and should be closed upon audit verification of the above.

Furthermore, the original procedure, which had been arrived at under an agreement between ETA and OCFO several years ago, included separation of duties between the origination of the entry by ETA and the recording of the entry, and review of its effect on the general ledger, by OCFO. In fact, OCFO is still performing those duties of recording the entry and reviewing its effect. While ETA concedes that ideally it should review its entries internally, we believe that the original procedure was sufficient to detect and correct any material misstatement in the financial statements and thus this finding does not constitute a reportable condition and should be moved to the Management Advisory Comments."

OCFO Management's Response

No response was provided.

Auditors' Conclusion

These recommendations are considered **resolved and open**. FY 2007 audit procedures will determine whether these recommendations have been adequately addressed and can be considered closed.

<u>Controls over Compliance with the *Single Audit Act Amendments of 1996*</u>

DOL has no monitoring procedures in place to ensure that audits of its grantees are completed and reports are received in a timely manner for each grantee that meets the audit threshold in OMB Circular No. A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, DOL cannot be certain that all required audits have been performed in a timely manner.

In addition, for FY 2006 compliance testing purposes, we selected a sample of DOL grantees that expended $500,000 or more of DOL funding through June 30, 2005. As of September 30, 2006, the latest available OMB Circular No. A-133 audit reports for 5 of the 32 grantees selected were not obtained by DOL for review to determine if any issues related to DOL grants had been reported. According to the Federal Single Audit Clearinghouse website, these 5 audit reports had been completed between the dates of May 7, 2002 and March 5, 2006 and were available on the website.

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 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 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…Issue a management decision on audit findings within six months after receipt of the audit report and ensure that the recipient takes appropriate and timely corrective action."

DLMS 8 – Audits and Investigations, dated July 7, 2004, paragraph 503 states, "DOL Program Official(s) shall promptly evaluate OIG report findings and recommendations and determine appropriate action…The Office of Inspector General will directly receive all Single Audit Act reports required to be submitted to DOL."

If no procedures are in place to ensure all audit reports that are required to be completed are received by DOL, DOL cannot determine if an audit report is missing or overdue. Additionally, DOL is not in full compliance with OMB Circular No. A-133, and questioned costs may have been reported for DOL programs of which DOL is not aware.

Recommendations

We recommend that the Chief Financial Officer:

1. **Develop and implement a tracking system to identify each grantee for which an OMB Circular No. A-133 audit is required and the date that the audit report is due. DOL should update DLMS to specifically identify which agencies are responsible for populating and maintaining this tracking system and for following-up with grantees when audit reports become overdue. These efforts should be coordinated with the work the OIG currently performs related to receipt and review of the OMB Circular No. A-133 audit reports.**

2. **Implement a formal policy or process that defines which agency is responsible to monitor the Federal Single Audit Clearinghouse website for completed DOL grantee audit reports and retrieve them from the website for subsequent review.**

OCFO Management's Response

"OCFO will coordinate with appropriate agencies to develop and implement a tracking system to identify each grantee for which an OMB Circular No. A-133 audit is required. OCFO will also update DLMS to specifically identify the agencies that are responsible for populating and maintaining this tracking system and for following-up with grantees. These efforts will be coordinated with the OIG and will be completed by March 31, 2007.

OCFO will ensure that the agencies implement DLMS policy and procedures to monitor the Federal Single Audit Clearinghouse website and retrieve them for their review. This will be completed by March 31, 2007."

Auditors' Conclusion

These recommendations are considered **resolved and open**. FY 2007 audit procedures will determine whether these recommendations have been adequately addressed and can be considered closed.

<u>Finding 5 – Weaknesses Noted in the Change Control Process for a Benefits System</u>

A documented and standard process for requesting, reviewing, developing, testing, and approving changes to an ESA benefits system was not in place prior to February 2006. While change control procedures were established and documented in February 2006, the procedures were inconsistently followed during the months of February and March 2006.

From a total of 38 changes made during the period of February 2, 2006, to March 31, 2006, we selected a judgmental sample of 30 changes and noted the following:

Number of Occurrences	Weakness Identified
29	Missing subject matter expert approval
28	Missing change control board approval
6	Missing indication that change has been released
4	Missing integration testing
1	Missing independent verification and validation testing

Additionally, procedures have not been established for priority and emergency changes or changes to the system test environment.

Management stated that the system was recently implemented and management had not finalized change control procedures and was informally processing change control requests and approvals. Additionally, since procedures were implemented in February 2006, management has not had sufficient time or resources to ensure that the policy is being consistently followed. Furthermore, management believed that the procedures were sufficient to cover priority and emergency changes at the time the procedures were implemented.

The DOL Computer Security Handbook, Volume 6, *System Security Planning for Major Applications*", section 4.6, page 37, states that controls must be used to "monitor the installation of, and updates to, hardware, operating system software, and other software to ensure that the hardware and software function as expected, and that a historical record is maintained of application changes." Additionally, the guidance states:

> These controls may also be used to ensure that only authorized software is installed on the system. Such controls may include a hardware and software configuration policy that grants managerial approval (re-authorize processing) to modifications and requires that changes be documented.

The National Institute of Standards and Technology (NIST) Special Publication (SP) 800-64, *Security Considerations in the Information System Development Life Cycle*, section 2.3.4.1, page 23, states:

> Configuration management and configuration control procedures are critical to establishing an initial baseline of hardware, software, and firmware components for the information system and subsequently

controlling and maintaining an accurate inventory of any changes to the system.

Without a proper change control process regarding the flow of changes from development to production, unauthorized and potentially inaccurate program changes may be implemented into the production environment. Without formal acceptance of application changes, program management cannot be assured that the changes made meet their needs and are appropriate for the environment. In addition, as a result of these weaknesses, DOL is not in full compliance with FISMA.

As a result of our findings, management researched the 30 changes and determined the changes were appropriately performed.

Recommendations

We recommend the Chief Financial Officer and the Chief Information Officer:

1. **Coordinate efforts with the ESA to develop and/or enforce procedures and controls to address change control weaknesses.**

OASAM, OCFO and ESA Managements' Response

"*Management does not agree with the statement that a documented and standard process for requesting, reviewing, developing, testing, and approving changes to ESA's Integrated Federal Employees' Compensation System (iFECS) was not in place prior to February 2006. All changes to the test and production iFECS system have always followed ESA's change control processes/procedures as evidenced by over three hundred approved Change Control Requests for iFECS over the past 21 months.*

In February 2006, ESA implemented the iFECS-specific change control system tracking tool as stated in the audit report. The auditors tested transactions in February and March, basically at the time the new procedures were implemented, and identified weaknesses primarily addressing missing approvals. For the instances noted by the auditors, ESA has already updated documentation of approved, tested, and installed system changes and also performed subsequent internal audits to ensure that the issues noted by the auditors were not continuing. Regarding the specific procedures for priority and emergency changes or changes to the iFECS test environment, starting in July 2006, these change procedures were consolidated and incorporated into the iFECS change control system tracking tool. Prior to July, these change procedures/approvals were documented generally through emails and other memoranda.

Management will verify that specific security weaknesses identified during the audit are included in the agency POA&M by December 31, 2006. Management believes appropriate corrective action has already been implemented as described above and in our exit conference."

"Update to Management Response as of February 22, 2007:

ESA/OWCP/Division of Federal Employees Compensation (DFEC) have updated the iFECS POA&M to include the identified weakness. Additionally, ESA has documented and implemented a standard process for requesting, reviewing, developing, testing and approving changes to iFECS. The updated procedures are available for review by OIG.

Management considers this finding resolved and ready to be closed pending OIG concurrence. We appreciate the OIG's recommendations as they help focus our efforts to further strengthen the security of DOL systems. We are confident that the activities listed above have adequately addressed your recommendations."

OCIO Management's Response

No response was provided.

Auditors' Conclusion

These recommendations are considered **resolved and open**. FY 2007 audit procedures will determine whether these recommendations have been adequately addressed and can be closed.

Finding 6 – Weaknesses Noted in Federal Employees Compensation Act (FECA) Accounting and Financial Reporting

DOL did not implement or consistently follow its existing management review procedures related to year-end activity reconciliations and continuing FECA eligibility.

FECA Reconciliations

The OCFO does not adequately reconcile (1) the general ledger to the FECA subsidiary ledgers (FECA history databases), and ESA does not adequately reconcile (2) the FECA history databases to the charge-back report that is derived from the history databases and used to bill FECA customer agencies. We noted a reconciling difference of roughly $76 million in (1) above and a difference of $17 million in (2) above. Although DOL management has management review controls in place, they do not sufficiently follow-up and resolve differences through an adequate reconciliation process.

Per the GAO's *Standards for Internal Control in the Federal Government*, "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 the Chief Financial Officer and the Assistant Secretary for Employment Standards:

1. **Develop and implement quarterly procedures to reconcile the FECA benefit program expenses to the general ledger.**

2. **Develop and implement quarterly ESA procedures to adequately reconcile the FECA history databases to the charge-back reports.**

OCFO Management's Response

"The OCFO notes the general ledger to the FECA history databases reconciliation is a two step process. The first step is a reconciliation between the FECA SF-224 forms and the general ledger. The OCFO is responsible for this reconciliation. The second step is a reconciliation between the FECA SF-224 forms and the FECA history databases. The OCFO notes that ESA is responsible for this reconciliation. The OCFO will assist ESA, as necessary, with the FECA SF-224 forms to the FECA history databases reconciliation."

ESA Management's Response

"OWCP's Management will develop and implement reconciliation procedures to ensure that there is no material difference between chargeback reports and the payment histories. The procedures will be completed by June 15, 2007, in preparation for the reconciliation after the close of the chargeback year (June 30). The reconciliation will be completed August 5th, ten days prior to the issuance of the chargeback bills."

Auditors' Conclusion

These recommendations are considered **resolved and open**. FY 2007 audit procedures will determine whether these recommendations have been adequately addressed and can be closed.

<u>Management Review of Year-end Accrual</u>

DOL prepares a schedule, *Liability for Current Federal Employees Compensation Act Benefits,* as of September 30, which is available to other Federal agencies before fiscal year end via the internet. This information is necessary for other Federal agencies to record a liability for fourth quarter benefit payments, which is owed to DOL. The DOL OCFO uses an estimation process to prepare this schedule.

Management does not have procedures in place to review the estimate for the fourth quarter. The estimate for the FY 2006 fourth quarter DOL receivable based on the *Liability for Current Federal Employees Compensation Act Benefits* schedule differed from the actual DOL receivable by approximately $96 million. This variance primarily resulted from an extra payment cycle in the fourth quarter of FY 2006 for which the estimation model did not account. Had management performed a detailed review of the OCFO estimate, management may have identified that the extra payment cycle was not accounted for in the fourth quarter estimate and requested a correction prior to the posting of the estimate information on the internet.

Per the GAO's *Standards for Internal Control in the Federal Government,* "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."

Recommendations

We recommend the Chief Financial Officer and the Assistant Secretary for Employment Standards:

1. **Develop and implement procedures for management review of the OCFO estimates prior to posting of the estimates on the internet.**

2. **Refine the estimation methodology so that it will more accurately account for varying payment cycles.**

OCFO Management's Response

"Due to the accelerated U.S. Department of Treasury's FMS requirement to report fiduciary activities, the estimates are used to calculate FECA liabilities for Federal agencies. The OFCO has to report these numbers by the 5th day of the following month after quarter-end. Due to the accelerated timeline, the OCFO does not have the actual figures when the process to calculate these liabilities starts. The OCFO estimates agency charge backs based on the previous quarter. In most of the quarters, with rare exception, the estimates are very close to actual charge backs for the quarter. The OCFO estimated the 4th quarter charge back to be $610 million instead of $706 million. The difference is considered to be immaterial to the participant Federal agencies. The OCFO adjusted the estimated charge back at the auditor's request. Management will develop and implement procedures to formally review the amounts to be posted and will review and refine the methodology."

ESA Management's Response

No response was provided.

Auditors' Conclusion

These recommendations are considered **unresolved** pending completion of corrective action plans with specified timeframes for implementation.

Delinquent Forms CA-1032, *Request for Information on Earnings, Dual Benefits, Dependents and Third Party Settlement Form*

DOL policy requires FECA claimants to annually certify their earnings information and dependent status on a *Request for Information on Earnings, Dual Benefits, Dependents and Third Party Settlements Form* (CA-1032). This information is used to determine if any changes are necessary to a claimant's benefit amount.

