UNITED STATES GOVERNMENT
National Labor Relations Board
Office of Inspector General

Fiscal Year 2019 Budget Execution

Report No. OIG-AMR-91-20-04

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CONTENTS

EXECUTIVE SUMMARY

At the end of Fiscal Year 2019, the Agency had a $5.7 million lapse in funding. In a memorandum to Agency employees, the Chairman and General Counsel stated that despite a Spending Plan that anticipated the expenditures of all allocated funds, the Agency ended the fiscal year with an unobligated balance of $5.7 million, or approximately 2.1 percent of the Agency's budget of $274.2 million. The memorandum stated that the surplus was largely attributable to several contracts that were awarded significantly under their budgeted price or were not able to be awarded prior to the close of the fiscal year.

The objectives of this audit were to determine:

- The cause of the lapse of $5.7 million from the FY 2019 appropriation;
- Whether the Agency's internal controls over the process for determining necessary expenses are effective; and
- Whether the Agency's internal controls over budget execution are effective.

We determined that the lapse in Fiscal Year 2019 appropriated funds at the end of the fiscal year was directly attributable to an overestimation of payroll expenses in the Fiscal Year 2019 Spend Plan and the lack of an effective means to track and report on the availability of funds. As a result, the Agency was not able to adequately plan for the expenditure of approximately $17,000,000 in appropriated funds, resulting in a lapse of $5,699,240.12 at fiscal year-end. We also determined that in Fiscal Year 2019, the Office of the Chief Financial Officer utilized an undocumented and ineffective budget process. As such, the Agency did not maintain an effective internal control system to ensure the Agency's appropriation was allocated to meet the necessary expenses. We made six recommendations for corrective action.

In the Management Comments, the Chief Financial Officer agreed with the findings in part and disagreed in part. Specifically, the Chief Financial Officer asserted that the proximate cause of the $5.7 million lapse in funding was attributable to one contract that had an original estimated award amount of $2.5 million, was awarded for $758,000, and was then canceled. The Chief Financial Officer also stated concurrence with five of the six recommendations. For the remaining recommendation, the Chief Financial Officer stated that the Office of the Chief Financial Officer has processes in place but will take steps to ensure that existing procedures or new procedures are implemented in accordance with the Government Accountability Office's guidance. As appropriate, the Management Comments are discussed in the body of the report and they are included in their entirety as Appendix B.

BACKGROUND

Budget execution begins when an appropriations bill has been enacted. The period of availability for the National Labor Relations Board's (NLRB or Agency) appropriation is one year, and the appropriation can be used to cover obligations incurred during that year. Throughout the period of availability, OMB apportions the appropriation to the Agency in quarterly increments.

According to the information provided by the Office of the Chief Financial Officer (OCFO) on the Agency internal Internet site, the execution of the Agency's budget is monitored by the Budget Branch through the use of a "Spend Plan" that forecasts planned expenses for the year according to the quarter and month in which they are expected to occur; the Budget Branch reconciles the Spend Plan at the end of the month when actual obligations for program requirements are recorded; the Budget Branch also performs detailed research and analysis to track burn rates for obligations, correct miscoded transactions and anomalies ensure that payroll disbursements are accurate, and verify that sufficient funds are available to cover projected payroll disbursements.

At the end of Fiscal Year (FY) 2019, the Agency had a $5.7 million lapse in funding. In a memorandum to Agency employees, the Chairman and General Counsel stated that despite a Spending Plan that anticipated the expenditures of all allocated funds, the Agency ended the fiscal year with an unobligated balance of $5.7 million, or approximately 2.1 percent of the Agency's budget of $274.2 million. The memorandum stated that the surplus was largely attributable to several contracts that were awarded significantly under their budgeted price or were not able to be awarded prior to the close of the fiscal year.

Also noted in the memorandum, the OCFO had significant personnel changes during FY 2019. The memorandum stated that the new Chief Financial Officer (CFO) was appointed in January, and, thereafter, a new Budget Officer. Not specifically stated in the memorandum, from approximately April 2018 to January 2019, the CFO position was vacant, and a manager was designated the Acting CFO while also serving in her permanent position. From approximately January 2019 to April 2019, the OCFO was also without a permanent Budget Officer.

OBJECTIVES, SCOPE AND METHODOLOGY

The objectives of this audit were to determine:

- The cause of the lapse of $5.7 million from the FY 2019 appropriation;
- Whether the Agency's internal controls over the process for determining necessary expenses are effective; and
- Whether the Agency's internal controls over budget execution are effective.

The scope of this audit is budget execution during FY 2019.

We reviewed laws, regulations, and Governmentwide policies related to budget execution. We obtained and reviewed the Agency's policies and procedures related to budget execution. We interviewed staff in the OCFO to learn about internal controls over the budget execution.

We reviewed trends in funding, payroll, full-time equivalents (FTE), caseload, and obligations by budget object class and office to learn reasons for the lapse in funding. We reviewed adjustments to the obligated balance of the FY 2019 appropriation to determine the current status of the lapsed funds.

We obtained and reviewed the Agency's approved FY 2019 Spend Plan and Mission Critical Needs List to learn the needs identified by the Agency. We reviewed whether the Agency was using an Integrated Project Team (IPT). We obtained the tracking files used to monitor the FY 2019 appropriation. We reviewed the documentation provided to determine the effectiveness of the Agency's tracking of the FY 2019 spending. We determined whether there were any approved and funded projects that were not procured.

We reviewed the Government Accountability Office's (GAO) Standards for Internal Control in the Federal Government (Standards), dated September 2014, to identify the relevant internal control standards over determining necessary expenses and budget execution. We evaluated the internal control policies and procedures to see whether they met the GAO Standards and whether they met OMB Circular A-11. We evaluated the effectiveness of the internal controls over determining necessary expenses and over budget execution that were identified by the Agency.

We conducted this performance audit in accordance with generally accepted government auditing standards during the period from January 2020 through July 2020. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

FINDINGS

The Agency's lapse in FY 2019 appropriated funds at the end of the fiscal year is directly attributable to an overestimation of payroll expenses in the FY 2019 Spend Plan and the lack of an effective means to track and report on the availability of funds. The effect was that the Agency was not able to adequately plan for and execute the expenditure of approximately $17,000,000 in appropriated funds, resulting in a lapse of $5,699,240.12 at fiscal year-end.

In FY 2019, the Agency did not maintain an effective internal control system to ensure the Agency's appropriation was allocated to meet the necessary expenses and avoid mismanagement and loss of the use of funds appropriated by Congress.

