U.S. Department of Labor

Office of Inspector General
Washington, DC. 20210

NOV 1 9 2015

MEMORANDUM FOR: GEOFFREY KENYON
Principal Deputy Chief
Financial Officer

Elliot P. Lewis

FROM: ELLIOT P. LEWIS
Assistant Inspector General
for Audit

SUBJECT: FY 2015 Independent Auditors' Report
Report Number: 22-16-002-13-001

Attached is the Independent Auditors' Report on the U.S. Department of Labor's (DOL) fiscal year (FY) 2015 financial statements. We contracted with the independent certified public accounting firm of KPMG LLP (KPMG) to audit the financial statements of DOL as of and for the years ended September 30, 2015 and 2014. The contract required that the audit be conducted in accordance with *Generally Accepted Government Auditing Standards* (GAGAS) and applicable Office of Management and Budget (OMB) audit requirements.

KPMG's opinion on DOL's financial statements is unmodified, and it concluded that DOL complied, in all material respects, with the requirements under the *Federal Financial Management Improvement Act of 1996* as of September 30, 2015.

As part of its audit, KPMG was required to consider internal controls over financial reporting and compliance with certain provisions of applicable laws, regulations, contracts, and grant agreements that could have a direct and material effect on the consolidated financial statements. KPMG's consideration of internal controls disclosed one material weakness (noted below) and one non-compliance with the Antideficiency Act, both of which are detailed in the attached auditors' report as Exhibits I and II, respectively. This material weakness was reported as a significant deficiency in the FY 2014 financial statement audit. KPMG also found that DOL had made improvements in FY 2015 that resulted in the elimination of the significant deficiency reported in FY 2014 related to the lack of sufficient controls over grants.

Material Weakness:

- Lack of Sufficient Information Technology General Controls over Key Financial and Support Systems

KPMG is responsible for the attached auditors' report and the conclusions expressed in the report. However, in connection with the contract, we reviewed KPMG's report and related documentation and inquired of its representatives. Our review differed from an audit performed in accordance with GAGAS because we did not intend to express, nor did we express, an opinion on DOL's financial statements, conclusions about the effectiveness of internal controls or whether DOL's financial management systems substantially complied with FFMIA, or conclusions on DOL's compliance with laws and regulations. Our review disclosed no instances where KPMG did not comply, in all material respects, with GAGAS and OMB audit requirements.

This report is for inclusion in the DOL's Agency Financial Report. We noted certain additional matters that did not rise to the level of a material weakness or significant deficiency that we will report to management separately.

In accordance with DLMS 8 – Chapter 500, paragraph 533, we request you provide a written response within 60 days indicating your agreement or disagreement with the report recommendations. If you agree with the recommendations, your response should identify planned corrective actions, officials responsible for such actions, and the dates by which the actions should be taken and full implementation achieved. If you disagree with the recommendations, your response should fully explain the reason(s) for the disagreement.

We appreciate the cooperation of all DOL staff involved in this year's audit.

Should you have any questions, please contact Joseph Donovan, Jr., Audit Director, at (202) 693-5248.

Attachment

cc: Karen Tekleberhan, Deputy Chief Financial Officer

T. Michael Kerr, Assistant Secretary for Administration and Management

Edward C. Hugler, Deputy Assistant Secretary for Operations

Dawn Leaf, Chief Information Officer

Robert Balin, OCFO Audit Liaison

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Independent Auditors' Report

Secretary and Inspector General
U.S. Department of Labor

Report on the Financial Statements

We have audited the accompanying financial statements of the U.S. Department of Labor (DOL), which comprise the consolidated financial statements and the sustainability financial statements. The consolidated financial statements comprise the consolidated balance sheets as of September 30, 2015 and 2014, and the related consolidated statements of net cost and changes in net position and combined statements of budgetary resources for the years then ended, and the related notes to the consolidated financial statements.

The sustainability financial statements comprise the statements of social insurance as of September 30, 2015, 2014, 2013, 2012, and 2011; and the statements of changes in social insurance amounts for the years ended September 30, 2015 and 2014; and the related notes to the sustainability financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 15-02, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 15-02 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions on the Financial Statements

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the U.S. Department of Labor as of September 30, 2015 and 2014, its net costs, changes in net position, and budgetary resources for the years then ended in accordance with U.S. generally accepted account principles.

Also, in our opinion, the sustainability financial statements referred to above present fairly, in all material respects, the U.S. Department of Labor's social insurance information as of September 30, 2015, 2014, 2013, 2012, and 2011 and its changes in social insurance amounts for the years ended September 30, 2015 and 2014, in accordance with U.S. generally accepted accounting principles.