Our tests of operating effectiveness noted that Claims Examiners (CE) were not consistently following-up with claimants to ensure that a CA-1032 was received annually for each claimant, as applicable; however, payments continued to be made to non-responsive claimants. ESA management identified the use of the Periodic Eligibility Review (PER) screen capabilities in iFECS as a key control to ensure claimant case files are current. The iFECS PER screen tracks CA-1032 status and documents CA-1032 receipt and review. However, iFECS does not have automated reminders to identify outstanding CA-1032 receipts. For 4 of the 188 disbursements tested, we noted a completed CA-1032 was not returned by the claimant and the CE did not follow the FECA Procedure Manual in following up on the unreturned CA-1032. Without these completed forms, an increased opportunity exists for incorrect payments to be made to claimants in situations where they are either no longer eligible for compensation or are eligible for increased or reduced compensation, based on their earnings, marital status, and/or dependent status, and have not had their information updated in iFECS.

We also noted that 2 of the 188 disbursements tested were made for inaccurate amounts because of inadequate CE reviews of received CA-1032s. The two claimants had provided sufficient information on the CA-1032, noting that they no longer had a spouse or dependents; however, the payments tested identified that they continued to be paid at the higher rate that would apply for a claimant with dependents and/or a spouse.

System controls and reminders should be in place to monitor the status of CA-1032 requests. Once CEs begin to use the PER screen consistently, a report could be written that would provide a list of those claimants for which CA-1032s have not been received, which would facilitate more timely follow-up by the CEs and supervisory staff.

We have noted that management has taken action on these issues. Specifically, management has made enhancements to the PER screen within iFECS and is updating its policies to make the appropriate use of the PER screen a mandatory requirement.

Recommendations

We recommend the Chief Financial Officer and the Assistant Secretary for Employment Standards coordinate efforts to ensure CEs:

1. **Utilize the PER screen within iFECS to track CA-1032 status and document their receipt and review using a system configuration or manual control.**

2. **Require supervisory review of CE receipt and review of CA-1032 forms.**

ESA Management's Response

"It is management's position that with the successful implementation of the enhancements to the Periodic Eligibility Review (PER) screen within iFECS on March 31, 2006, in fulfillment of the response to a prior year finding, the issue was resolved. The PER screen and its functionality were created to keep track of CA-1032 status and to document CE receipt and review of the form utilizing automated prompts to remind the CE to take action. The PER also enables supervisors and managers to monitor performance of individuals and units. It is Management's position that use of the PER resolves the findings related to processing CA-1032s.

The ESA Chief of Policy and Procedures has been tasked with creating a bulletin to outline our policy on the use of the PER screen. The procedure manual will be updated, as it still references claims examiners needing to complete a form 674. The expected completion date is December 31, 2006."

OCFO Management's Response

No response was provided.

Auditors' Conclusion

These recommendations are considered **resolved and open**. FY 2007 audit procedures will determine whether these recommendations have been adequately addressed and can be closed.

<u>Finding 7 – Lack of Segregation of Duties over Journal Entries</u>

All DOL agencies are able to enter journal entries into DOLAR$ via transaction codes. Each transaction code consists of one or more journal entries. The respective agency staff member responsible for recording the particular item accesses DOLAR$ and enters the transaction code and the dollar amount of the item. DOLAR$ does not require these entries to be recorded and approved by separate individuals before they are posted to the general ledger. Hence, transaction codes and corresponding amounts entered into DOLAR$ are posted without any system-controlled review and approval. Of 93 entries tested, 42 journal entries did not have appropriate segregation of duties. We noted this condition through procedures performed at the Occupational Safety and Health Administration (OSHA), OASAM, and the OCFO; these agencies do not have manual compensating review controls to address the related risk.

DOLAR$ was not designed to require journal entries to be electronically approved before amounts entered are posted to the general ledger, and management has not required Department-wide manual review controls to compensate for this condition. By allowing individuals the authority to prepare and approve their own transactions in DOLAR$, the risk increases that a material error would not be prevented or detected and corrected on a timely basis.

Per the GAO's *Standards for Internal Control in the Federal Government,* "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."

Recommendations

1. **We recommend that the Chief Financial Officer ensures that the current general ledger system is modified so that journal entries (via transaction codes) entered into the general ledger are required to be approved electronically by an individual other than the preparer before they are posted. The agencies that do not currently have manual compensating review controls should implement such controls to address this risk until the system controls have been implemented.**

2. **We recommend that the Chief Financial Officer ensures that this electronic approval feature is also incorporated into the design of the planned replacement general ledger system.**

OASAM Management's Response

"The Office of the Assistant Secretary for Administration and Management (OASAM) supports the concept of building in automated internal controls into the system that will replace DOLAR$ as long as these controls are reasonable. However, OASAM disagrees with the finding that there are no compensating review controls for the current lack of automated journal voucher review, especially in regards to the postings OASAM performs for the Employee Benefits Security Administration (EBSA) civil monetary penalties (CMP) program. EBSA is the source of all CMP-related transactions posted

by OASAM. All transaction documents submitted to OASAM by EBSA are prepared, reviewed and reconciled by EBSA prior to release for posting. Additionally, OASAM and EBSA perform a monthly reconciliation of transmitted DOLAR$ transactions for the CMP program. OCFO also performs a quarterly reconciliation of DOLAR$ data posted by OASAM and the Treasury Report on Receivables (TROR), which is prepared and transmitted to Treasury by EBSA.

For non-EBSA CMP transactions, there are compensating controls for OASAM postings through the monthly review of the Detail Fund Report by budget and program staff. Standard OASAM procedure is for the budget analysts to review these reports on a monthly basis and meet with the program agencies to look for erroneous postings. Any errors are brought to the attention of the accountant that posted the transaction and corrections are made.

In summary, the Department has established compensating controls and no single individual controls all aspects of these transactions."

OSHA Management's Response

"This draft finding was raised concerning OSHA's penalty collection and receivables processes. Key duties and responsibilities continue to be segregated among different people and organizations within OSHA, as well as banking institutions, and the Department of Treasury. National Office staff have no access to underlying assets, either cash or receivables. They are also not involved in the IMIS receivables calculation process.

There is a clear separation between the collection of assets and recording of transactions. Monetary assets are sent to OSHA Area Offices, where penalties are collected and mailed to the lockbox bank. This dollar figure and related individual deposit slip information is transmitted to OSHA's IMIS (Integrated Management Information System) for posting against the individual inspection related receivables. These funds are collected from the lockbox banks by the Department of Treasury, and the deposits are posted in their GOALS II (Government On-Line Accounting Link System). The daily entry posted by Financial staff into DOLAR$ is identical to the lockbox bank figure received from the bank. It is not a journal voucher in the sense that independent calculations and analysis are not required. A reconciliation is performed by a senior individual in OSHA's Financial staff to ensure that Treasury and DOLAR$ data match. This reconciliation is monitored by both OCFO and Treasury. An additional reconciliation is also performed by an OSHA accountant to ensure that Treasury, DOL, and OSHA information are in agreement on a transaction-by-transaction and day-to-day basis."

OCFO Management's Response

"The OCFO management disagrees with the finding that there are no reviews of journal vouchers before they are posted into DOLAR$. Management and/or senior staff routinely discuss and review transactions prior to input into the core financial system. We support the concept of building in an electronic review and approval process into the system that will replace DOLAR$ and will work to implement it to the extent appropriate. However, we do not believe that it is feasible or cost justified implementing these types of controls in the current system.

OCFO recently implemented additional procedures to ensure that all transactions are approved, any errors are detected and resolved promptly, and that an audit trail exists. OCFO will work with agencies to implement these procedures. The target date of completion to help agencies carry out this policy is March 2007."

Auditors' Conclusion

These recommendations are considered **resolved and open**. FY 2007 audit procedures will determine whether these recommendations have been adequately addressed and can be considered closed.

Finding 8 – Weaknesses Noted over Payroll Accounting

During FY 2006, the U.S. Department of Agriculture's (USDA) Office of Chief Financial Officer (OCFO)/National Finance Center (NFC) processed DOL's payroll. The *Fiscal Year 2006 – Office of the Chief Financial Officer/National Finance Center General Control Review* dated September 21, 2006 and issued by the USDA's Office of Inspector General (Report No. 11401-24-FM) reported a qualified opinion regarding the effectiveness of NFC's internal controls for the period October 1, 2005 through June 30, 2006. During FY 2006, DOL did not have policies and procedures in place to reconcile the payroll information it submitted to the NFC to that received and processed by the NFC.

For each FY 2006 pay period, DOL submitted to the NFC payroll information that included all DOL employees for the period, along with their hours worked, leave used, and other payroll related information for the period. The NFC processed the payroll for DOL each period and made available for download a Detail Pay and Deduct Register report for each DOL Human Resources office. We noted that DOL did not utilize these reports to perform reviews or reconciliations of data processed by the NFC, and no other controls were in place during the year to ensure that what was submitted to NFC via Time and Attendance records reconciled to what was shown as paid in the Detail Pay and Deduct Register. The lack of reconciliation controls around the NFC outputs, compounded by the control weaknesses identified at the NFC, increased the risk that payroll-related line items in the FY 2006 financial statements could be misstated because of errors in payroll processing by the NFC.

Additionally, we noted that DLMS 6, Financial Management, Chapter 1000, Payroll Accounting, has not been updated since October 1981. However, payroll policies and procedures have changed since 1981, most notably with the change to NFC as DOL's payroll services provider.

Federal agencies that use external service providers, such as the NFC, should have controls in place to ensure the accuracy of processing outputs. As stated by the USDA OIG in its FY 2006 Report No. 11401-24-FM, "The accuracy and reliability of data processed by OCFO/NFC and the resultant reports rests with the customer agency and any compensating controls implemented by the agencies."

OMB Circular No. A-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." Additionally, per the GAO's *Standards for Internal Control in the Federal Government*, "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." GAO's *Standards for Internal Control in the Federal Government* also state, "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."

Recommendations

We recommend that the Chief Financial Officer:

1. **Develop and implement policies and procedures to reconcile payroll information provided to the NFC to the payroll information processed by the NFC each pay period. These reconciliations should be documented, reviewed and approved by an appropriate supervisor, and maintained.**

2. **Update DLMS to reflect current payroll-related policies and procedures, and develop and implement a monitoring plan to periodically evaluate and update procedures in the DLMS to ensure the information documented is still appropriate.**

OCFO Management's Response

"Prior to migrating to the National Finance Center, DOL did payroll comparisons between the People Power payroll and the National Finance Center payroll computations. Any discrepancies between the two systems were explained by the differences in tax computations.

Each pay period DOL produces a Pay and Deduct detail report for each DOL employee. These reports are available primarily for the budget offices to validate pay and benefit information. We also have in place a time and attendance reconciliation that validates what is transmitted to NFC and what is processed. We are also reviewing and reconciling data between DOL Human Resources (HR) and HR data in the National Finance Center's data base. There are numerous people power edits to ensure that data are meeting OPM regulations. There are several People Power quality control reports being produced as well as thousands of NFC front end edits to ensure accuracy. Additionally, the OCFO validates what is being provided to NFC is what is being charged to DOL."

Auditors' Conclusion

These recommendations are considered **unresolved** pending completion of a corrective action plan with specified timeframes for implementation.

Finding 9 – Weaknesses Noted over Budgetary Accounting

During FY 2006, the OCFO did not complete timely reconciliations related to the *Apportionment and Reapportionment Schedules* (SF-132) and the *Report on Budget Execution and Budgetary Resources* (SF-133). During our FY 2006 audit work, we requested reconciliations as of June 30, 2006 of (a) the SF-132 to the SF-133, and (b) the SF-133 to the third quarter Statement of Budgetary Resources (SBR). However, these reconciliations were not provided to us until late September 2006. In addition, these reconciliations identified several necessary corrections to amounts posted in the general ledger, and various differences remained unresolved. For the SF-132 to the SF-133 reconciliations, of the 30 reconciliations that were completed, 15 had variances requiring explanation and/or adjustment when the SF132s were compared to the SF133s. For the SF-133 to the SBR reconciliation, the third quarter reconciliation was not prepared until September and reconciling items identified during the reconciliation were not resolved timely or at all. In addition, as of November 3, 2006, the fourth quarter reconciliation was not provided to us.