OBJECTIVE: *The cause of the lapse of $5.7 million from the Fiscal Year 2019 appropriation.*

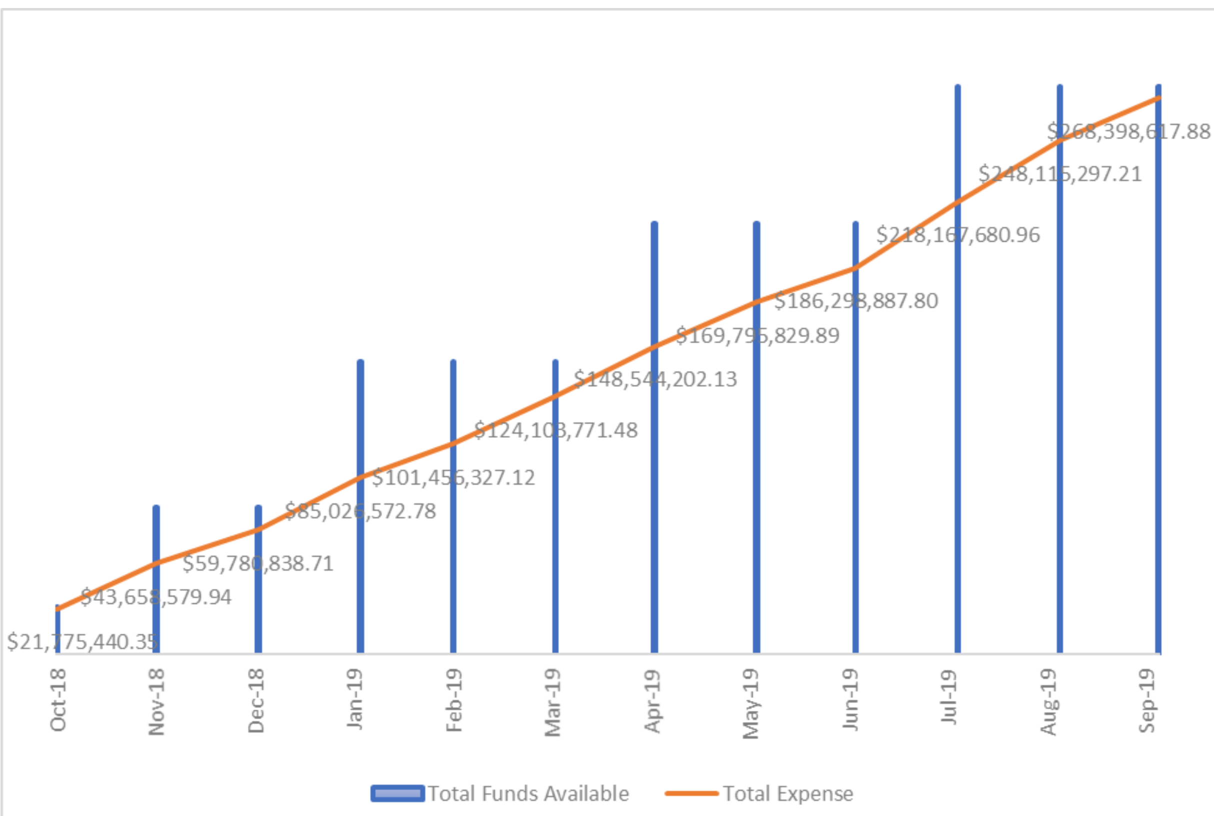
In FY 2019, the Agency received an annual appropriation in the amount of $274,224,000 at the beginning of the fiscal year. Although the appropriation was a single amount available for the entire fiscal year, those funds were not available for obligation by the Agency until OMB made an apportionment of funds. OMB apportioned the FY 2019 appropriation in the following manner:

- 1st Quarter $ 70,724,000
- 2nd Quarter $ 70,500,000
- 3rd Quarter $ 66,500,000
- 4th Quarter $ 66,500,000

Total $274,224,000

In July 2019, OMB transferred $126,142 from the appropriated funds available for all necessary expenses to a restricted category - referred to as "Category B" funds – to be used only for the replenishment of the Backpay trust account. The Category B funds were then no longer available for obligations for necessary expenses. The Category B funds were transferred to the Backpay trust account prior to the end of the fiscal year and those funds did not contribute to the lapse in funds.

The following chart shows the amount of funds available as compared to the obligation by month during FY 2019:



As the chart shows, the Agency did not obligate all the apportioned funds by the end of each quarter. The following amounts were carried forward and remained available with the next apportionment:

- 1st Quarter $ 10,943,161
- 2nd Quarter $ 17,120,229
- 3rd Quarter $ 21,425,112

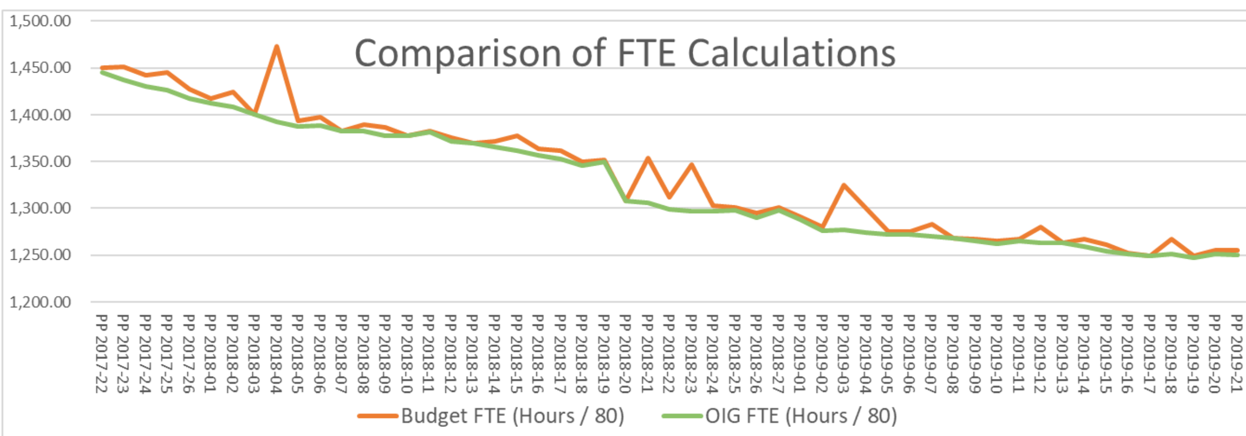
For context in understanding the impact of funds remaining at the end of each quarter and the lapse in funding at the end of the fiscal year, it is useful to understand how the NLRB uses its appropriation. The chart below shows how the appropriated funds were used and the amount remaining at the end of the fiscal year for FY 2015 through FY 2019:

		2015	2016	2017	2018	2019
Appropriation	**Level funding for all years at $274,224,000.00**					
Spending Category	**Year-End Amount of Expenses/Obligations**					
Personnel	Amt	$214,942,352.15	$219,573,296.34	$216,221,828.07	$209,864,177.60	$202,453,349.12
	Pct	78.38%	80.07%	78.85%	76.53%	73.83%
Building Rent and Security	Amt	$27,437,243.93	$20,277,478.01	$24,957,072.49	$25,184,446.65	$25,755,081.99
	Pct	10.01%	7.39%	9.10%	9.18%	9.39%
Payroll, Benefits and Rent	Amt	$242,379,596.08	$239,850,774.35	$241,178,900.56	$235,048,624.25	$228,208,431.11
	Pct	88.39%	87.47%	87.95%	85.71%	83.22%
Funds available for other obligations	Amt	$31,844,403.92	$34,373,225.65	$33,045,099.44	$39,175,375.75	$46,015,568.89
	Pct	11.61%	12.53%	12.05%	14.29%	16.78%
Funds Remaining – End of Year		$442,517.30	$602,324.99	$916,477.63	$3,184,875.67	$5,699,240.12
Percent of Appropriation		0.16%	0.22%	0.33%	1.16%	2.08%
Percent of Funds available for other obligations		1.39%	1.75%	2.77%	8.13%	12.39%