Emphasis of Matter

As discussed in Notes 1-W and 1-Y to the financial statements, the sustainability financial statements are based on management's assumptions. These sustainability financial statements present the actuarial present value of DOL's future expenditures to be paid to or on behalf of participants, the present value of estimated future income to be received from excise taxes, and the present value of estimated future expenditures for administrative costs during a projection period ending in 2040. The sustainability financial statements are intended to aid users in assessing whether future resources will likely be sufficient to sustain public services and to meet obligations as they come due. The statements of social insurance and changes in social insurance amounts are based on income and benefit formulas in current law and assume that scheduled benefits will continue after the related trust fund is exhausted. The sustainability financial statements are not forecasts or predictions. The sustainability financial statements are not intended to imply that current policy or law is sustainable. In preparing the sustainability financial statements, management considers and selects assumptions and data that it believes provide a reasonable basis to illustrate whether current law or policy is sustainable. Assumptions underlying such sustainability information do not consider changes in policy or all potential future events that could affect future income, future expenditures, and sustainability. Because of the large number of factors that affect the sustainability financial statements and the fact that future events and circumstances cannot be estimated with certainty, even if current policy is continued, there will be differences between the estimates in the sustainability financial statements and the actual results, and those differences may be material. Our opinion is not modified with respect to this matter.

Other Matters

Management has elected to reference to information on websites or other forms of interactive data outside the *Agency Financial Report* to provide additional information for the users of its financial statements. Such information is not a required part of the basic financial statements or supplementary information required by the Federal Accounting Standards Advisory Board. The information on these websites or the other interactive data has not been subjected to any of our auditing procedures, and accordingly, we do not express an opinion or provide any assurance on it.

Required Supplementary Information

U.S. generally accepted accounting principles require that the information in the Management's Discussion and Analysis, Required Supplementary Information, and Required Supplementary Stewardship Information sections be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Federal Accounting Standards Advisory Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audits were conducted for the purpose of forming an opinion on the basic financial statements as a whole. The information in the Message from the Secretary of Labor, Message from the Chief Financial Officer, and Other Information section is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Report on Compliance with *Federal Financial Management Improvement Act of 1996* (FFMIA)

We have examined DOL's compliance with the following requirements of Section 803(a) of FFMIA as of September 30, 2015:

- Federal financial management systems requirements;
- Applicable Federal accounting standards; and
- The United States Government Standard General Ledger at the transaction level.

Management is responsible for compliance with those requirements. Our responsibility is to express an opinion on DOL's compliance based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards applicable to attestation engagements contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and, accordingly, included examining, on a test basis, evidence supporting DOL's compliance with the requirements of Section 803(a) of FFMIA and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on DOL's compliance with specified requirements.

In our opinion, the U.S. Department of Labor complied, in all material respects, with the aforementioned requirements as of September 30, 2015, based on the criteria set forth in OMB Circular No. A-123, Appendix D, *Compliance with the Federal Financial Management Improvement Act of 1996*.

Other Reporting Required by *Government Auditing Standards*

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements as of and for the year ended September 30, 2015, we considered DOL's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the 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 did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in Exhibit I, we identified certain deficiencies in internal control that we consider to be a material weakness.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in Exhibit I to be a material weakness.

DOL management did not report the material weakness *Lack of Sufficient Information Technology General Controls over Key Financial and Support Systems* in its *Management Assurances*, included in the Management's Discussion and Analysis section of the accompanying *Agency Financial Report*.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether DOL's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, exclusive of those referred to in the Report on Compliance with *Federal Financial Management Improvement Act of 1996* (FFMIA), noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under *Government Auditing Standards* or OMB Bulletin No. 15-02, and is described in Exhibit II.

DOL's Responses to Findings

DOL's responses to the findings identified in our audit are described in Exhibits I and II. DOL's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the responses.

***Purpose of the Other Reporting Required by* Government Auditing Standards**

The purpose of the communication described in the Other Reporting Required by *Government Auditing Standards* section is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of DOL's internal control or compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

Washington D.C.
November 19, 2015

1. Lack of Sufficient Information Technology General Controls over Key Financial and Support Systems

Management charged with oversight and accountability for the U.S. Department of Labor (DOL) information technology (IT) control environment had not taken appropriate action to address ongoing pervasive deficiencies that had been identified in multiple information systems and reported to management as a material weakness or significant deficiency since fiscal year (FY) 2003. This control environment included both the general and application controls that support the completeness, accuracy, and validity of financial information. Additionally, management did not have sufficient procedures in place to ensure the performance of IT controls that functioned effectively in the past did not deteriorate. In summary, during our FY 2015 testing of significant DOL financial and support systems in the four DOL agencies responsible for them, we identified 28 new control deficiencies, 34 previously-reported deficiencies that were not corrected or not corrected timely, and 25 previously-reported deficiencies for which DOL agencies completed sufficient corrective action in FY 2015.

We classified the deficiencies identified into the following categories: account management, system access settings, system audit log reviews, configuration management, and vulnerability management.