During FY 2006, the OCFO did not have adequate resources and did not adequately enforce policies to ensure the reconciliations were completed and any identified reconciling items resolved in a timely manner. The lack of timely and complete reconciliations increased the risk that material differences in external reports and in the general ledger may not have been detected and corrected in a timely manner during the year.

Additionally, we noted that much of the information referenced in DLMS for the Budget Execution process has not been updated since March 2004. OMB Circular A-11, *Preparation, Submission and Execution of the Budget*, has been revised since that time.

Per the GAO's *Standards for Internal Control in the Federal Government*, "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." Additionally, "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." These controls should be performed as it relates to the SF-132 and the SF-133.

According to OMB's Circular A-136 (July 2006), section II.4.6.1[2], "… information on the SBR should be consistent with and reconciled to the budget execution information reported on the Report on Budget Execution and Budgetary Resources (SF 133) and with information reported in the Budget of the United States Government to ensure the integrity of the numbers presented…Consistency between budgetary information presented in the financial statements and the Budget of the United States Government is critical to ensure the integrity of the numbers presented. The FACTS II helps to ensure the consistency of data. The FACTS II data submitted by agencies are USSGL-based trial balances, which are used to populate the SF 133 and the actual column of the Program and Financing Schedule of the Budget." In addition, section II.4.6[3] states "The resources reported on this statement shall agree with, and be reconciled to, the total budgetary resources reported for the aggregate of all budget accounts on the SF 133…The status of budgetary resources reported on this statement shall agree with, and be reconciled to, the total status reported for the aggregate of all budget accounts on the SF 133…The outlays shall also agree with, and be reconciled to, the aggregate of outlays reported on the SF 133 for the aggregate of all budget accounts."

Recommendations

We recommend that the Chief Financial Officer:

1. **Ensure that current policies and procedures over SF-132 and SF-133 reconciliations are enhanced to require (a) quarterly reconciliations be prepared and documented, (b) the completion of documented supervisory**

[2]Also cited in the August 2005 version of OMB Circular No. A-136, section 6.1.
[3]Also cited in the August 2005 version of OMB Circular No. A-136, sections 6.5 through 6.7.

reviews over the reconciliations, and (c) the completion of these reconciliations by a certain date (e.g., 15 days after each quarter-end).

2. **Update DLMS to reflect current budget-related policies, procedures, and external requirements, and develop and implement a monitoring plan to periodically evaluate and update procedures in the DLMS to ensure the information documented is still appropriate.**

OCFO Management's Response

"The OCFO is responsible for the department's core accounting system, DOLAR$. The SF-132 data, after it is approved by OMB, is entered into DOLAR$ by the Office of Budget (OB). At the end of each quarter the OCFO prepares the SF-133 reports from the accounting system and submits them to DOL agencies to be reviewed and later submits them to Treasury and OMB.

The OCFO is confident that the "pre-submission validation check" report performed at the system level alerts us of any budgetary deficiencies before the trial balance data is submitted through the edit checks of Treasury. The submission process to Treasury is a filtration process that rejects any disparity at a budgetary or outlay level, and the area is identified immediately. As a result, there are multiple checks and balances before the DOL budget data reaches the Treasury FACTS II.

Additionally, the OCFO reconciled the SF-132 and SF-133 on a quarterly basis. The OCFO provided auditors with the June 30 reconciliation; the September 30 reconciliation has been completed and is under the management review process. However, OCFO is working to enhance our current policies and procedures. Policies and procedures will be enhanced to require that the quarterly reconciliation be completed by 15 days after each quarter, will require that the reconciliation be fully documented, and will require the quarterly reconciliation to be reviewed and approved by management. This will be completed by March 2007.

As an enhancement to the existing policies and procedures, the OCFO will assign Treasury Appropriation Fund Symbols - TAFS's to staff within the organization. The staff members will be responsible for the review of data contained in the general ledger to documents obtained from the OB on Apportionment and Reapportionment schedule (SF-132) activity and provide a status report where adverse conditions exist. The OCFO will also meet with identified OB staff, who access and post transactions into DOLAR$ in the months prior to the quarter month to discuss area's identified by the OCFO staff during the review process as potential errors or discuss SGL trend changes needed to the budgetary accounts.

The OCFO will work with the managers in the OB to ensure that proper documentation is developed to assure that supervisory review is in place for transactions posted in the general ledger related to budgetary activity."

Auditors' Conclusion

The first recommendation is considered **resolved and open**. FY 2007 audit procedures will determine whether this recommendation has been adequately addressed and can be closed.

As the OCFO did not address the second recommendation in its response, the second recommendation is considered **unresolved** pending completion of a corrective action plan with specified timeframes for implementation.

<u>Finding 10. Weaknesses Noted over Custodial Activities</u>

Four DOL agencies are responsible for the assessment and collection of fines and penalties – ESA, OSHA, the Employee Benefits Security Administration (EBSA), and the Mine Safety and Health Administration (MSHA). During our FY 2006 testing related to the assessment and collection of fines and penalties, we noted the following conditions:

- Controls were not consistently functioning effectively during FY 2006 to notify the employers of debt delinquency timely (18 exceptions in 74 cases tested) or to send notification of outstanding debt to the U.S. Department of the Treasury (Treasury) after 180 days (25 exceptions in 52 cases tested that were greater than 180 days outstanding), in accordance with the *Debt Collection Improvement Act of 1996*. These exceptions were noted at MSHA and OSHA.
- MSHA and ESA do not write-off debt greater than 2 years old in accordance with OMB Circular No. A-129, *Managing Federal Credit Programs*.
- MSHA does not reconcile its subsidiary ledger to the general ledger on a periodic basis. We requested reconciliations of collections between the subsidiary ledger and the general ledger as of June 30, August 31, and September 30, 2006, and received none of them timely. The September 30 collections reconciliation, received on November 3, 2006, contained a $650,930 unexplained variance (2.7% of MSHA collections recorded in the general ledger as of September 30, 2006).
- Since November 2005, one day of interest was omitted from MSHA's interest calculation each month.
- OSHA only records interest receivable when debt letters are sent to employers and when debt is sent to Treasury, and does not ensure that its quarter-end interest receivable balances are appropriately accrued between the time of the last debt letter and the time the debt is sent to Treasury.
- OSHA collections are not properly cut-off at year-end. $819,126 of FY 2005 collections were posted to DOLAR$ and the Statement of Custodial Activity in FY 2006, and $1,236,416 of FY 2006 collections were posted to DOLAR$ and the Statement of Custodial Activity in FY 2007.

Recommendations

1. **We recommend that the Chief Financial Officer, the Assistant Secretary for Occupational Safety and Health, and the Assistant Secretary for Mine Safety and Health enhance policies, procedures, and related systems to ensure the timely notification to employers of debt delinquency timely and the timely notification to Treasury of outstanding debt.**

OSHA Management's Response

"OSHA had one exception in the 27 tested cases (96.3% compliant).

OSHA continues to have in place policies and procedures to ensure that penalties over 180 days delinquent are forwarded promptly to the Treasury for collection.

In this area, we have consistently attained a goal of over 90% compliance with requirements. Historically, the OIG has considered 90% of the cases being forwarded to the Treasury within 180 days to be substantially compliant with the Act. Our procedures to ensure timely transfer include monthly transmittals to regional and area offices of listings of eligible debt for follow up and action. We also report quarterly the status of our eligible debt to the Treasury Financial Management Service via the TROR report."

OCFO Management's Response

No response was provided.

MSHA Management's Response

No response was provided.

Auditors' Conclusion

This recommendation is considered **unresolved** pending completion of a corrective action plan with specified timeframes for implementation.

2. **We recommend that the Chief Financial Officer, the Assistant Secretary for Employment Standards, and the Assistant Secretary for Mine Safety and Health develop and implement policies and procedures to write-off debt greater than 2 years old in accordance with OMB Circular No. A-129.**

ESA Management's Response

"Management concurs with the recommendation and has charged our Division of Financial Management to coordinate with the OFCO to develop and implement uniform policies and procedures for the collection of debts and write-offs to ensure compliance

with the U.S. Treasury's Debt Management Services and the OMB Circular No. A-129. We will have draft procedures by March 31, 2007."

OCFO Management's Response

"In fiscal year 2006, the OCFO updated the DLMS 6, Chapter 900 - Financial Management. The Chapter is currently in the Departmental clearance process. The revised guidance includes the following sections:

A. DOL is required to transfer delinquent or defaulted debts to the U.S. Department of the Treasury, Financial Management Service (FMS) for collection. If the debt remains delinquent or in default for over 180 days, it is forwarded to FMS for collection.

B. Write-off of a debt should occur when the agency determines that the debt has no value for accounting purposes. Write-off may occur before, concurrently with, or after the agency determines that collection action should be terminated. Generally, <u>write-off is mandatory for debts delinquent more than two years,</u> unless documented and justified to OMB in consultation with Treasury. See OMB Circular No. A-129.

Within two years of the debt of delinquency, the agency should be able to evaluate the likelihood that it will collect on a delinquent debt and either:

(1) Write-off and classify the debt as currently-not-collectible (CNC), which will allow for further collection action;
(2) Write-off and classify the debt as close-out, which means that the agency will cease all debt collection activities on the debt;
(3) Document and justify why the debt is not being written-off.

OCFO routinely monitors accounts receivable on a monthly basis. In addition, OCFO hosted a training session for the Department's agencies on accounts receivable conducted by the Department of Treasury. OCFO also reviews the agencies' quarterly reports on receivables due from the public to ensure compliance with OMB Circular No. A-129."

MSHA Management's Response

No response was provided.

Auditors' Conclusion

As all parties addressed in this recommendation did not provide a response or corrective action plan, this recommendation is considered **unresolved** pending completion of a corrective action plan from all addressed parties with specified timeframes for implementation.

We recommend that the Chief Financial Officer and the Assistant Secretary for Mine Safety and Health:

3. **Develop policies and procedures to reconcile the MSHA subsidiary ledger to the general ledger on a quarterly basis. These reconciliations should be documented, reviewed and approved by an appropriate supervisor, and maintained.**

4. **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.**

OCFO Management's Response

No response was provided.

MSHA Management's Response

No response was provided.

Auditors' Conclusion

As Management provided no response or corrective action plan, these recommendations are considered **unresolved** pending completion of a corrective action plan with specified timeframes for implementation.

We recommend that the Chief Financial Officer and the Assistant Secretary for Occupational Safety and Health:

5. **Develop policies and procedures to accrue and record interest receivable on a quarterly basis.**

6. **Develop policies and procedures to record collections received near year-end in the general ledger in the proper fiscal year.**

OSHA Management's Response

"OSHA currently accrues interest on all debt once it is with the Treasury. The reason for not updating the interest accrual on a regular, monthly basis for cases prior to being referred is because Area Offices handle the cases until referral. The National Office financial staff is not continually updated on Area Office activities regarding abatement, settlement, and collection. Furthermore, it is not feasible to make the Area Office responsible for reconciling an automatic update of their cases. This would be too time intensive and an inefficient use of our limited resources. This is particularly true at the present time when the Treasury interest rate on such receivables is 1% per month. Our practices have been reviewed in prior audits and found to be acceptable.

OSHA Deposits are recorded in DOLAR$ based on the date the deposit is confirmed by the U. S. Treasury. This date is sometimes different from the date on the "CASH Link" activity report and inevitably carries into the next month when deposits are received at month-end. OSHA deposits and reconciliation are performed within the guidelines established by the U. S. Treasury and are posted to the proper fiscal year."

OCFO Management's Response

No response was provided.

Auditors' Conclusion

As all parties addressed in this recommendation did not provide a response or a complete corrective action plan, this recommendation is considered **unresolved** pending completion of a corrective action plan from all addressed parties with specified timeframes for implementation.

Management Advisory Comments

1. Managerial Cost Accounting System Not Fully Implemented

In the FY 2002 audit (Report No. 22-03-003-13-001), the Office of Inspector General (OIG) reported that the Department of Labor (DOL or the Department) was not in compliance with the requirements for managerial cost accounting contained in Statement of Federal Financial Accounting Standard (SFFAS) No. 4, *Managerial Cost Accounting Concepts and Standards*. Specifically, DOL had not defined outputs for its operating programs nor developed the capability to routinely report the cost of outputs at the operating program and activity levels. Further, DOL did not adequately link cost information to performance measures at the operating program level for use in managing program operations on a routine basis or use managerial cost information for purposes of performance measurement, planning, budgeting or forecasting.