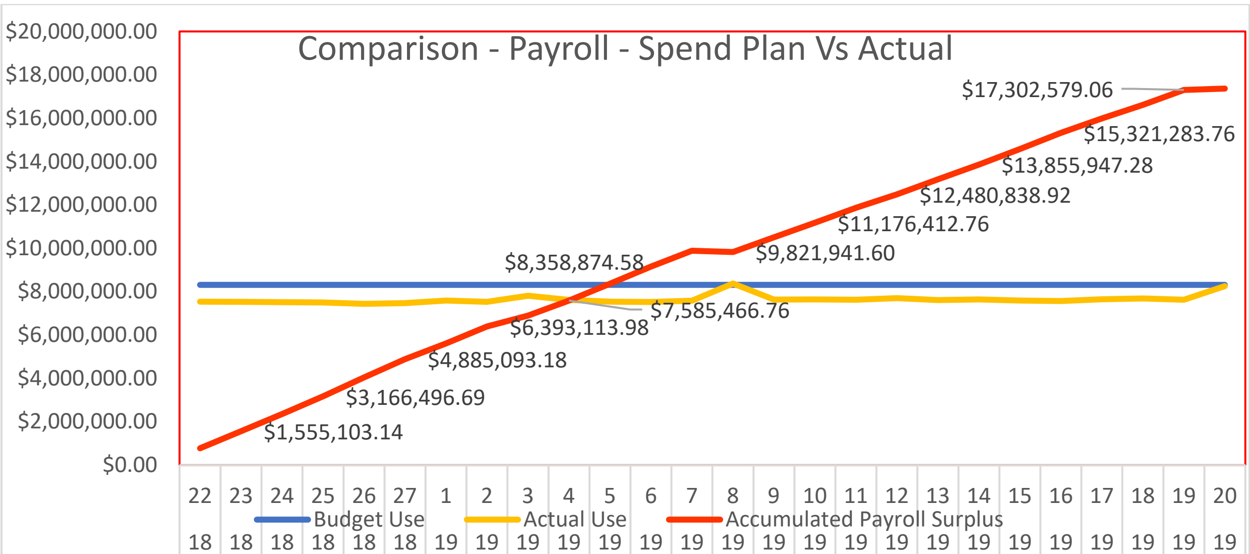
The chart above identifies a category as “Funds available for all other obligations.” We created this category to summarize spending on goods and services that are more discretionary in nature, as differentiated from personnel and building rent and security spending because generally the Agency would need to take some action outside of the Spend Plan approval process to reduce those expenses.

For the purposes of budget calculation, the largest expense of the Agency is payroll. Payroll expenses are driven by FTE rather than the number of employees. The FTE level for an agency is the total number of regular straight-time hours worked (i.e., not including overtime or holiday hours worked) by employees divided by the number of compensable hours applicable to each fiscal year. Annual leave, sick leave, compensatory time off and other approved leave categories are considered "hours worked" for purposes of defining FTE employment. In FY 2019, one FTE equated to 2,088 hours, meaning that for every 2,088 in regular straight-time hours worked, the Agency had one FTE. For a single pay period, one FTE would then be 80 hours.

To better understand the Agency's payroll, we examined the Agency's FTE calculations used by the Budget Branch. We observed that the Agency's FTE calculations had significant spikes in hours in several pay periods. After additional analysis, we determined that those spikes were due to the inclusion of hours that were not "regular straight-time hours worked," including lump sum payments of leave and compensatory time, overtime, and holiday hours. We then recalculated the FTE amounts and extended the analysis to include FY 2018 for a broader view of the FTE trend. The chart below shows the Agency and the OIG calculations:



In the FY 2019 Spend Plan, the Agency allocated to salaries $216,060,555 to the category "Current Payroll" To obtain that figure, the Budget Branch used the employee roster as of September 19, 2018, and then calculated the amount without adjustment for Leave Without Pay (LWOP) and assuming a 1.9 percent pay rate increase. The Spend Plan also added funds for additional positions and new hires. That amount prorates to $8,310,021 per pay period. The FY 2019 Spend Plan was approved on January 17, 2019. By that date, the Agency achieved a surplus of funds allocated to payroll (i.e. overestimated the funds needed at that point in the fiscal year) in the amount of $6,393,114. By March 2, 2019, the surplus in funds allocated to payroll was $8,358,875, an amount almost equal to the prorated amount for each pay period. Without any adjustments by the Budget Branch, by the end of the fiscal year, the payroll surplus would have been $17,364,027, or 8 percent of the total amount allocated for payroll expenses for the fiscal year. The chart below illustrates the overestimate in payroll:



We determined that the amount allocated for building rent and security had a surplus of $247,713, or approximately 1 percent of the total amount allocated to building and physical security expenses, or 4.3 percent of the lapse in funding. As such, it did not significantly contribute to the overall lapse in funding.

Because the budget estimate for Current Payroll was based on the employee roster as of September 19, 2018, a significant surplus in the amount allocated to Current Payroll would logically correlate to a decrease in the biweekly FTE level. A decrease in FTEs results from the decrease in regular straight-time hours worked and therefore results in reduced payroll expenses. Reductions in regular straight-time hours worked can result from the loss of personnel or a decline in the hours worked by the personnel. To determine if employees in a non-pay status had a material effect on the surplus of funds available for “Current Payroll,” we analyzed the use of the non-pay status of LWOP by employees by calculating the FTE and value of the LWOP if the hours had been worked. For FY 2019 there were 31,274.5 hours of LWOP, an amount equivalent to approximately 15 FTEs. Had the employees in the LWOP status during FY 2019 worked those hours, the value of the hours would have been $1,561,763. As compared to the payroll estimate surplus, the LWOP accounts for 8.73 percent of that amount.

Because the LWOP amount is less than 10 percent of the payroll estimate surplus, the surplus can be attributed to a loss of personnel. Other than the sharp decline in FTE in Pay Period 2018-20 as a result of the Agency offering separation incentives, the decrease in FTE is consistent between pay periods. That consistency and the fact that the NLRB leadership determines when to fill vacancies allows for a greater precision in budgeting for payroll expenses. However, rather than taking into account the historic trend of a declining FTE level, the FY 2019 Spend Plan estimated the "Current Payroll" at a static FTE amount based upon the last payroll as of October 1, 2018 and then added funds for filling a limited number of positions and other personnel expense increases.

The estimation of "Current Payroll" was also not timely. The FY 2019 Spend Plan was approved in January 2019, but as stated above payroll was based on the FTE level for the pay period prior to the beginning of FY 2019. The payroll expenses were also estimated for the entire year, even though the actual first quarter payroll expenses were known. In January 2019, it should have been apparent to the Budget Branch officials that there had been a continued decline in the pay period FTE levels, given that they had the first quarter payroll data available to them.

Using the Budget Branch's methodology, had the Budget Branch used the actual amount known for payroll and estimated the remainder of the fiscal year by the average actual pay period payroll (an amount that would take into account averages for LWOP and lump sum payments), added the anticipated 1.9 percent pay rate increase for the remaining pay periods, and added the anticipated changes in personnel identified in the Spend Plan, it would have had of estimate of $200,777,042, an amount that was within $2,080,515, or 1.047 percent, of the actual expense.

Using figures known at the time of the approval of the Spend Plan would have increased the precision of the estimate. This is particularly true given that the decline in FTEs after the voluntary separation incentives appeared to have been flatter and the decline in case intake reported in the Agency's Performance and Accountability Reports also appeared to level off from a 9.33 percent decrease in FY 2017 to a 3.12 percent decrease in FY 2018. Additionally, the surplus in available funds was not identified and reported to Agency leadership until the middle of the third quarter and, as discussed below, the tracking sheets used by the Budget Analysts contained numerous material errors, indicating that Budget Branch lacked an effective means to track and report on the status of available funds.