The first two categories summarize the identified deficiencies related to controls that were designed to help prevent unauthorized access to IT systems. Control deficiencies related to account management increase the risk that current employees, separated employees, and/or contractors may obtain unauthorized or inappropriate access to financial systems and/or data. Such access could lead to unauthorized activities and/or inappropriate disclosures of sensitive data. System access setting control deficiencies may be exploited, in either a singular fashion or in combination, by a malicious user, which may affect the confidentiality, integrity, and/or availability of DOL systems and data. The specific deficiencies identified in these two categories were as follows:

Account Management

- Certain user accounts were not timely removed for separated users, and certain separated users had active system accounts;
- Personnel activities were not consistently controlled through effective segregation of incompatible duties and responsibilities;
- Account management controls were not consistently performed, as evidenced by roles that were improperly authorized or provisioned; incomplete access re-certifications; and incomplete or missing access requests, rules of behavior, non-disclosure agreements, and modification forms; and
- Shared, generic, and multiple user accounts for the same user existed on one DOL system.

System Access Settings

- Inactive accounts were not consistently disabled in a timely manner; and
- Certain password settings did not comply with the Office of the Chief Information Officer Computer Security Handbook.

System Audit Logs Reviews

The system audit logs reviews category represents controls designed to detect unauthorized access to IT systems. Although DOL had certain detective controls in place to partially mitigate the aforementioned account management and system access settings risks, we identified certain audit logs were not generated or reviewed timely. The lack of effective and timely system audit log reviews may allow for unauthorized or inappropriate activities to go undetected by management for lengthy periods of time.

Configuration Management

Controls related to configuration management are designed to provide reasonable assurance that changes to information system resources are authorized and systems are configured and operated securely and as intended. Although DOL had designed controls to establish accountability and responsibility for configuration management, including monitoring and tracking of changes, we identified certain segregation of incompatible duties weaknesses in the development and production environments and instances where configuration changes and patches did not follow the DOL configuration management process. The lack of strong change controls may allow for unauthorized or inappropriate changes to be applied and go undetected by management, resulting in lower assurance that the information system will operate as intended and that the data is reliable, valid, and complete.

Vulnerability Management

Controls related to vulnerability management are designed to prevent weaknesses in IT systems from being exploited. Such controls include proactively monitoring system vulnerabilities, timely patching related security issues, and configuring IT systems in compliance with baseline security requirements. During our FY 2015 audit procedures, we identified numerous critical and high-risk operating system patches and configurations that were not implemented.

Vulnerabilities that are not remedied in a timely manner may result in information leaks or system threats. These vulnerabilities may also disrupt normal system processes, allow inappropriate access, prevent updates from being implemented, and jeopardize the integrity of financial information. Additionally, vulnerabilities that are not remedied or mitigated can present an opportunity to circumvent account management, system access settings, and audit logging controls.

Collectively, the aforementioned IT control deficiencies pose a significant risk to the integrity of DOL's data, which could ultimately impact DOL's ability to accurately and timely perform its financial reporting duties. The specific nature of these deficiencies, their specific causes, and the systems impacted by them, have been communicated separately to management. These deficiencies were the result of issues in the design, implementation, or monitoring of departmental procedures and controls. DOL agencies have not invested the necessary level of effort and resources to perform root cause analyses to address issues previously reported, and to ensure that certain IT policies and procedures are developed, implemented, and operating effectively.

The National Institute of Standards and Technology Special Publication 800-53, Revision 4, *Security and Privacy Controls for Federal Information Systems and Organizations*, provides federal information systems standards and guidelines for controls that include, but are not limited to, the controls in which deficiencies were identified.

To address the deficiencies noted above, we recommend the Chief Information Officer:

a) Conduct appropriate root cause analyses over previously identified issues;
b) Coordinate efforts among the DOL agencies to develop procedures and controls to address account management, system access settings, system audit log reviews, configuration management, and vulnerability management control deficiencies in financial and support systems;
c) Monitor the agencies' progress to ensure that procedures and controls are appropriately implemented and maintained; and
d) Coordinate with the applicable agencies to ensure that sufficient resources are available to develop, implement, and monitor the procedures and controls that address account management, system access settings, system audit log reviews, configuration management, and vulnerability management control deficiencies in financial and support systems.

Management's Response: The Department recognizes and prioritizes the importance of implementing adequate safeguards to protect information and information systems. To secure the way users gain access to the Department's networks, management provided resources to enable the Office of the Chief Information Officer (OCIO) Identity and Access Management (IAM) program to successfully deploy a Public Key Infrastructure (PKI) across the DOL enterprise enabling all DOL employees the ability to logon to the network with their PIV cards in Q4 FY 2014. The Department was able to quickly build upon this success and adjust its IAM project schedule to accelerate the enforcement of PIV Card logon in response to the Federal Chief Information Officer's Cyber Sprint directive. To date, the Department has enforced PIV card logon for 96% of its privileged users and 93% of its general users. To strengthen the automation of its Information Security Continuous Monitoring (ISCM) program, the Department deployed four additional security monitoring tools expanding the Department and its agencies' ability to identify, detect, and in some instances remediate technical vulnerabilities on a near real-time basis resulting in a 77% decrease in vulnerabilities across DOL systems.