In the FY 2002 report, the OIG made the following recommendation:

Recommendation

We recommend that the Chief Financial Officer ensure the full implementation of the comprehensive Department-wide plan by January 28, 2006.

In response to this finding, management developed a comprehensive plan to implement a Department-wide management cost accounting (MCA) system that complies with the requirements of SFFAS No. 4. As of the end of FY 2004, cost models were developed for all major DOL agencies and their related programs, the MCA system was certified for processing, and the cost accounting software was installed throughout each of the program agencies.

During FY 2005, DOL focused on expanding and refining cost-model capabilities. Significant accomplishments included updating each of the models with FY 2004 data, and in some instances initiation of updates through the second quarter of FY 2005. An initial set of periodic cost reports to be used for program management and performance assessment was developed for each cost model. During FY 2005, program managers also began to use cost-model information for budget formulation and justification, resource allocation, and determining “best practices” across similar programs and/or regions. However, while DOL had made significant progress in implementing managerial cost-accounting capabilities, current cost information was not yet being widely used for decision making on a day-to-day basis.

DOL has made additional progress in FY 2006. DOL has acquired software that will provide managers with predictive planning capabilities for budgeting and forecasting. Also, management is currently developing plans of how cost data can be used in a more formalized manner in the budget process. However, DOL cannot yet demonstrate that cost information is being widely used for decision making on a day-to-day basis.

Based on the progress made in implementing a cost accounting system throughout DOL, we conclude that DOL is substantially compliant with SFFAS No. 4. In FY 2006, the classification of this finding has been changed from Reportable Condition to Management Advisory Comment. Nevertheless, this recommendation is **resolved and open** pending verification that DOL is able to demonstrate the widespread use of current, updated cost information for budgetary decision making and other day-to-day decisions.

Management's Response

"OCFO believes that DOL is substantially compliant with Statement of Federal Financial Accounting Standard (SFFAS) No. 4, Managerial Cost Accounting Concepts and Standards. DOL has defined outputs for its operating programs and developed the capability to routinely cost the significant outputs and activities of its major operating programs. The Cost Analysis Manager (CAM) system has an installed base of 200 users across the Department. Program managers have begun to use cost accounting information for resource allocation and budget justification. Managerial cost accounting capability has been expanded to include the costing of the Department's strategic goals, outcome goals, performance goals, and performance indicators for the Performance and Accountability Report.

We will continue our efforts to further broaden the usage of cost accounting information, particularly in the area of budgetary decision-making. To that extent, we are working to incorporate predictive planning capabilities within agencies' cost models to provide analytical tools for performance-based budgeting. Other usage initiatives include a Return on Investment analysis capability for ESA's Wage Hour Division, a Working Capital Fund allocation study, and an ETA Foreign Labor Certification fee study. In addition, to make it easier for agencies to update cost models on a regular basis, we will be rolling out a web-based data collection tool."

Auditors' Conclusion

This recommendation is **resolved and open** pending verification that DOL is able to demonstrate the widespread use of current, updated cost information for budgetary decision making and other day-to-day decisions.

2. Lack of Formal Policies and Procedures for Fund Balance with Treasury Reconciliations Performed by the Office of the Chief Financial Officer (OCFO)

The Fund Balance with Treasury (FBWT) account is an asset account representing the future economic benefit of monies that can be spent for authorized transactions. Federal agencies must use the general ledger FBWT account to reconcile with the closing balances reported by the U.S. Department of the Treasury (Treasury). This reconciliation is essential to enhancing internal controls, improving the integrity of various U.S. Government financial reports, and providing a more accurate measurement of budget results.

Management of federal agencies develop standard operating procedures to implement policies and procedures that are critical to the effectiveness and efficiency of operations, the reliability of financial reporting, and compliance with laws and regulations. In addition, standard operating procedures increase management assurance that procedures are performed consistently and accurately in a complete and appropriate manner by personnel, which results in an audit trail to substantiate the performance of significant events. Thus, standard operating procedures that are comprehensive, outline responsibilities and requirements, and detail the FBWT process are critical to management having reasonable assurance the reported ending FBWT account balance is reliable.

The OCFO lacks formal policies and procedures to govern the FBWT reconciliations related to the Statement of Differences (FMS-6652), Undisbursed Appropriation Account Ledger (FMS-6653), Undisbursed Appropriation Account Trial Balance (FMS-6654) and Unappropriated Account Trial Balance (FMS-6655), or the successor reports.

Lack of adequate written policies and procedures to address the FBWT reconciliation process increases the following risks: (1) reconciliations may not be performed in a consistent and timely manner; (2) sufficient documentation (i.e., physical or electronic) may not be maintained to substantiate the performance of the 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.

Management has not documented any written policies and procedures that address the issues noted in the condition due to the lack of resources.

The Government Accountability Office's (GAO) *Standards for Internal Control in the Federal Government* states, "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." In addition, "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."

Treasury's *Fund Balance with Treasury Reconciliation Procedures A Supplement to the Treasury Financial Manual I TFM 2-5100 November 1999* (Reconciliation Procedures), states, "The procedures defined in this document provide step-by-step instructions on reconciling the Fund Balance with Treasury (FBWT)….These procedures pertain to Federal agencies that must report receipt and disbursement activity to Treasury." The reconciliation procedures also state, "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."

Recommendation

1. We recommend that the Chief Financial Officer develop written policies and procedures that specifically include identification of current internal controls in place, assignment of personnel to specific responsibilities within the FBWT reconciliation process, and a requirement that supporting documentation, whether electronic or hard copy, be retained to support that reconciliations are performed timely, are properly reviewed, and unresolved differences are properly explained, and appropriate corrective actions are taken.

Management's Response

"OCFO will enhance current policies and procedures to specifically include identification of current internal controls, assignment of personnel to specific responsibilities within the FBWT reconciliation process, and a requirement that supporting documentation be retained to support that reconciliations are performed timely, are properly reviewed, and unresolved differences are properly explained and appropriate corrective actions are taken. OCFO expects to complete the procedures by June 30, 2007."

Auditors' Conclusion

This recommendation is considered **resolved and open**. FY 2007 audit procedures will determine whether the recommendation has been adequately addressed and the condition closed.

3. <u>Lack of Monthly Reconciliation of Fund Balance with Treasury Undisbursed Appropriation Account Trial Balance (FMS-6654)</u>

The Treasury Undisbursed Appropriation Account Trial Balance (FMS-6654) provides agencies with summary data about their expenditure accounts. This data is summarized for each appropriation and fund account at the department level and the bureau level for certain executive departments. The data includes the balance forwarded at the beginning of the fiscal year, cumulative warrants, non-expenditures, net disbursements to date, and closing balances at month end.

While the FMS-6654 provides cumulative summary information, the Undisbursed Appropriation Account Ledger (FMS-6653) provides federal agencies with a monthly FMS-6653 for expenditure accounts that have monthly activity. The FMS-6653 provides information about the appropriation warrants issued, non-expenditures transfers, transactions reported by agencies on the Statement of Transactions, and those reported by other agencies, as well as certain centrally processed FMS documents. An account without activity during a month would be reported in the FMS-6654, but would not be reported in the FMS-6653[4].

DOL's OCFO does not separately perform a reconciliation of its FBWT accounts to the closing balances in the FMS-6654s as part of the monthly FBWT reconciliation process.

Because FMS-6653 reports are not generated for accounts without activity for the month, the lack of the monthly FMS-6654 reconciliations increases the risk that any discrepancies between the closing balances per Treasury and the Department of Labor Accounting and Related Systems (DOLAR$) will not be reconciled in a timely manner, or errors relating to erroneous transactions recorded in the general ledger and not reported on a manually prepared SF-224 would not be detected.

The OFCO does not perform a separate reconciliation for the FMS-6654 report because the data (e.g., balance forward current year, net disbursements, and closing balance) reported are very similar to the data (e.g., balance forward current year, net disbursements, and closing balance) reported on the FMS-6653. However, the OCFO does not have any additional procedures designed to detect any differences between the closing balances of the two reports.

Treasury's Reconciliation Procedures, section 2-5100, states "Federal agencies must reconcile their SGL 1010 account and any related sub-accounts with the FMS-6652, 6653, 6654 and 6655 on a monthly basis. They must also resolve all differences between the balances reported on the G/L FBWT accounts and balances reported on the FMS-6653, 6654, and 6655." Additionally, "these statements [FMS-6654 and 6655] are the sources an agency uses to determine Treasury's control balance for each of its fund account symbols. It is essential that the balances contained on these statements be compared to the agency's G/L balances to determine if they agree."

Recommendations

We recommend that the Chief Financial Officer:

1. Prepare a separate monthly reconciliation for accounts reported in the Undisbursed Appropriation Account Trial Balance to decrease the risk that any discrepancies will not be handled in a timely manner.
2. Document procedures for this reconciliation and include a requirement that

[4]Treasury replaced the FMS-6653 and FMS-6654 with the Government-wide Accounting (GWA) Account Statement, effective June 30, 2006.

supporting documentation should be retained.

Management's Response

"OCFO initiated a monthly reconciliation for accounts reported in the Undisbursed Appropriation Account Trial Balance in June 2006, with supporting documentation and management review. We will enhance current procedures to reflect the new reconciliation by June 30, 2007."

Auditors' Conclusion

This recommendation is considered **resolved and open**. FY 2007 audit procedures will determine whether the recommendation has been adequately addressed and the condition closed.

4. Lack of Procedures to Evaluate the Analysis of Doubtful Accounts Methodology

Each quarter, the Mine Safety and Health Administration (MSHA) adjusts the balance in the allowance for doubtful accounts receivable according to its established methodology. This methodology is based on information from the prior year audit. We noted that MSHA does not evaluate the validity of its allowance for doubtful accounts methodology related to accounts receivable on its own. Instead, MSHA uses information discovered during the financial statement audit to adjust the methodology accordingly.

The lack of a yearly evaluation of the methodology used to calculate the allowance for doubtful accounts related to accounts receivable by appropriate MSHA personnel (i.e., the personnel most knowledgeable of MSHA's accounts receivable portfolio) could result in the allowance recorded being incorrect. This would cause a possible overstatement or understatement of net accounts receivable.

In the past, MSHA has deemed it sufficient to rely on the financial statement auditors to determine the appropriate methodology for the allowance for doubtful accounts. Based on the auditors' analysis, MSHA would post an adjustment and update its methodology.

Per SFFAS No.1, *Accounting for Selected Assets and Liabilities*, Sections 44 and 45: losses on receivables should be recognized when it is more likely than not that the receivables will not be totally collected. The phrase "more likely than not" means that there is more than a 50 percent chance of loss occurrence.

SFFAS No.1 also states that "an allowance for estimated uncollectible amounts should be recognized to reduce the gross amount of receivables to its net realizable value. The allowance for uncollectible amounts should be re-estimated on each annual financial reporting date and when information indicates that the latest estimate is no longer correct."

Per GAO's *Standards for Internal Control in the Federal Government*, "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."

Recommendation

1. We recommend that the Assistant Secretary for Mine Safety and Health develop and implement procedures for the performance and documentation of a yearly analysis of the allowance for doubtful accounts methodology related to accounts receivable in order to ensure that the allowance is adequate. This analysis should include a documented review by an appropriate individual other than the preparer.

Management's Response

"MSHA agrees with this finding and recommendation. The agency is in the process of obtaining additional guidance from the DOL OCFO on acceptable methods for analyzing financial data (debt and collections) to determine the appropriate allowance for doubtful accounts. MSHA will develop and implement new procedures for the performance and documentation of a yearly analysis of the allowance for doubtful accounts by April 30, 2007. The agency will perform and document an FY 2007 analysis by June 30, 2007, and will include in its new procedures an analysis of doubtful accounts by June 30 of each subsequent year. The analyses will be performed by MSHA's Assessments Office with an independent review by MSHA's Division of Budget and Finance."

Auditors' Conclusion

This recommendation is considered **resolved and open**. FY 2007 audit procedures will determine whether the recommendation has been adequately addressed and the condition closed.

5. <u>SF-132, Appropriation and Reapportionment Schedule, Lacks Evidence of Proper Review</u>

The Departmental Budget Center implemented a control that requires authorized personnel to sign SF-132 coversheets to document the proper review of the SF-132.
We identified two coversheets documenting the review of second quarter FY 2006 SF-132s for the Employment Standards Administration (ESA) that had no indication of a proper review by an authorized official.