Having approximately $17,000,000 available to the leadership and Agency managers for a decision on spending would have improved the ability to meet the critical needs of the Agency. Also, it would have provided the OCFO's procurement staff adequate time to work with managers to plan significant projects throughout the fiscal year as funds became available through the apportionment process and the reallocation of funds that became available throughout the year. This is particularly important in light of the Agency's statement, in explaining the lapse of funding to the employees, that the FY 2019 budget dedicated significant, overdue spending on information technology (IT) to upgrade and, in some cases, replace major internal systems that had long been neglected.

For example, in June after the surplus in appropriated funds was identified, the Budget Branch created a Mission Critical Needs List. Through that process, management requested funding for projects that were not funded through the Spend Plan. One of those projects was a procurement for infrastructure improvement. Although the project was not on the Spend Plan, the program office completed an initial independent Government estimate for the project in March 2019, about 2 months before the OCFO notified Agency leadership that by their estimate there was approximately a $14,000,000 surplus in funding. The project was then approved on the Mission Critical Needs List on July 18, 2019, at a funding level below the initial estimate. The independent Government estimate was then revised on August 9, 2019 to $2,500,000, matching the approved funding level. The estimate stated that it used the vendor quotation amount. The Request for Quotes was posted on August 12, 2019, and final closing date was September 19, 2019. All the proposals were well under the Agency estimate – a situation that would normally be welcomed as the remaining funds could then be applied to another necessary expense. The Agency issued a task order to a vendor and funds were obligated on September 26, 2019, at an amount of $758,419.23. The vendor, however, due to pending contract modifications, was not able to accept the task order or begin performance prior to the end of the fiscal year. On September 30, 2019, the OCFO procurement staff learned of the procurement issues and that the vendor was attempting to resolve the matter. Nevertheless, the procurement was canceled because FY 2019 funds were no longer available. The funds were deobligated on November 1, 2019.

Had the Agency leadership and managers known in January that the payroll expenses could be reduced by approximately $17,000,000, those additional funds could have been put to other needs and procurement actions such as the infrastructure improvement procurement could have been posted for proposals months sooner with sufficient time to select an alternate contactor, initiate a new procurement to meet that need, or reallocate those funds to another need rather than adding $2,500,000 to the lapse in funding at the end of FY 2019.

In addition to the infrastructure improvement situation, the OCFO staff identified two significant procurements that were not completed by the end of the fiscal year. Had funding been made available sooner, an additional $500,000 could have been used for the acquisition of goods and services for needs identified on the Mission Critical Needs List.

Management Comments

In its response to the Draft Report, Management stated:

> Response to the Finding: The OCFO agrees in part and disagrees in part with this finding. According to the report, the NLRB overstated payroll expenses by approximately $17 million, which resulted in under execution in of the appropriated funds by approximately $5.7 million in FY 2019. However, while this

overstatement of payroll may have contributed to the under execution, it was not the proximate or ultimate reason for the failure to spend some of the funds.

The contracting issues that arose at the end of the fiscal year were the proximate cause of the failure to spend. Once aware of the amount of excess funds, OCFO and Agency leadership moved quickly to reallocate excess funds to ensure the full execution of NLRB appropriation by September 30, 2019. By early September 2019 all but approximately $673,000 of the appropriation had been allocated. Late in September 2019, the Agency faced a contract protest, underestimation of a contract award, and a voided contract. Some of these issues were beyond the Agency's control. These contracting issues are factors that cannot be ignored when making an assessment of the $5.7 million in unspent funds.

Of the $5.7 million unobligated balance, most of the unobligated balance was a result of one contract that had an original estimated award amount of $2.5 million. On September 24, 2019, OCFO/Budget Branch was informed by the Office of the Chief Information Officer that contract estimate was reduced from $2.5 million to $758,000. However, after NLRB awarded the contract, the General Service Administration (GSA) informed NLRB OCFO/Acquisition Management Branch that the contractor could not accept the offer due to an underlying breach of agreement with GSA; thus, NLRB was obligated to cancel the contract award. Even if the funding for this contract had been made available in January 2019, this issue was unavoidable and out of the control of the Agency. It is important to note that while the program area developed the contracting package seven months prior to the fiscal year close, the contract still could not have been awarded because of the factors stated earlier. As the OIG audit indicated "Although the project was not on the Spend Plan, the program areas completed an initial independent Government estimate for the project in March 2019". OCFO acknowledges that the Agency spent less than what was expected; however, the shortfall did not affect the Agency's overall performance or its ability to accomplish its mission, objectives, and goals.

OIG Response

With regard to the statement that the Agency faced a contract protest, that procurement issue was resolved. The procurement action was in the amount of $557,983.04 and was obligated on September 30, 2019. A protest was filed. The OCFO processed a journal voucher that effectively added that amount to the FY 2019 year-end lapsed appropriation balance and then deobligated those funds on October 31, 2019. In January 2020, a replacement contract was issued obligating $438,145.60 in FY 2019 funds, and therefore reduced the amount of lapsed funds by that amount. Nevertheless, because of this and other transactions posted after fiscal year-end, as of June 18, 2020, the amount of the lapsed FY 2019 appropriation was $5,570,242.49 – an amount slightly less than the lapse amount reported as of the end of FY 2019.

With regard to an "underestimation of a contract award," underestimating a contract award would not lead to additional funds being added to the lapse in funding. Underestimating amounts increases the amount needed for a procurement and therefore decreases the amount of the appropriation remaining for obligations and any resulting lapse in funding amount.

With regard to the "voided contract," the Management Comments state that "[o]n September 24, 2019, OCFO/Budget Branch was informed by the Office of the Chief Information Officer that contract estimate was reduced from $2.5 million to $758,000." This statement is not correct. On September 24, 2019, the price determination was made by the Contracting Officer awarding the procurement action. The procurement function is part of the OCFO's Acquisitions Management Branch. The Contracting Officer made the price determination after receiving the proposals, which were due on September 19, 2019, and were all below the program office's estimate. Therefore, it was the

Contracting Officer and OCFO who knew or should have known that, if awarded, the procurement would be well-below the estimate provided by the program office. Also, based on the information in the procurement file, the government estimate included items in addition to the services provided in the proposals and, therefore, the estimate was much higher than quotes received. As such, it is inaccurate to state that the program office changed the estimate.

"[A]fter NLRB awarded the contract, the General Service Administration [sic] (GSA) informed NLRB OCFO/Acquisition Management Branch that the contractor could not accept the offer due to an underlying breach of agreement with GSA; thus, NLRB was obligated to cancel the contract award." This statement is not accurate. On September 30th, the contractor, not GSA, sent an email informing the Contracting Officer that they could not accept the task order until all related contract modifications had been approved by GSA. The OCFO then contacted GSA in an attempt to resolve the matter. The GSA representative did not state that the "contractor could not accept the offer due to an underlying breach of agreement with GSA." What the GSA representative explained to the OCFO, in response to the assertion that the NLRB had an agreement with the contractor, was that because the contractor had not signed the task order nor had the contactor begun performance there was no contractor acceptance in place. The GSA representative also explained that it would be improper for GSA to tell the contractor to accept the task order before the modifications were completed because that would cause the contractor to willfully and knowingly breach a term or condition of the contract against which the NLRB task order was issued. The GSA representative explained that the modifications submitted for approval by GSA were not administrative modifications, but rather were modifications to add the NLRB's specific requirements to its contract and that GSA was expediting them. Thereafter, the OCFO processed a journal voucher that added that amount of this procurement to the FY 2019 year-end appropriation balance and, on November 1, 2019, the Contracting Officer issued a modification canceling the procurement action and deobligating the funds.