Management is in full agreement with the recommendations outlined in the report and concurs that there are opportunities to strengthen the identified security control procedure deficiencies. The OCIO will immediately enhance its engagement with and oversight of DOL Agency risk management programs and will accelerate its release schedule of the FY 2016 Priority Cybersecurity Action Dashboard (PCAD). The PCAD, scheduled for release in December, will cover high priority security items that require Agency attention, including: outstanding security vulnerabilities and patches, outstanding OIG-identified security concerns, and deferred Plans of Actions and Milestones targets. The Dashboard will outline recommended corrective actions and will be monitored, updated and released on a continuous basis. Additionally, DOL executive management and IT leadership will receive routine briefings outlining Agency progress in addressing the items outlined in the PCAD.

The OCIO will also require agencies to develop and implement a Corrective Action Plan to address the specific security control deficiencies outlined in the audit report. Agencies will be required to provide written justification for any corrective actions that cannot be completed within 90 days. The OCIO will develop an Enterprise Corrective Action Plan outlining short and long term strategies to identify the root cause of the repetitive occurrence of the security control procedure deficiencies and to design enterprise solutions to enable the agencies to systematically address weaknesses in their security control implementation.

In addition, and building on the technical security programs reviewed above, the OCIO will perform a comprehensive review of DOL computer security policies and procedures to identify and modify any areas requiring improvements in FY 2016. The OCIO will continue implementation of its ISCM program to automate additional DOL ISCM capabilities in alignment with the Department's ISCM strategy. Lastly, the OCIO IAM team will continue its efforts to acquire and begin the deployment of an identity management solution with the ultimate goal of automating DOL's account provisioning and de-provisioning processes to address the outstanding account management issues.

Auditors' Response: Follow-up procedures will be conducted in FY 2016 to determine whether corrective actions have been developed and implemented.

1. Noncompliance with the *Antideficiency Act*

In FY 2015, DOL completed its investigation related to obligations and expenditure of funds in excess of amounts appropriated for the Office of Job Corps (OJC), Job Corps Operations account and reported the results in accordance with the *Antideficiency Act* on November 10, 2015. The investigation resulted in two confirmed violations of the *Antideficiency Act* — one impacting Program Year (PY) 2009 (July 1, 2009 through June 30, 2010) appropriations and the other impacting PY 2010 (July 1, 2010 through June 30, 2011) appropriations.

The PY 2009 violation was caused by lack of sufficient controls over financial reporting and budgetary accounting, including inadequate fund control procedures as previously reported by DOL's Office of Inspector General and the Government Accountability Office. At the time that the PY 2010 violation occurred, OJC lacked proper controls to prevent, or detect and correct, improper generation and electronic processing of a contract action with an incorrect accounting code.

Because of the lack of sufficient controls over financial reporting and budgetary accounting during FYs 2009 through 2011, DOL violated the *Antideficiency Act*. The two violations identified above amounted to approximately $6.1 million of obligations and expenditures in excess of amounts appropriated.

United States Code, Title 31, Section 1341, Limitations on expending and obligating amounts, states:

> (a)(1)An officer or employee of the United States Government or the District of Columbia government may not –
>
> > (A) make or authorize an expenditure or obligation exceeding an amount available in an appropriation or fund for the expenditure or obligation.

To address the issues noted above, we recommend the Assistant Secretary for Employment and Training continue to develop and implement appropriate policies and procedures to prevent future violations.

Management's Response: The Department continues to develop and implement appropriate policies and procedures to prevent Anti-deficiency Act violations. For new initiatives impacting the Office of Job Corps, the Employment and Training Administration (ETA) developed a Standard Operating Procedure (SOP) for use of prior year funds clearly stating the correct action and role of each party involved such as the Budget Analyst, first-line Supervisor, Division Director and the ETA Comptroller. The SOP requires the Comptroller to approve prior year obligations that are not for standard contract close-out expenses and incentive fee payments. Along with the SOP, ETA has written a policy memo reconfirming the proper use of prior year funds and official exceptions to the rule. ETA also mandated an all-day training session on internal controls emphasizing each staff's role in the review and approval of procurement actions. These new safeguards and policies will strengthen internal controls and improve the financial operation of ETA.

Auditors' Response: Follow-up procedures will be conducted in FY 2016 to determine whether corrective actions have been developed and implemented.