The lack of a proper review increases the risk of an error within the SF-132s. In addition, the coversheets are used to track the progress of SF-132 reviews. Without the proper signature documenting a review, the status of reviews may be incorrect. Also, without adequately documented policies and procedures, newly hired personnel will not be informed of the proper policies and procedures to follow.

This control was implemented in the second quarter of FY 2006. This new control was not documented in a formal policies and procedures manual and, as such, may not have been adequately communicated throughout the Department.

GAO's *Internal Control Standards in the Federal Government*, *Internal Control Management and Evaluation Tool* states, "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 agency. They include a wide range of diverse activities, such as approvals, authorizations, verifications, reconciliations, performance reviews, security activities, and the production of records and documentation." "Procedures are in place to ensure that the findings … [of] reviews are promptly evaluated, decisions are made about the appropriate response, and actions are taken to correct or otherwise resolve the issues promptly." In addition, we confirmed with Departmental Budget Officials that the SF-132 coversheet should be signed off as reviewed by an authorized individual.

Recommendation

1. We recommend that Departmental Budget Center personnel ensure that agency reviews of the SF 132s are performed and documented, and that the related policies and procedures be documented in the Department of Labor Manual Series (DLMS).

Management's Response

"The Office of the Assistant Secretary for Administration and Management (OASAM) instituted a formal procedure for reconciliation of estimated carryover balances with actual balances through the issuance of supplemental guidance to agency heads on November 3, 2006. This guidance required agency heads to provide reapportionment schedules to reflect actual unobligated balances of carryover funds by November 17, 2006. In addition, the Departmental Budget Center has instituted an enhanced tracking system that will allow for notification of agency Administrative Officers, Agency Heads, and the Assistant Secretary for Administration and Management if apportionments are not submitted in a timely fashion. Finally, the effective management of the apportionment process has been added to agency Budget and Performance Integration scorecards. The reapportionments and accompanying allotments submitted in response to the November 3, 2006, guidance will be entered in the DOLAR$ system upon approval of OMB thus reconciling estimated carryover balances with actual balances.'

Auditors' Conclusion

Management has not yet provided us with an adequate corrective action plan for this finding. Therefore, this recommendation is considered **unresolved** pending completion of a corrective action plan with specified timeframes for implementation.

6. Adequate Support for Certain Transactions not Provided Timely

Our procedures over an interim sample of 186 journal vouchers identified 24 for which adequate supporting documentation was not provided prior to the completion of our audit. All 24 were related to ESA. We also noted that one prior year recoveries sample item was not properly supported.

During our year end procedures over a sample of 90 journal vouchers, we identified 68 for which adequate supporting documentation was not provided prior to completion of our audit (distributed among DOL agencies as follows: 58 from ESA, 4 from ETA, 2 from Bureau of Labor Statistics (BLS), and 4 from the Working Capital Fund). For 16 of the 68 items, no documentation was received.

Proper maintenance and management of supporting documentation is crucial to supporting the accuracy and validity of transactions and also allows for adequate supervisory reviews.

The lack of timely adequate support was primarily caused by the lack of coordination among the DOL agencies in responding to audit requests for information.

GAO's *Standards for Internal Control in the Federal Government* 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 the Chief Financial Officer and all DOL agencies improve coordination of their responses to audit requests to ensure the auditors are provided information by the due dates requested so as to allow for timely review, follow-up and resolution of any issues identified.

Management's Response

"In response to last year's audit, we identified several strategies to ensure documents on Provided by Client (PBC) process list are provided to auditors on time. Specifically, key OCFO employees are responsible for handling the detailed tracking of the PBC list.

This includes ensuring the persons responsible for a deliverable know when and what information is to be provided. OCFO's involvement in the PBC list process in both an oversight and enforcement role should allow us to meet the mutually agreed upon dates for deliverables."

Auditors' Conclusion

This recommendation is considered **resolved and open**. FY 2007 audit procedures will determine whether the recommendation has been adequately addressed and the condition closed.

7. Lack of Performance of a Complete Reconciliation of Budgetary to Proprietary General Ledger Account Relationship Analyses

During procedures over the budgetary to proprietary account relationship analyses performed by the OCFO as of March 31, 2006, we noted that 6 of the 10 requested account relationship tests were not completed. The OCFO could not provide any documentation related to these missing analyses. In addition, explanations were not provided for variances identified in the four analyses that were completed.

The OCFO may not detect material differences within budgetary to proprietary accounts, increasing the risk of misstating the year-end financial statements. For instance, the budgetary to proprietary analysis performed by the OCFO over Accounts Receivable vs. Budgetary Receivables resulted in a difference of ($7,101,847). In addition, the budgetary to proprietary analysis performed by the OCFO over Advances vs. Unfilled Customer Orders with Advances, resulted in a difference of ($2,726,123). If the analyses had not been performed, these differences may not have been detected, causing misstatements in the related financial statements.

The OCFO does not have policies and procedures that require the completion and subsequent supervisory review of account relationship analyses to ensure that any reconciling items are adequately explained.

Per GAO's *Internal Control Management and Evaluation Tool* (8/01), "this information should be available on a timely basis to allow effective monitoring of … activities, and transactions and to allow prompt reaction."

In addition, GAO's *Standards for Internal Control in the Federal Government* states, "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."

Recommendation

1. We recommend that the Chief Financial Officer develop and implement policies and procedures that require (a) the preparation and documentation of quarterly budgetary to proprietary relationship analyses, (b) the completion of documented supervisory reviews over the analyses, and (c) the completion of these analyses by a certain date (e.g., 15 days after each quarter-end).

Management's Response

"OCFO is enhancing current policies and procedures to require that the quarterly reconciliation of the SF-133 reports and the proprietary accounts be done on a quarterly basis beginning second quarter FY 2007. The reconciliation will be completed 30 days after each quarter's reporting period. The reconciliation will be supported by full documentation and supervisory approval."

Auditors' Conclusion

This recommendation is considered **resolved and open**. FY 2007 audit procedures will determine whether the recommendation has been adequately addressed and the condition closed.

8. Errors Noted in Payroll-related Employer and Employee Contributions

The U.S. Department of Agriculture's National Finance Center (NFC) processes DOL's payroll and payroll-related benefits. The *Fiscal Year 2006 – Office of the Chief Financial Officer/National Finance Center General Control Review* dated September 21, 2006, and issued by the U.S. Department of Agriculture's Office of Inspector General (Report No. 11401-24-FM) reported a qualified opinion on NFC's internal controls for the period October 1, 2005, through June 30, 2006.

In our sample of 45 employees selected for controls and compliance testing, we noted that for one employee tested, actual employer contributions to employee retirement accounts and calculated amounts based on guidelines for employer retirement contribution rates published by the Office of Personnel Management (OPM) did not agree. As such, DOL is not in full compliance with regulations related to Civil Service Retirement System (CSRS) retirement payments.

In addition, based on our substantive test work performed over payroll and benefit expenses, we determined that CSRS benefits, FEGLI benefits, and Thrift Savings Plan (TSP) benefits for certain employees were not properly withheld from employee gross pay each pay period based on employee elections and guidelines set by OPM, and were not recorded properly on employee Statements of Earnings and Leave. We noted a total of 14 exceptions.

Exceptions to the general withholding and contribution rules may be the cause of these apparent errors. In addition, the OCFO does not currently have formal policies and procedures in place to review and reconcile payroll information processed by NFC.

OPM's *CSRS and FERS Handbook for Personnel and Payroll Offices*, Subchapter 30A CSRS, Section 30A2.1-1A, states, "The exact amount of retirement deductions withheld from basic pay is set by law." For fiscal year 2006, employing agencies must deduct and withhold 7.0 percent from full (non-Offset) CSRS employees' basic pay (similar to agency contribution rates for fiscal year 2006).

Retirement and Insurance Service Benefits Administration Letter, No. 02-312, states, "Thus, for "regular" CSRS employees, the agency contribution rate will be reduced from the current 8.51 percent of basic pay to 7.5 percent in October 2002 and to 7.0 percent in January 2003."

The FEGLI booklet for Federal employees (FE 76-21) states, "Basic insurance provides term life insurance at group rates. The Federal Government pays one-third of the cost of your Basic insurance. If you are eligible, you are automatically covered under Basic insurance, unless you waive this coverage." "Your Basic Insurance Amount (BIA) is equal to the greater of (a) your annual rate of basic pay rounded up to the next even $1,000 plus $2,000, or (b) $10,000." "Basic insurance also provides an Extra Benefit to employees under age 45, at no additional cost. This Extra Benefit doubles the amount of Basic insurance payable if you die when you are age 35 or younger. The Extra Benefit decreases 10% each year until there is no Extra Benefit if you die at age 45 or older." Additionally, "Enrollment in Optional insurance is not automatic. If you want Optional insurance as a new employee, you must submit a completed Life Insurance Election (SF 2817) to your human resources office within 31 days from the date of your appointment to an eligible position. Your opportunities to enroll in Optional insurance after those 31 days are limited."

The *Summary of the Thrift Savings Plan*, (http://www.tsp.gov/forms/tspbk08.pdf), states, "Regular employee contributions are payroll deductions that any eligible Federal Civilian employee or member of the uniformed services can make from basic pay before taxes are withheld. You can begin making these contributions at any time." Also, "Each pay period, your agency or service will deduct your contributions to the TSP from your pay in the amount you choose. Your agency or service will continue to do so until you make a new TSP election changing the amount of your contribution or stopping it." Additionally, "If you are a FERS employee, your agency will contribute an amount equal to one percent of the basic pay you earn each pay period to your account."

Recommendations

1. We recommend that the Chief Financial Officer investigate the exceptions noted in our samples and correct the employee withholding and employer contribution balances as needed based on the results of this investigation.

2. As part of the reconciliation process recommended as part of Reportable Condition No. 8, related to the lack of controls at DOL over data processed by NFC, we recommend that the Chief Financial Officer develop and implement procedures to periodically review and validate a sample of withholding and contribution amounts.

Management's Response

For the instance where actual CSRS employee withholding and employer contribution did not agree with calculated amounts, OCFO is conducting research to ascertain why the National Finance Center (NFC) Personnel and Payroll System (PPS) withheld incorrect amounts.

Regarding the TSP samples, OCFO does not concur with the auditor's finding. OCFO determined all deductions withheld were accurate. The reason the auditor found differences was because the auditor did not use the current employee election information for the selected pay periods.

Regarding the recommendation to review and validate withholding and contribution amounts, the DOL budget offices currently validate TSP, CSRS and FEGLI amounts every pay period.

Auditors' Conclusion

For the instance where actual CSRS employee withholding and employer contribution did not agree with calculated amounts, this part of recommendation no. 1 is considered **unresolved** pending completion of a corrective action plan with specified timeframes for implementation.

Regarding the TSP sample items, we identified the exceptions as a result of our testwork, based on the information that was provided to us at the time. As no additional support was provided by DOL, this part of recommendation no. 1 is considered **unresolved** pending completion of a corrective action plan with specified timeframes for implementation.

Regarding the recommendation to review and validate withholding and contribution amounts, recommendation no. 2 is considered **unresolved** pending completion of a corrective action plan with specified timeframes for implementation.

9. Inaccurate Employee Accrued Leave Amounts

Certain accrued leave hours were not accurate, leading to incorrect liability balances recorded in DOLAR$. Of 119 sample items tested as of August 31, 2006, 9 exceptions were noted in the calculation of employees' accrued leave hourly balances. No exceptions were noted in the calculations of employees' hourly rates, used to determined total accrued leave recorded in DOLAR$.

Additionally, when the list of employees and their accrued leave balances as of August 31, 2006, was reviewed by employees of the OIG, it was found that employees who had either resigned or transferred from DOL between four and nine months prior still had accrued leave balances reported at August 31, 2006.

As a result of these exceptions, the accrued leave balances may be misstated. The statistical extrapolation of our test errors resulted in a $1 million overstatement[5] of the liability as of August 31, 2006.

These exceptions were the result of the NFC making adjustments to accrued leave balances without DOL's knowledge, and the lack of reconciliation procedures in place between DOL and NFC to identify variances. In addition, the OCFO does not currently have formal policies and procedures in place to review the accrued leave detail periodically to ensure the validity of the normal accrued leave hours. The cause of separated employees continuing to be included in the accrued leave balances is unknown.

The Office of Management and Budget (OMB) Circular No. A-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, 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 of Internal Control in the Federal Government,* "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."