"Even if the funding for the contract had been made available in January 2019, this issue was unavoidable and out of the control of the Agency." This statement is not accurate. The Director of Acquisitions acknowledged in an October 3, 2019, email to GSA that if they knew about the procurement issues ahead of time, they could have selected another vendor, stating "[i]f they notified us on 9/26 or 9/27 we could've scrambled to cancel and award to a different contractor." Also, as explained above, the task order was issued on September 26, 2019. It certainly was within the control of the OCFO to ask for the signed document back to evidence acceptance on any one of the 4 days prior to the end of the fiscal year. Had the OCFO done so, it would have learned that the contactor could not accept the task order until the modifications were completed. Thereafter the OCFO could have canceled the task order and moved on to the next acceptable proposal. These actions were within the complete control of the OCFO and would have avoided adding $758,000 to the amount of lapsed funds.

Additionally, as discussed above, had the procurement been funded in January and awarded to an acceptable vendor earlier in the fiscal year, the estimated funds not needed for the procurement could then be applied to other necessary expenses. In fact, the OCFO request for pre-solicitation legal review is dated March 25, 2019, and states that the requirement needs to be posted by March 29, 2019. This need, however, was not on the Spend Plan. Funding for this procurement was not authorized until July 2019 after the surplus in funds was identified in May 2019 and after the OCFO initiated the Mission Critical Needs List in June 2019.

Our report and findings did not ignore these procurement issues; our report discusses the procurement issues. Our findings, based on the evidence provided by the OCFO during the audit, are that the overestimation in payroll and the lack of an effective means to track and report on the availability of funds resulted in approximately $17,000,000 in appropriated funds not being allocated to the necessary needs of the NLRB until after beginning the fiscal year's fourth quarter. As a result, the NLRB had an insufficient time to properly plan for and executed procurement actions to avoid a significant lapse in FY 2019 appropriated funds. This situation could have been avoided had the NLRB properly managed its budget process.

OBJECTIVE: ***Whether the Agency's internal controls over the process for determining necessary expenses are effective.***

To test the effectiveness of the internal controls for determining necessary expenses we used GAO's internal control standards and created a testing matrix. Based on our testing (Appendix A), we found that the OCFO did not have a system of internal controls for the determination of necessary expenses. We also found that although the OCFO has a system of controls in Administrative Policies and Procedures Manual Chapter BUD-1(A), *Budget Planning and Operations*, dated April 5, 2010 (APPM BUD-1(A)), that generally meets OMB guidelines, those controls do not include the procedures implemented by the OCFO's budget processes. The APPM BUD-1(A) process involves a system of approving allocations to managers who then manage the funds to meet the necessary needs rather than a detailed Spend Plan. We also determined that APPM BUD-1(A) was not updated to address organizational changes with the creation of the OCFO. As such, we determined the OCFO's budget process for FY 2019 was based upon an ineffective and undocumented process for determining necessary expenses.

As discussed in the prior section, the Spend Plan was not developed in manner that adequately addressed the necessary needs of the Agency. We also observed that the Agency was no longer using an IPT for information technology acquisition of capital projects.

The IPT requirements apply not only to the assets as initially acquired but also to additions, improvements, modifications, replacement, rearrangements and reinstallations, all major improvements, but not ordinary repairs and maintenance. Several acquisition disciplines are essential to planning and managing an acquisition through its lifecycle. The IPT analyzes the performance and capability of the portfolio of assets used by the program. As described the Judicial Case Management System (JCMS) Modernization and NxGen Enhancements required the review and approval by the IPT as they are improvements rather than ordinary repairs or maintenance. We observed that there were separate line items for JCMS and NxGen maintenance in the Spend Plan.

Although the OCFO may have utilized a process to determine that projects such as the JCMS Modernization and NxGen

Enhancements were necessary and appropriate expenses, a formal capital asset management infrastructure is the best practice used throughout industry and by Government agencies to establish clear lines of authority, responsibility, and accountability for the management of capital assets. Additionally, use of the IPT process is an internal control component that is essential to avoid the IT situation described by the Agency leadership that as a result of the available funding in FY 2019, they were able to provide significant, overdue spending on information technology to upgrade and, in some cases, replace major internal systems that had long been neglected. Without the implementation of the IPT for IT capital projects, the Agency is at risk of not identifying the necessary IT expenses to ensure that the Agency has the appropriate IT means to meet its statutory mission.

OBJECTIVE: W*hether the Agency's internal controls over budget execution are effective.*

To test the effectiveness of the internal controls over budget execution, we also used GAO's internal control standards and created a testing matrix. Based on our testing (Appendix A), we found that the OCFO did not have a documented system of internal controls for budget execution, i.e., the implementation of the Spend Plan. As such, we determined the OCFO's budget execution process was ineffective at monitoring the expenditure funds.

During our review of tracking files used by the Budget Analysts we observed that there were errors. The following are examples of the types of errors we found:

- An Interagency Agreement for background investigations - the obligation listed in the tracking file was $289,828 less than the obligation reported in the financial system. The Mission Critical Needs List showed that leadership also approved $237,818 in additional funds for this item. The increase in funding was not documented on the tracking file. Also, based on the information provided on the Spend Plan and the Mission Critical Needs List, the obligations for this item exceeded the approved amount by $52,010.

- An Interagency Agreement for security field offices – the amount listed in tracking file was $30,050.90 less than the obligation listed in the financial system. The Mission Critical Needs List states that the leadership approved $30,000 increase in funding, on July 18, 2019, but the tracking file did not document the increase in the fourth quarter.

- Several items had a "zero" amounts recorded in the tracking files but had an obligation amount that was recorded in the Agency's financial system. For example:

  - Legal education services obligation in the amount of $129,360;

  - Publishing bound Board volumes obligated in the amount of $10,231;

  - Postage obligation in the amount of $62,367.96; and

  - Barcode labels, scanners, and printers obligated in the amount of $31,978.

- When we reviewed the tracking file for the Office of the Chief Information Officer (OCIO), we also observed that the OCIO tracking file had a tab entitled "Budget details" that was used to track the obligations. We did not identify a separate tab in the tracking files for offices by other Budget Analysts.

- Several instances where the Spend Plan-approved amount and the amount listed as obligated were identical when the actual obligation was a different amount.

- Multiple obligations for a single item were not always recorded on the tracking file and some items exceeded the documented approved amount:

  - An additional $147,000 was obligated for support of IT administrative systems in April

2019 and not accounted for on the tracking file;

- An additional $36,733 was obligated for IT support services in April 2019 and not accounted for on the tracking file; and

- In January 2019, an amount of $178,427.07 was obligated for IT support services provided by contractor 1. In July 2019, $939,664.00 was obligated for ongoing IT support services provided by contractor 2. The total amount obligated for both contracts was not accounted for on the tracking file and the total amount obligated for the IT support services was $363,034.07 more than the amount approved by the Spend Plan. Additional funding for these services was not approved on the Mission Critical Needs List.

We also observed that the OCFO obligated more funds to certain court reporting procurements than were needed. The court reporting procurement obligations are based upon five procurements with contactors for indefinite quantities of reporting services. Each procurement action has a “not-to-exceed” amount. Throughout the fiscal year, the contracting officer incrementally funded the procurements by obligating amounts to meet the court reporting needs. For three of the five court reporting procurements, the contacting officer obligated funds in excess of the “not-to-exceed” amount. The total in excess obligations was $108,000. The contracting officer also obligated more funds than were necessary to meet the court reporting needs. After the fiscal year ended, the OCFO deobligated $275,937.46 in funds for the court reporting procurement actions. These obligations were approved by the Budget Branch, indicating that the Budget Analyst was not appropriately tracking the obligations.

Based on these observations, we determined that the Budget Branch’s undocumented method of tracking spending was ineffective. We also found no documentation that the tracking files were monitored by a supervisor or manager.

RECOMENDATIONS

We recommend that the OCFO:

1. Decide whether to utilize the budget process established in APPM BUD-1(A) or establish alternative documented process:

    a. If the determination is to use the process in APPM BUD-1(A), update the chapter to reflect the current OCFO organizational structure and augment the process with appropriate internal controls, in accordance with the guidance's provided by GAO's Standards for Internal Control in the Federal Government to ensure that the process is followed; or

    b. If the determination is to use procedures other than those established in APPM BUD-1(A), create a system of internal controls that support the identification of necessary expenses through a planning approval process that meets both OMB guidelines in Circular A-11 and the guidance provided by GAO's Standards for Internal Control in the Federal Government.

2. Establish and implement an IPT internal control process for capital projects that meets the criteria established by OMB Circular A-11;

3. Create a system of internal controls, in accordance with the guidance provided by GAO's Standards for Internal Control in the Federal Government, to ensure that the expenditures of the Agency's appropriated funds are made as approved by the Agency's leadership and tracked in a manner that can be reviewed and reconciled by OCFO supervisors and managers;

4. Develop a filing system to ensure that documentation of the budget process is maintained and readily available for inspection;

5. Provide training to Budget personnel on the internal controls develop in response to the recommendations; and

6. Review Budget Branch staff qualifications and engage in a process to ensure appropriate succession planning.

Management Comments

Management Comments state concurrence with recommendations 1, 2, 4, 5, and 6.

For recommendation 3, Management Comments state:

OCFO already possesses a system of internal controls to ensure that the expenditures of the Agency's appropriated funds are made as approved by the Agency's leadership and tracked. OCFO has already identified key budgetary controls and has documented the processes. Currently, OCFO/Budget Branch maintains up-to-date tracking spreadsheets that are reviewed by executives, supervisors, and managers during the mid-year reviews and monthly reviews. OCFO will continue to work with the Internal Control Manager to ensure existing procedures or new procedures are implemented in accordance with the GAO Green Book.

OIG Response

Our findings are that there was not an adequate system of internal controls in place in FY 2019 to document the approval and track the expenditure of appropriated funds. We will work with the OCFO and the Audit Follow-up Official to reach agreement on the recommendation and determine if corrective action has been implemented in a manner that remediates the recommendation.

GAO - Standards	Results
CONTROLS OVER THE PROCESS FOR DETERMINING NECESSARY EXPENSES	
Effective management of an entity's workforce, its human capital, is essential to achieving results and an important part of internal control. Only when the right personnel for the job are on board and are provided the right training, tools, structure, incentives, and responsibilities is operational success possible.	**DOES NOT MEET.** The Agency did not have appropriate staff with specialized skills during the Spend Plan development and approval process. The Agency did not have a permanent CFO from April 2018 to January 2019. During this period an Acting CFO was appointed from another division in the Agency who was specialized in labor relations**.** The Acting CFO relied on the Budget Branch officials to prepare the Spend Plan. Additionally, the Agency did not have a Budget Officer/Director, when the Spend Plan was approved. The Budget Officer left the Agency in January 2019, two weeks before the FY 19 Spend Plan was approved, and the new Budget Director joined the Agency in April 2019. At that time, a subordinate official was appointed as an acting Budget Officer. Given all these circumstances, it is apparent that the Agency did not have individuals with the knowledge, skills, and abilities to execute the Spend Plan until the appointment of the permanent OCFO officials.
Management establishes activities to monitor performance measures and indicators. These may include comparisons and assessments relating different sets of data to one another so that analyses of the relationships can be made and appropriate actions taken. Management designs controls aimed at validating the propriety and integrity of both entity and individual performance measures and indicators.	**DOES NOT MEET**. The Budget Branch did not document its control activities to manage the process for determining the necessary expenses of the Agency**.** Instead, the Budget Branch used ad hoc[1] procedures to determine the necessary expenses.
Management divides or segregates key duties and responsibilities among different people to reduce the risk of error, misuse, or fraud. This includes separating the responsibilities for authorizing transactions, processing and recording them, reviewing the transactions, and handling any related assets so that no one individual controls all key aspects of a transaction or event.	**MEETS.** As implemented, the Agency processes segregated the duties between officials identifying, reviewing, and approving the necessary expenses.
Transactions are promptly recorded to maintain their relevance and value to management in controlling operations and making decisions.	**DOES NOT MEET.** We found that the approved transactions for the first quarter expenses were not promptly recorded since the Spend Plan was not approved until January 2019 and used estimates rather than known spending amounts.
Management designs control activities so that all transactions are completely and accurately recorded.	**MEETS.** Based on the documentation provided, it appears that the amounts entered in the Spend Plan or the Mission Critical Needs lists were entered accurately.
Management clearly documents internal control and all transactions and other significant events in a manner that allows the documentation to be readily available for examination.	**DOES NOT MEET.** Because the Agency's budget processes are ad hoc, they are not documented. Additionally, documentation provided to the OIG was maintained in individual employee's email accounts and was not readily available for examination except for those to

[1] "Ad hoc" is defined as policies, procedures, and strategies that are not formalized; activities are performed in a reactive manner.

GAO - Standards	Results
	whom the account belongs. The Agency's email system is not the proper repository for the Agency's internal control documentation.
Documentation and records are properly managed and maintained.	**DOES NOT MEET.** The Acting CFO also stated that the meetings held with the program offices to discuss the expenses identified in the Spend Plans are maintained in her email account and needs to find them. The Budget Branch provided copies of unfunded need requests and approval emails that were maintained in an email account. Because the Agency's FY 2019 budget documentation was maintained in the Agency's email system, it is not readily available for review. Additionally, we were told that the Agency's documentation was not available due to files being deleted.
Management documents in policies the internal control responsibilities of the organization.	**DOES NOT MEET.** Management does not have documented policies on internal control responsibilities related to determining necessary expenses. The Budget Branch stated that they are in the process of developing written policies and procedures.
Management periodically reviews policies, procedures, and related control activities for continued relevance and effectiveness in achieving the entity's objectives or addressing related risks. If there is a significant change in an entity's process, management reviews this process in a timely manner after the change to determine that the control activities are designed and implemented appropriately.	**DOES NOT MEET.** The process for identifying necessary expenses is not documented in written policies and procedures. Therefore, the Agency did not conduct periodic reviews of the policies and procedures related to determining necessary expenses.
Management designs a process that uses the entity's objectives and related risks to identify the information requirements needed to achieve the objectives and address the risks.	**DOES NOT MEET.** The Agency does not have a documented process for determining the expenses that is linked to the Agency's objectives and related risks. For example, payroll, the Agency's most significant expense, was based on the prior year's expenses plus anticipated new hires, but there was no assessment that the FTE level would meet the Agency's needs.
Management obtains relevant data from reliable internal and external sources in a timely manner based on the identified information requirements. Reliable internal and external sources provide data that are reasonably free from error and bias and faithfully represent what they purport to represent.	**DOES NOT MEET.** Although the prior Budget Officer used the financial system, which has been found to be reliable, management's estimated payroll was not relevant because it was based on data for the first pay period of the fiscal year rather than data available at the time the Spend Plan was prepared in the second quarter. At the time that the approval occurred, there was already approximately a $6,000,000 surplus in funds allocated to payroll. Therefore, the data was neither relevant nor reliable.
Management processes the obtained data into quality information that supports the internal control system.	**DOES NOT MEET.** The data used for the Spend Plan was not processed into quality information. Because of the unreliable payroll estimate, the Spend Plan did not plan for the accumulating surplus in the payroll estimate.