[5]This statistical projection utilized a confidence level of 93% and precision of 4.82%.

Recommendations

We recommend that the Chief Financial Officer:

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, and could be completed as part of the reconciliation process recommended in Reportable Condition No. 8, related to the lack of controls at DOL over data processed by NFC.

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.

OCFO Management's Response

"Separated employees leave balances in PeoplePower are not zeroed out after a payout request is processed at NFC. A new procedure has been developed to address the leave balances issue during the payroll cycle. This new procedure will perform the following tasks:

> *For all employees separated during or just prior to the pay cycle where the separation action has been applied at NFC the system will:*
>
> - *Insert a new row into PeoplePower's Accrual Summary table, which will carry the effective date of the termination with a zero balance for each leave category in which the separated employee was enrolled.*
> - *A report will be produced and distributed to each HR office via Brio Portal. This report will include identifying information for the employee, effective date of the separation, balance for each accrual class before the zero row was inserted, and the balance of each accrual class after the zero row was inserted.*
> - *A memo will be sent to the HR and AO community providing guidance and instructions on this issue. The HR staff will be instructed to review the pay and deduct report each pay period to ensure the leave payout request has been processed in the NFC system and the NFC system (TINQ) has a zero balance for all payable leave accrual classes.*

These changes will also address the lingering issue of the accrued leave balances for former OIG personnel.

Auditors' Conclusion

Recommendation no. 2 is considered **resolved and open**. FY 2007 audit procedures will determine whether the recommendation has been adequately addressed and the condition closed.

Recommendation nos. 1 and 3 are considered **unresolved**, pending investigation and corrective action related to the 9 exceptions identified for the inaccurate employees' accrued leave hourly balances and the accrued leave balances at August 31, 2006, for the former OIG personnel.

10. Subledger Did Not Reconcile from Period to Period

The MSHA Standardized Information System (MSIS) is MSHA's accounts receivable system. MSIS has the capability to initiate, collect, process, maintain, and report current and historical data. When problems are noted in the system, the user submits a "ticket" with technology support in order to have the problem corrected.

In order to determine if a material change occurred in the accounts receivable balance related to Civil Monetary Penalties (CMPs) from June 30, 2006, to August 31, 2006, we obtained subledgers from all agencies for the periods October 1, 2005, through June 30, 2006, July 1 through July 31, 2006, and August 1 through August 31, 2006. For MSHA, we noted that the ending balance on the subledger from October 1, 2005, through June 30, 2006, did not agree to the beginning balance of the subledger from July 1 through July 31, 2006, by $134,322. Also, the ending balance of the July 1 through July 31, 2006, subledger did not agree to the beginning balance of the subledger from August 1 through August 31, 2006, by $46,506. As such, the balances within MSIS may not be consistent from period to period.

Currently, a number of "ticket" requests are outstanding with MSIS technical staff to correct problems with MSIS. When these tickets are addressed, they correct the original error instead of recording an adjustment, which causes balances of subledgers from other periods to change. For example, if a refund was entered incorrectly in March and the ticket was not addressed until June, when the June subledger is printed out, its beginning balance will not equal the ending balance for May because May's ending balance contains the incorrect refund amount and June's beginning balance contains the correct refund amount.

The purpose of the *Federal Financial Management Improvement Act of 1996* (FFMIA) is to advance Federal financial management by ensuring that Federal financial management systems provide accurate, reliable, and timely financial management information to the government's managers. OMB Circular No. A-127 states, "Financial management in the Federal government requires accountability of financial and programs managers for financial results of actions taken, control over the Federal government's financial resources, and protection of Federal assets. To enable these requirements to be met, financial management systems must be in place to process and record financial events effectively and efficiently, and to provide complete, timely, reliable, and consistent information for decision makers and the public."

Recommendation

1. We recommend that the Assistant Secretary for Mine Safety and Health design, test, and implement changes to MSIS so that when "tickets" are addressed in the system, they are recorded as adjustments and do not directly change historical entries that have been previously recorded.

Management's Response

"MSHA agrees with this finding and recommendation. In December 2006, the agency started designing the recommended changes to MSIS so that items recorded as adjustments will not directly affect historical entries that have been previously recorded. The testing and implementation of these changes will be completed by June 30, 2007."

Auditors' Conclusion

This recommendation is considered **resolved and open**. FY 2007 audit procedures will determine whether the recommendation has been adequately addressed and the condition closed.

11. Errors Noted in Accounts Receivable Aging Reports

MSIS, MSHA's accounts receivable system, produces a report that ages debts based on their delinquency dates. This report is used to calculate the allowance for doubtful accounts.

Aging categories for certain cases listed in MSIS were not accurate as of August 31, 2006. We noted that cases that were aged 90 days were incorrectly placed in the 91-181 aging category and cases that were aged 365 days were incorrectly placed in the 1-2 year aging category. We determined that these cases were placed in the incorrect aging category due to a system error. This resulted in an understatement of the 1-90 days aging category by $18,566, an overstatement of the 91-180 days bucket by $18,566, and understatement of the 181-365 days aging bucket by $43,447 and an overstatement of the 1-2 year aging bucket by $43,447.

When cases are assigned incorrectly to aging categories, the total balances of aging categories are incorrect. Because the allowance for doubtful account balance is calculated based on this aging report, this error can result in a misstatement of the allowance for doubtful accounts.

The purpose of FFMIA is to advance Federal financial management by ensuring that Federal financial management systems provide accurate, reliable, and timely financial management information to the government's managers. OMB Circular No. A-127 states, "Financial management in the Federal government requires accountability of financial and programs managers for financial results of actions taken, control over the Federal government's financial resources, and protection of Federal assets. To enable these requirements to be met, financial management systems must be in place to process and record financial events effectively and efficiently, and to provide complete, timely, reliable, and consistent information for decision makers and the public."

Recommendation

1. We recommend that the Assistant Secretary for Mine Safety and Health design, test, and implement changes to MSIS so that cases are aged properly.

Management's Response

"MSHA agrees with this finding and recommendation. The aging report design was completed on January 10, 2007. Development, testing and implementation will be completed by March 31, 2007."

Auditors' Conclusion

This recommendation is considered **resolved and open**. FY 2007 audit procedures will determine whether the recommendation has been adequately addressed and the condition closed.

12. 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.

The Employment and Training Administration (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."

Management's Response

"ETA disagrees with the recommendation. Subsequent to establishment of the initial council in 1992, Congress has not appropriated funds to support an advisory council or communicated a desire for establishment of subsequent councils. ETA has not received any inquiries or expressions of interest from other stakeholders about establishing an advisory council. ETA believes the most practical way to close the finding is to alter the legislative requirement. To that end, the FY 2007 President's Budget proposal includes several initiatives requiring legislative action. Among these initiatives is a proposal to amend the provision on the UCAC to permit, rather than require, the Secretary of Labor to periodically convene a council. A legislative package comprised of these initiatives has been delivered to Congress for action. ETA will continue to press for this legislation until passed."

Auditors' Conclusion

Our conclusion regarding the UCAC is based on requirements set forth in existing legislation. This recommendation remains **unresolved** until such time that ETA complies with the legislative requirement.

13. Noncompliance with the *Cash Management Improvement Act of 1990*

During our internal control testing over grants, we noted that grantees of ETA appeared to be drawing down more cash than needed based on their reported costs. Of 232 grants tested, 35 ETA grants had cumulative cash drawdowns exceeding cumulative costs by greater than 5 percent. As such, DOL is not in full compliance with regulations related to the *Cash Management Improvement Act of 1990* (CMIA) since grantees were drawing down funds in excess of their immediate cash needs.

Although the Federal Project Officer (FPO) is assigned to review the reasonableness of cash drawdowns, ETA does not have defined policies on what amount of excess drawdowns is acceptable or what specific steps to take if a grantee is drawing down too much money.

The purpose of the CMIA is “to ensure greater efficiency, effectiveness, and equity in the exchange of funds between the Federal Government and the States.” CMIA also states that “Each head of an executive agency shall, under such regulations as the Secretary of the Treasury shall prescribe, provide for the timely disbursement of Federal funds through cash, checks, electronic funds transfer, or any other means identified by the Secretary.”

Further guidance on the CMIA was issued in Treasury’s Code of Federal Regulations Part III, “Rules and Procedures for Efficient Federal-State Fund Transfers; Final Rule.” These rules give federal agencies guidance on the Notice of Proposed Rulemaking (NPRM), which was published by the Financial Management Service proposing revisions to the regulations implementing CMIA. In the “Rules” Treasury states, “It has been our longstanding policy position, consistent with the purpose of CMIA that funds cannot be drawn down in advance of need. Because questions regarding compensating balances have arisen, this section of the rule is meant to merely clarify existing policy prohibiting the drawing down of funds for the purpose of maintaining a compensating balance. This does not prohibit those States that are required to have funds on hand before issuing checks from drawing down funds early nor does it prohibit those States from deducting their banking costs from any interest paid. Some State Constitutions require that States have funds on hand before issuing checks. These pre-issuance States are allowed to draw funds early, but are subject to interest liability. The commenters strongly recommended retaining the current three-day drawdown window for pre-issuance States, rather than the two-day window proposed in the NPRM. One State said the proposed two-day drawdown window was ‘‘arbitrary and unrealistic’’ while another State entity called it ‘‘unnecessary and restrictive.’’ We agree that the two-day window proposed in the NPRM may not give States sufficient time to ensure that funds are on hand prior to the issuance of payments. This section has, therefore, been amended to retain the three-day drawdown window that currently exists.”

Recommendation

1. We recommend that the Assistant Secretary for Employment and Training develop and implement specific policies and procedures for the review of a grantee’s drawdowns versus the reported costs, including:

   - Determination of a specific percentage of excess cash that is reasonable for a grantee to draw down.
   - Steps that the FPO must follow if a grantee draws down more than the pre-determined acceptable amount.
   - Review by an independent person of a quarterly report of grantees’ drawdowns versus reported costs to identify all grantees that exceed the tolerable amount, selection of a sample of such grantees to verify that the FPOs are performing the required follow-up procedures, and documentation of this review.

Management's Response

"ETA has already taken action to improve grantee financial management and ETA's oversight, and continues to make improvements in this area. A guide is in development for use by our own staff when reviewing grantee finances. This draft guide has been shared with, and training given to, ETA specialists who conduct such reviews. In addition to being covered in new grantee training, workshops covering management of cash were added to the national training conferences on Financial and Administrative Management. Two conferences have been held already in FY 2007, another is scheduled for April and more may be added due to the interest shown so far. Also, ETA plans on developing new reports to be used by FPOs in their desk reviews to ensure consistency in reviews."

Auditors' Conclusion

This recommendation is considered **unresolved** pending completion of a corrective action plan with specified timeframes for implementation of each recommendation.

<u>14. Certain Improvements Needed in Financial Reporting</u>

We determined that DOL omitted the following required disclosures from its FY 2006 Performance and Accountability Report (PAR):

- Required Supplementary Stewardship Information (RSSI) – The ETA and Job Corps disclosure omits certain outputs and outcomes.
- Required Supplementary Information (RSI) - Deferred maintenance disclosure omits asset condition information.
- Programs and costs in the Statement of Net Cost (SNC) and the related suborganizations in Note 14 do not clearly link to the strategic goals included in Management's Discussion and Analysis (MD&A).

OCFO personnel could not easily obtain the required information once we brought these items to their attention. As a result, the DOL FY 2006 PAR does not include all disclosures required by U.S. generally accepted accounting principles. Because of the importance of the RSSI disclosure cited above to DOL's overall mission, we included a sentence in our FY 2006 financial statement opinion about this omission. In addition, the RSSI and RSI omissions were included on the Summary of Omissions attached to the FY 2006 management representation letter. Finally, PAR readers are unable to easily relate the audited costs presented in the SNC to the strategic goals discussed in the MD&A.

SFFAS No. 8, *Supplementary Stewardship Reporting,* establishes standards for reporting on the Federal government's stewardship over certain resources entrusted to it, identified as stewardship property, plant, and equipment and stewardship investments. SFFAS No. 8 states, "The goal of the stewardship objective is that the Federal Government 'report on the broad outcomes of its actions." It goes on to read that output data should "provide indications of the intended program outcomes and shall be used to justify continued treatment…"

Section II.4.11.4 of OMB Circular No. A-136 states, "Continued categorization of human capital expenses as investment for stewardship purposes is predicated on demonstrated outputs and outcomes consistent with the intent of the program. SFFAS No. 8 describes the criteria which shall be met for these expenses to continue to be categorized as stewardship investments. Outcome and output measures used to justify continued treatment of expenses as stewardship investments should be clearly identified in the agency's financial statement, and the relationship of the outcomes and outputs to the stewardship investments should be readily apparent."