GAO - Standards	Results
Management communicates quality information down and across reporting lines to enable personnel to perform key roles in achieving objectives, addressing risks, and supporting the internal control system. In these communications, management assigns the internal control responsibilities for key roles.	**DOES NOT MEET.** Information transmitted to Agency managers and leadership officials was not of quality because it was based on inaccurate payroll estimates. As a result, the managers and leadership officials were misinformed of the amount of funds available for other needs to achieve objectives and address risks.
Management selects appropriate methods to communicate internally. Management considers a variety of factors, such as audience, nature of information, availability, cost, and legal or regulatory requirements in selecting an appropriate method of communication.	**MEETS.** The Agency established two methods of internal communication - email communication and meetings. The Budget Branch's review and approval of the requests and costs and leadership's approvals are communicated through email. If necessary, meetings were conducted with the program office and the Agency leadership.
Management establishes a baseline to monitor the internal control system. The baseline is the current state of the internal control system compared against management's design of the internal control system.	**DOES NOT MEET.** As noted above, the Agency has not established a documented internal control system. As such, a baseline had not been established to monitor the Spend Plan and Mission Critical Needs list processes.
Management performs ongoing monitoring of the design and operating effectiveness of the internal control system as part of the normal course of operations. Ongoing monitoring includes regular management and supervisory activities, comparisons, reconciliations, and other routine actions.	**DOES NOT MEET.** As noted above, the Agency has not established a documented internal control system
Management evaluates and documents the results of ongoing monitoring to identify internal control issues.	**DOES NOT MEET.** As noted above, the Agency has not established a documented internal control system
CONTROLS OVER THE BUDGET EXECUTION PROCESS	
Effective management of an entity's workforce, its human capital, is essential to achieving results and an important part of internal control. Only when the right personnel for the job are on board and are provided the right training, tools, structure, incentives, and responsibilities is operational success possible.	**DOES NOT MEET.** Key personnel with specialized skills were not in place for the first half of the FY 2019. The Agency did not have a permanent CFO, selected through a competitive process, from April 2018 to January 2019. The Agency did not have a permanent Budget Officer/Director from January 2019 through April 2019. During that time, another Budget official was appointed as an acting Budget Officer. Because those positions were not filled, the surplus in available funds, as compared to the necessary expenses in the Spend Plan, was not identified until the middle of the third quarter of the fiscal year (May 15) - approximately 1.5 months after the appointment of a permanent Budget Director. Given all these circumstances, it is apparent that the Agency did not have individuals with the knowledge, skills, and abilities to execute the Spend Plan until the appointment of the permanent OCFO officials.
Management establishes activities to monitor performance measures and indicators. These may include comparisons and assessments relating different sets of data to one another so that analyses of the relationships can be made and appropriate actions taken. Management designs controls aimed at validating the propriety and	**DOES NOT MEET.** The Budget Branch did not document its control activities to manage the budget execution process. Instead, the Budget Branch established ad hoc procedures to determine to monitor the budget execution. Additionally, we found that the ad hoc activities established to monitor the budget execution process were not effective.

GAO - Standards	Results
integrity of both entity and individual performance measures and indicators.	Although the Budget Branch established tracking sheets to compare the actual obligations to the approved expenses, we found that the Budget Analysts used different methods to track the expenses, the tracking spreadsheets contained numerous errors, and we were unable to reconcile them. We observed that OCFO management officials did not document the monitoring of the tracking process.
Management divides or segregates key duties and responsibilities among different people to reduce the risk of error, misuse, or fraud. This includes separating the responsibilities for authorizing transactions, processing and recording them, reviewing the transactions, and handling any related assets so that no one individual controls all key aspects of a transaction or event.	**MEETS.** As implemented, the Agency processes segregated the duties between officials involved in the execution of the budget.
Transactions are promptly recorded to maintain their relevance and value to management in controlling operations and making decisions.	**DOES NOT MEET.** As noted above, the Agency has not documented its control activities through policies. Tracking sheets were used to record the execution of the budget. We observed that the tracking sheets did not operate as intended because amounts listed in the tracking sheet did not match the actual obligations, there was not sufficient information to track the movement of funds, items with additional obligations were not included on the tracking file, and not all the items on the Spend Plan were included on the tracking sheets. The surplus in funding was not identified until the third quarter, although a significant undocumented surplus in funding existed at the time the Spend Plan was approved. There was no documentation that tracking sheets were maintained in a manner that would meet a timeliness determination. As such, the tracking sheets were not relevant or of value to management in the execution of the budget process.
Management designs control activities so that all transactions are completely and accurately recorded.	**DOES NOT MEET.** As noted above, the Agency did not establish documented internal controls.
Management clearly documents internal control and all transactions and other significant events in a manner that allows the documentation to be readily available for examination.	**DOES NOT MEET.** The Agency does not have a documented system of internal controls. The Budget Branch stated that documents had been deleted and could not be recovered. As a result of those deletions, the Budget Branch could not verify that they had access to and could provide the relevant budget data or approved processes and procedures for the audit scope period.
Documentation and records are properly managed and maintained.	
Management documents in policies the internal control responsibilities of the organization.	**DOES NOT MEET.** The Agency has not documented the budget execution responsibilities through policies. The only procedure

GAO - Standards	Results
Management periodically reviews policies, procedures, and related control activities for continued relevance and effectiveness in achieving the entity's objectives or addressing related risks. If there is a significant change in an entity's process, management reviews this process in a timely manner after the change to determine that the control activities are designed and implemented appropriately.	identified and provided was APPM BUD-1(A). Agency's APPM BUD 1(A) documents the procedures to follow in budget execution and specifies basic fund control principles and concepts. The Agency's APPM BUD-1(A) was last revised on April 5, 2010 and does not include the current budget execution process.
Management designs a process that uses the entity's objectives and related risks to identify the information requirements needed to achieve the objectives and address the risks.	**DOES NOT MEET.** We observed that the tracking sheets used different methodologies to track expenses. Although the Budget Branch stated that they obtain data from Oracle and the payroll system, when we reviewed the tracking sheets, we also found numerous errors, such as the obligated amount being the same as the amount that was initially approved, even though the actual obligation was different. As such, the Agency did not design a process to meet the objective of managing the expenditures of the appropriation and did not process the information into reliable and useful data.
Management obtains relevant data from reliable internal and external sources in a timely manner based on the identified information requirements. Reliable internal and external sources provide data that are reasonably free from error and bias and faithfully represent what they purport to represent.	
Management processes the obtained data into quality information that supports the internal control system.	
Management communicates quality information down and across reporting lines to enable personnel to perform key roles in achieving objectives, addressing risks, and supporting the internal control system. In these communications, management assigns the internal control responsibilities for key roles.	**MEETS.** Budget Branch provided information related to the status of the budget to management on a periodic basis for its review.
Management selects appropriate methods to communicate internally. Management considers a variety of factors, such as audience, nature of information, availability, cost, and legal or regulatory requirements in selecting an appropriate method of communication.	**MEETS.** Budget Branch provided information related to the status of the budget to management on a periodic basis for its review.
Management establishes a baseline to monitor the internal control system. The baseline is the current state of the internal control system compared against management's design of the internal control system.	**DOES NOT MEET.** Because there was not a documented system of internal controls, baselines were not established to monitor the control systems. There was no documentation that the ad hoc activities related to monitoring the budget execution processes were monitored. Tracking sheets are maintained to monitor the Spend Plan expenses. We observed that there were inconsistencies between the tracking methods used by the analysts.
Management performs ongoing monitoring of the design and operating effectiveness of the internal control system as part of the normal course of operations. Ongoing monitoring includes regular management and supervisory activities, comparisons, reconciliations, and other routine actions.	**DOES NOT MEET**. As noted above, the Agency has not established a documented internal control system. There was no documentation that the ad hoc systems to monitor the budget execution process was monitored. The surplus in available funds was not detected and reported to Agency leadership until the middle of the third quarter (May 15). There was a significant surplus in funds for payroll when the Spend Plan was presented to and approved by Agency leadership)