SFFAS No. 6, *Accounting for Property, Plant and Equipment*, paragraph 83 states, "At a minimum, the following information shall be presented for all PP&E (each of the four categories established in the PP&E standard should be included)… If the condition assessment survey method of measuring deferred maintenance is used, the following should be presented for each major class of PP&E:

- description of requirements or standards for acceptable operating condition,
- any changes in the condition requirements or standards, and
- asset condition and a range estimate of the dollar amount of maintenance needed to return it to its acceptable operating condition."

Section II.2.6 of 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 relate 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)."

Recommendation

1. 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.

Management's Response

"OCFO will develop and implement procedures to compile and report the RSSI and the RSI disclosers in accordance with OMB Circular A-136. The links between the programs and costs in the SNC to the MD&A will be strengthened for future PARs as well. Related supporting documentation will be properly maintained and accessible. Target completion date is September 2007."

Auditors' Conclusion

This recommendation is considered **resolved and open**. FY 2007 audit procedures will determine whether the recommendation has been adequately addressed and the condition closed.

15. Improvements Needed in Grant Controls

ETA is the largest grant-making agency within DOL. When ETA issues a grant, a standard grant agreement/Notice of Award (NOA) is sent to the applicant notifying the applicant of the award. If the applicant accepts the terms and conditions outlined in the agreement, the applicant signs the agreement. Upon receipt of the signed agreement from the applicant, the Grant Officer certifies the grant award, as evidenced by his/her signature on the agreement.

Upon execution of the grant agreement by the Grant Officer, an Obligation Action Request (OAR) Form is completed and signed by the Grant Officer. Once the grant has been approved by the Grant Officer and the OAR has been forwarded to the Division of Financial and Systems Services (DFSS), an accountant in DFSS checks DOLAR$ to ensure that the committed funds were entered into DOLAR$ prior to entry of the obligation. The accountant then enters the obligation into DOLAR$.

The grantee is required to submit quarterly Financial Status Reports (SF 269) which document the costs incurred by the grantee. The assigned 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 and that 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.

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.

To aid in the FPO's monitoring, DFSS generates a "Delinquent Cost Report" quarterly from the Enterprise Business Support System (EBSS), 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.

Grantees electronically request draw downs using the U.S. Department of Health and Human Services' (HHS) Payment Management System (PMS). DOLAR$ receives payment information through a daily inbound interface via batch processing from PMS.

If there are issues during the interface (e.g., suspense transactions), the DFSS staff investigates and resolves the issue. The DOLAR$ Report L602 denotes those disbursements per PMS that did not post to DOLAR$.

The above process description relates to ETA. Other grant-making DOL agencies have similar controls.

During our testing over grants in FY 2006, we noted the following weaknesses in internal control:

- The review of delinquent cost reports was not performed by DFSS during the entire year. Additionally, six of ten delinquent grantees selected did not have adequate documentation supporting that the FPO had followed up with the grantees on the report delinquencies.
- Adequate support is not maintained for suspense transactions that have to be resolved by the appropriate agencies instead of DFSS (1 of 15 days tested; exception related to OASAM).
- Instance in which grantees report costs greater than the obligation amount (i.e., a type of suspense transaction) are not resolved in a timely manner (exception related to ETA).
- Grant Agreement/NOA or grant modifications tested did not consistently have documentation of proper authorization (5 of 152 items tested; 4 exceptions related to VETS and 1 exception related to ETA).
- OAR forms tested were not consistently, properly completed and authorized by the Grant Officer (6 of 146 items tested; all exceptions related to ETA).
- Instances in which the grantees submitted their SF 269s in a timely manner, but DOL did not record the SF 269s in a timely manner (5 of 226 items tested; all exceptions related to ETA).

Without adequate controls over the grant process, grant expenses, advances, payables, and undelivered orders (UDOs) could be misstated. Based on the errors we identified in our June 30, 2006, testwork, we projected[6] that expenses were overstated by $36,640,903, advances were understated by $19,044,655, payables were understated by $519,805, and UDOs were overstated by $2,234,499. The $36 million error exceeded our audit difference posting threshold, and as a result, was included in the summary of unadjusted audit differences attached to the FY 2006 management representation letter.

Several circumstances contributed to these conditions, as follows:

- ETA does not maintain adequate support for communications with grantees to resolve issues such as delinquent reporting or reporting costs greater than the obligations.

[6]This statistical projection utilized a confidence level of 96% and precision of 3%.

- OASAM does not maintain a log or record detailing how suspense transactions are resolved when further research is required.
- ETA and Veterans' Employment and Training Service (VETS) do not have an established, supervisory review of the grant award process. The appropriate individuals are required to sign the NOA and OAR, but no procedures are in place for an independent person to review these documents to verify all procedures have been followed.
- ETA does not adequately verify that all required progress report desk reviews are completed, as no supervisory review procedure is in place to ensure that the FPOs are performing the progress report desk reviews for all of their assigned grantees.
- ETA does not have any procedures in place to ensure that submitted cost reports are recorded in a timely manner.

GAO's *Standards for Internal Control in the Federal Government* states, "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." GAO's *Standards for Internal Control in the Federal Government* also provides examples of control activities, which include "reviews by management at the functional or activity level."

The current DLMS does not prescribe specific policies for grant maintenance and monitoring; this is done on an agency-by-agency basis. For example, ETA Order No. 1-03 prescribes grant award and post-award grant management responsibilities and breaks these responsibilities down by Performance and Administrative Offices, Program Offices, and Regional Offices.

Recommendations

We recommend that the Assistant Secretary for Employment and Training:

1. Enforce procedures which require a detailed review of the "Delinquent Cost Report" every quarter for the entire year.
2. Require FPOs or the individuals contacting the delinquent grantee to maintain accurate records of the communication and results.
3. Require supervisors to review a sample of delinquent cost reports to confirm that the FPO is resolving the situation timely, and to document this review.
4. Assign an individual to review the "Cost Exceeds Obligation Report" every quarter and verify that either the grantees are being followed up on through another review (e.g., delinquent grantee report) or assign an FPO to resolve the situation.
5. Require supervisors to review a sample of progress report desk reviews to confirm that the reports are being completed, and to document this review.

6. Require FPOs to ensure that cost reports submitted by their assigned grantees are posted to DOLAR$ timely.

Management's Response

"Throughout the course of the audit, we were not provided with detailed information supporting the auditors' conclusions with respect to this finding, and only recently (January, 2007) received a list of the documents cited by the auditors. Accordingly, we have not had sufficient time to verify the audit results and/or to develop an informed, meaningful response.

However, based on a preliminary review of some of the listed documents, we take exception to certain conclusions reached by the auditors, as follows:

- *The audit finding describes ETA's internal control procedures over various grant processes, refers to our cost reporting system, and refers to one of our offices (DFSS). However, the conditions cited by the auditors include errors identified for other agencies' grants, and in a couple of cases include findings completely unrelated to ETA. For example, the auditors state, "Adequate support is not maintained for suspense transactions that have to be resolved by the appropriate agencies instead of DFSS (1 of 15 days tested)." While this statement refers to DFSS, it is actually related to another granting agency and is entirely unrelated to ETA. We believe that this is very misleading and that internal control weaknesses unique to another agency should not be presented in an ETA finding.*

- *The error rates cited by the auditors appear to be overstated, with respect to ETA. For example, the auditors found that the "Grant Agreement/NOA or grant modifications tested did not consistently have documentation of proper authorization (5 of 152 items tested)." We reviewed the support for this finding and found that 133 of these were ETA grants, with only one noted error. We also found that the auditors appear to have tested all modifications issued for each grant document during the audit interim period (October 2005 through June 2006). This means that the auditors tested multiple transactions for each grant document sampled, and the total number of transactions tested would be in the hundreds (there were over 400 obligations transactions recorded during the interim period for the sampled grants, as well as an unknown number of modifications that would not require a DOLAR$ transaction, such as a period of performance change, etc.). Therefore, the actual results were one modification out of well over 400 modifications tested. The same would be true of the other sample results cited by the auditors in this finding.*

- *Even as stated in the finding, the sample results support a very low level of risk, and we do not believe justify even a management advisory comment. Both GAO and OMB address the concept that internal controls should be designed to provide reasonable assurance that misstatements, noncompliance, etc. would be* *prevented or detected on a timely basis. OMB A-123 states, "Federal managers must carefully consider the appropriate balance between controls and risk in their programs and operations. Too many controls can result in inefficient and ineffective government….the benefits of controls should outweigh the cost."*

- *Based on the detail provided by the auditors, one of the auditors' statements, "instances in which grantees report costs greater than the obligation amount (i.e., a type of suspense transaction) are not resolved in a timely manner", appears to have been supported by a sample of one.*

Based on the results of our preliminary review, we conclude that additional time is necessary to properly evaluate the remaining documents and assess the need for potential corrective actions. Accordingly, we are unable to provide a meaningful response to this finding within the timeframe requested by the OIG."

Auditors' Conclusion

We agree that Management must carefully consider the appropriate balance between controls and risk in their programs and operations, and that the benefits of controls should outweigh the cost. However, we believe that the recommendations identified above represent valid and appropriate recommendations related to the grant processes at DOL. These recommendations are considered **unresolved**, pending ETA's full evaluation of our audit findings.

Recommendation

7. We recommend that the Assistant Secretary for Administration and Management develop policies and procedures for maintaining a log and supporting documentation for the resolution of each suspense transaction on the Report L602.

Management's Response

"Beginning in January 2007, OASAM will extend the length of time it maintains documentation associated with resolving suspense PMS suspense items. Our current procedures meet the recommendation for maintaining a suspense log; however the documentation is currently disposed of on a monthly basis. A copy of the L602 is received within a day after a suspense item is recorded. The suspense is researched and corrected with a notation on the report of the correction. These reports, notations on resolution, and any supplementary information filed with the report serve as our log for resolution. In addition the OCFO monitors the L602 file and contacts OASAM on the status of resolution when items remain unresolved for an extended period. Currently, the report is kept for one month and then discarded after receipt of the SF224 affected by the transaction, but OASAM will maintain this documentation through the audit period for review."

Auditors' Conclusion

This recommendation is considered **resolved and open**. FY 2007 audit procedures will determine whether the recommendation has been adequately addressed and the condition closed.

Recommendation

8. We recommend that the Assistant Secretary for Employment and Training and the Assistant Secretary for the Veterans' Employment and Training Service develop and implement a quarterly quality control procedure that requires the selection and review of a sample of Grant Agreements/NOA, modifications, and OAR forms to ensure proper documentation of authorization.

Management's Response

VETS Response:

"VETS will strengthen its supervisory review of the grant award process.

Current agency review procedures include quality control reviews, performed by the Jobs for Veterans' State Grants (JVSG) review panel, comprised of six (6)Disabled Veterans' Outreach Program (DVOP)/Local Veteran's Employment Representative (LVER) Expert Cluster (DLEC) members and staff from the National Office, as well as, Jobs for Veterans' Lead Center (JVLC).

The review panel is supervised by either the program Chief or the JVLC Lead. NOA information is provided by the JVLC or National Office to each region based on the approved Agency Allocations. The JVLC reviews NOAs for accuracy and verifies that all policies have been followed pursuant to issuance.

To specifically address this recommendation, VETS will implement procedures for an independent person to perform a quarterly quality control review, which will cover a sample of Grant Agreements/NOA, modifications, and OAR forms. This will serve as an additional internal control for the purpose of reducing agency risk and verifying all procedures have been followed."

ETA Management's Response:

Included within above response to recommendation nos. 1 through 6.

Auditors' Conclusion

This recommendation is considered **resolved and open**. FY 2007 audit procedures will determine whether the recommendation has been adequately addressed and the condition closed.

16. Grant Closeouts

Within 90 days after the expiration or termination of the grant, the grantee must submit all financial, performance, and other reports required as a condition of the grant. The Grants Closeout Unit identifies grants to be closed based on the grant end date. Because most grants expire at March 31, May 31, June 30, September 30, and December 31, a Closeout Specialist generates a report within the Grant Tracking System (GTS) module of EBSS approximately a month prior to these five dates to obtain a listing of those grants that have that particular grant end date. In order to determine whether the grant has been closed out, the specialist then compares the listing to the Grants Closeout System (GCS), which is an external module within EBSS.

The Closeout Specialist obtains applicable grants files and contacts the FPO, Grant Officer, and/or the grantee to determine if the grant period has been or will be extended. If there has not been or will not be an extension, the specialist begins the closeout process. The specialist updates an internal closeout inventory tracking system (i.e., ACCESS database) maintained by the Closeout Unit. Once logged into the tracking system, the expired grant is assigned to a Closeout Specialist. Within 30 days after the case is assigned, the specialist sends an email notification via GCS to the grantee to initiate the closeout process. The notification indicates that the grant is expiring and if the grantee agrees, the grantee must complete the required closeout documents within 90 days from the expiration date. If the grantee does not report online (there are very few grantees who report manually), a hard-copy notification and grant package is sent (i.e., via email or facsimile) to the grantee.

Once the grantee has submitted the closeout forms, the Closeout Specialist receives an email notification that the forms are ready to be reviewed in GCS. The specialist has 30 days from the receipt of the grant forms to review, analyze, and reconcile the closeout documents. The specialist works with the FPO to resolve any financial discrepancies to ensure that the information meets the grant requirements and agrees with DOLAR$ and the final SF 269 (or equivalent). The government property closeout inventory certification is given to the ETA Property Officer for review and certification. The FPO completes a Certification for Contractor/Grantee Performance and once approved, signs and dates the form. Once all of the documents have been accepted and a financial reconciliation completed, which compares the final cost report submitted by the grantee to the costs reported in DOLAR$, the specialist completes an Accounting Checklist, which indicates the pertinent information for the grant, the net amount paid by DOL, the costs incurred, and the amount to be deobligated. The Grant Officer completes and signs a Grant Closeout Record Preliminary Settlement form, and the package is then sent to DFSS for reconciliation between HHS' PMS and DOLAR$ (and deobligation, if applicable).

DFSS date-stamps and log closure documents into a closure log. The accountant reviews the Accounting Checklist for accuracy and proper signatures for deobligations, and determines that the Grant Closeout Record Preliminary Settlement form is signed and dated by a Grant Officer. Once this information is verified, the accountant processes the grant closeout in DOLAR$.

During our testing over grant closeout procedures in FY 2006, we noted the following weaknesses in internal control:

- All 15 grants that were identified as 'to be closed' at March 31, 2006, were not closed within the required timeframe. Also, 42 of 45 closed grants tested were not closed within the required timeframe (150 days).
- Closeout Specialists were not consistently reviewing, analyzing, and reconciling the closeout documentation within 30 days from the receipt of the grant forms. Of 45 closed grants tested, we noted 21 instances where this review did not occur within the required timeframe.
- Closeout Specialists were not adequately monitoring the grantee's closeout status. Of 45 closed grants tested, we noted 10 grantees that did not receive any form of communication from the Closeout Specialists within 30 days of being assigned the grant.
- The Grant Officer was not consistently approving the Grant Closeout Preliminary Record (evidenced by a signature). Of 45 closed grants tested, one form did not have the Grant Officer's signature.
- Of 45 closed grants tested, one Accounting Checklist did not agree to the supporting SF 269 and one deobligation was not properly approved.
- In our sample of 45 closed grants, we noted 22 instances where a deobligation of grant funds was necessary. Of these 22 instances, 19 deobligations were not completed and recorded in DOLAR$ in a timely manner (within 120 days of the expiration date).
- We selected a sample of 41 footprints with UDO balances but no FY 2006 activity as of September 30, 2006. Five of these balances should have been deobligated as of that date.

Without adequate controls over the closeout process, grants are not closed in a timely manner. Additionally, UDOs may be overstated since remaining UDO balances of expired grants are not deobligated in a timely manner. Based on the errors we identified during our UDO testwork, the UDO balance as of September 30, 2006, was projected[7] to be overstated by $57,352,768, and we included this difference on the summary of unposted audit differences that was attached to the FY 2006 management representation letter.

[7] This statistical projection utilized a confidence level of 96% and precision of 6%.

While one of the factors for the weaknesses in the closeout process is that the grantees are not submitting the closeout packages within the required 90 day timeframe, no supervisory review of the closeout status of grants occurs. The status of grant closeouts is tracked within the Grant Closeout Unit's internal closeout inventory tracking system, and it is the responsibility of the assigned Closeout Specialist to follow up with the grantee as necessary to ensure that the closeout documents are received in a timely manner. However, no periodic review (e.g., weekly or monthly) is performed by the supervisor to ensure that the Closeout Specialists are adequately communicating with the grantees and that grants are timely closed. Additionally, supervisors do not have a formal review process to verify that all closeout documentation (e.g., Grant Closeout Preliminary Record, Accounting Checklist, and deobligation entries) are properly approved and agree to supporting documentation.

GAO's *Standards for Internal Control in the Federal Government* states, "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." GAO's *Standards for Internal Control in the Federal Government* also provides examples of control activities, which include "reviews by management at the functional or activity level."

The current DLMS does not prescribe specific policies for grant maintenance and monitoring; this is done on an agency-by-agency basis. For example, ETA Order No. 1-03 prescribes grant award and post-award grant management responsibilities and breaks these responsibilities down by Performance and Administrative Offices, Program Offices, and Regional Offices.

Recommendation

1. 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:

   - Following up on any grants that have not been closed within the required timeframes;
   - 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;
   - Reviewing the status of grants where the closeout package has been submitted by the grantee;
   - Ensuring that the grant specialists are reviewing and reconciling the closeout documents within the required 30 day timeframe;

- Ensuring that grants that are with DFSS are properly and timely being deobligated in DOLAR$; and
- 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.

Management's Response

"The procedures recommended by the auditors for the Closeout Unit are already in place. However, ETA will review the Closeout Unit Handbook to ensure that all proper closeout procedures are in writing and review these procedures with all staff to ensure they are being followed. In addition, ETA will examine the Closeout Handbook sections covering "Extensions" to ensure that extension requests: 1) by grantees for the submission of closeout documents; 2) by Closeout Specialists for the reconciliation of reports are fully explained and accepted as standard operating procedures when appropriate. These reviews and appropriate action, if needed, will be completed by September 30, 2007."

Auditors' Conclusion

This recommendation is considered **resolved and open**. FY 2007 audit procedures will determine whether the recommendation has been adequately addressed and the condition closed.

17. Federal Employees Compensation Act (FECA) Medical Evidence

In FY 2003, the OIG made the following recommendation:

Recommendation

We recommend that the Chief Financial Officer ensure that the Assistant Secretary for Employment Standards develops and implements effective controls (e.g. automated procedures) that will ensure Claims Examiners obtain and review current medical evidence as required by FECA program policy.

For FY 2006, we noted that 6 of 102 case files tested for current medical evidence did not contain current medical evidence as required by Office of Workers' Compensation Programs (OWCP) policy. Claimants being paid on the periodic roll (with the exception of schedule awards) require updated medical information every 1, 2 or 3 years, depending on case status. The lack of current medical evidence does not necessarily indicate that improper payments are being made (i.e., a permanently disabled claimant), but is a requirement that Claims Examiners (CEs) should adhere to. Proper use of the Periodic Eligibility Review (PER) screen could help alleviate this issue.

Management's Response

"Implementation of the functions within iFECS that will provide automated reminders for updating medical evidence was completed on March 31, 2006. OWCP management will perform a review to ensure that current medical evidence is on file as a part of the FECA accountability reviews beginning in February 2007."

Auditors' Conclusion

This recommendation remains **resolved and open**. FY 2007 audit procedures will determine whether the recommendation has been adequately addressed and the condition closed.

18. FECA System Enhancements

According to the FECA Procedures Manual, postcards (Form CA-801) should be sent to claimant employing agencies when a case is created in the Integrated Federal Employees Compensation System (iFECS). The postcard notifies the agency that one of their employees is now a claimant in the FECA program. We noted one improper case on the iFECS-generated Case Create Report which is used to generate the post cards to be sent to the employing agency. This particular case was created in 1978 and had since been closed. The reopening of the case during 2006 within iFECS initiated its inclusion in the Case Create Report. We noted a mitigating management review control to identify and remove the postcard; however, a system change could correct the issue. We noted that management has taken steps to identify this issue to the iFECS Change Control Board.

Additionally, although a contractor performs medical bill pay processing for OWCP, district offices are required to review medical bills in excess of $50,000. We noted one instance where a bill greater than $50,000 was paid by the OWCP medical bill pay contractor without OWCP approval. The district office was not notified of this payment by the contractor. We noted that OWCP has initiated a system change request to automate the identification of bills greater than $50,000 to ensure these bills are reported to the national and district offices on a weekly basis.

Recommendations

1. We recommend that the Chief Financial Officer and Assistant Secretary for the Employment Standards ensure:

   - System changes are made to notify OWCP of medical bills in excess of $50,000 that require OWCP review and approval.

- The medical bill contractor understands the importance of adhering to the OWCP requirement to review and approve bills in excess of $50,000.
- System changes are made so the CA-801 is only generated for new claimant cases.

Management's Response

"OWCP has notified the vendor of the specific error in processing TCN 00607271042046046 and taken steps to automate a restriction on the vendor's ability to authorize payments of $50,000 or more. The vendor is aware of the requirement for District Director approval for payment of these bills as evidenced by KPMG's review in the district offices of their processing of transactions of $50,000 or more that had been referred by the vendor. At the time of the audit, while the vendor's system automatically identified bills submitted for $50,000 or more, there was no automated restriction on the vendor's ability to authorize payment. In response to the audit finding, OWCP initiated a system change request for an additional edit that will identify bills processed to pay in amounts of $50,000 or above and limit authorization of the payment or denial of these bills to the District Directors. The final part of the change request will result in the production of a monthly report listing all medical payments of $50,000 or above. On a monthly basis, as part of the internal district office audit process, each office will review their report to ensure they did disposition and were notified of each bill on the report. Any discrepancies will be reported to the National office. These actions are scheduled for completion by March 31, 2007.

System changes to Case Create to limit the generation of a CA-801 to new claimant cases were completed and deployed October 11, 2006."

Auditors' Conclusion

This recommendation is considered **resolved and open**. FY 2007 audit procedures will determine whether the recommendation has been adequately addressed and the condition closed.

Appendices

APPENDIX A
ACRONYMS AND ABBREVIATIONS

A&E	Architecture and Engineering
ADP	Automatic Data Processing
APO	Accountable Property Office
BLS	Bureau of Labor Statistics
CAM	Cost Analysis Manager
CAMO	Capitalized Asset Management Officer
CATARS	Capitalized Asset Tracking and Reporting System
CE	Claims Examiner
DBFS	Division of Budget and Facilities Support
DFEC	Division of Federal Employees Compensation
DLMS	Department of Labor Manual Series
DOL	U. S. Department of Labor
DOLAR$	Department of Labor Accounting and Related Systems
DVOP	Disabled Veterans' Outreach Program
EBSA	Employee Benefits Security Administration
ESA	Employment Standards Administration
ETA	Employment and Training Administration
FECA	Federal Employees Compensation Act
FFMIA	Federal Financial Management Improvement Act
FMS	Financial Management Service
FY	Fiscal Year
GAO	Government Accountability Office
GPRA	Government Performance and Results Act
iFECS	Integrated Federal Employees Compensation System
IMIS	Integrated Management Information System
IT	Information Technology
JFMIP	Joint Financial Management Improvement Program
LVER	Local Veterans' Employment Representative
MCA	Managerial Cost Accounting
MSHA	Mine Safety and Health Administration
OASAM	Office of the Assistant Secretary for Administration and Management
OCFO	Office of the Chief Financial Officer

ACRONYMS AND ABBREVIATIONS (CONTINUED)

OCIO	Office of the Chief Information Officer
OFAS	Office of Financial and Administrative Services
OIG	Office of Inspector General
OMB	Office of Management and Budget
OSHA	Occupational Safety and Health Administration
OWCP	Office of Workers' Compensation Programs
PER	Periodic Entitlement Review
PMA	President's Management Agenda
POAM	Plans of Action and Milestones
PP&E	Property, Plant and Equipment
SFFAS	Statement of Federal Financial Accounting Standards
SSA	Security Self-Assessment
UCAC	Unemployment Compensation Advisory Council
VETS	Veterans' Employment and Training Service
WCF	Working Capital Fund