GAO - Standards	Results
Management evaluates and documents the results of ongoing monitoring to identify internal control issues.	**DOES NOT MEET**. As noted above, the Agency has not established a documented internal control system. We observed that the tracking system was not effective.

APPENDIX B

September 9, 2020

TO: David P. Berry, Inspector General

FROM: Isabel Luengo McConnell, Chief Financial Officer

SUBJECT: Response to Office of the Inspector General, Audit Report Reference, OIG-AMR-91, Fiscal Year (FY) 2019 Budget Execution

Purpose: This document provides management's response to the audit report of the FY 2019 Budget Execution of the National Labor Relations Board (NLRB, the Agency), Office of the Inspector (OIG). The Office of the Chief Financial Officer (OCFO) has reviewed the report and provides a response to the findings and recommendations.

Finding: *The Agency's lapse in FY 2019 appropriated funds at the end of the fiscal year is directly attributable to an overestimation of payroll expenses in the FY 2019 Spend Plan and the lack of an effective means to track and report on the availability of funds. The effect was that the Agency was not able to adequately plan for and execute the expenditure of approximately $17,000,000 in appropriated funds, resulting in a lapse of $5,699,240.12 at fiscal year-end.*

In FY 2019, the Agency did not maintain an effective internal control system to ensure the Agency's appropriation was allocated to meet the necessary expenses and avoid mismanagement and loss of the use of funds appropriated by Congress (OIG-AMR-91, p. 4).

Response to the Finding: The OCFO agrees in part and disagrees in part with this finding. According to the report, the NLRB overstated payroll expenses by approximately $17 million, which resulted in under execution in of the appropriated funds by approximately $5.7 million in FY 2019. However, while this overstatement of payroll may have contributed to the under execution, it was not the proximate or ultimate reason for the failure to spend some of the funds.

The contracting issues that arose at the end of the fiscal year were the proximate cause of the failure to spend. Once aware of the amount of excess funds, OCFO and Agency leadership moved quickly to reallocate excess funds to ensure the full execution of NLRB appropriation by September 30, 2019. By early September 2019 all but approximately $673,000 of the appropriation had been allocated. Late in September 2019, the Agency faced a contract protest, underestimation of a contract award, and a voided contract. Some of these issues were beyond the Agency's control. These contracting issues are factors that cannot be ignored when making an assessment of the $5.7 million in unspent funds.

Of the $5.7 million unobligated balance, most of the unobligated balance was a result of one contract that had an original estimated award amount of $2.5 million. On September 24, 2019, OCFO/Budget Branch was informed by the Office of the Chief Information Officer that contract estimate was reduced from $2.5 million to $758,000. However, after NLRB awarded the contract, the General Service Administration (GSA) informed NLRB OCFO/Acquisition Management Branch that the contractor could not accept the offer due to an underlying breach of agreement with GSA; thus, NLRB was obligated to cancel the contract award. Even if the funding for this contract had been made available in January 2019, this issue was unavoidable and out of the control of the Agency. It is important to note that while the program area developed the contracting package seven months prior to the fiscal year close, the contract still could not have been awarded because of the factors stated earlier. As the OIG audit indicated "*Although the project was not on the Spend Plan, the program areas completed an initial independent Government estimate for the project in March 2019*". OCFO acknowledges that the Agency spent less than what was expected; however, the shortfall did not affect the Agency's overall performance or its ability to accomplish its mission, objectives, and goals.

Audit Recommendation Number 1: *Decide whether to utilize the budget process established in [Administrative Policies and Procedures Manual] APPM BUD-1(A) or establish alternative documented process:*

a. If the determination is to use the process in APPM BUD-1(A), update the chapter to reflect the current OCFO organizational structure and augment the process with appropriate internal controls, in accordance with the guidance's provided by GAO's Standards for Internal Control in the Federal Government to ensure that the process is followed; or

b. If the determination is to use procedures other than those established in APPM BUD-1(A), create a system of internal controls that support the identification of necessary expenses through a planning approval process that meets both OMB guidelines in Circular A-11 and the guidance provided by GAO's Standards for Internal Control in the Federal Government.

Response to Audit Recommendation Number 1: The OCFO concurs with the recommendation. The OCFO is currently developing a financial management manual that will address all the OCFO areas. To date, OCFO/Budget Branch has developed, updated, and drafted the following documents:

- ✓ Steps for Entering the NLRB Enacted Appropriation and Approved OMB
- ✓ Apportionments in Oracle Federal Financials
- ✓ FY 2019 Year-End Closing Processes, Procedures, and Guidelines
- ✓ Guidance for Purchasing Food with Appropriated funds
- ✓ Financial Management Manual – Budget (replaces the APPM)
- ✓ Timeline for the Budget Process
- ✓ Steps for Calculating Labor Projections
- ✓ How to Update Purchase Order Distribution Lines of Accounting
- ✓ Budget Cycle Memo
- ✓ List of Prohibited Purchase Card Items

- ✓ How to Process Standard Form 52 Actions in Federal Personnel and Payroll System (FPPS)
- ✓ Steps to Performing Data Queries in Interior Business Center Datamart Portal
- ✓ Guidance for Developing the Agency's Operating Plan

Audit Recommendation Number 2: *Establish and implement an [Integrated Project Team] IPT internal control process for capital projects that meets the criteria established by OMB Circular A-11.*

Response to Audit Recommendation Number 2: The OCFO concurs with the recommendation. However, per OMB Circular A-11, the Integrated Project Team (IPT) is a multidisciplinary team to manage Capital Assets. It is not used as an internal control or budget tool. OMB Circular A-11 Capital Programming Guide, page 6, states that the IPT is established to analyze the performance and capability of the portfolio of assets used and managed by the program. The IPT is not used to approve the spending of capital assets. Accordingly, the establishment and implementation of an IPT would not have changed the outcome of the FY2019 budget.

Audit Recommendation Number 3: *Create a system of internal controls, in accordance with the guidance provided by GAO's Standards for Internal Control in the Federal Government, to ensure that the expenditures of the Agency's appropriated funds are made as approved by the Agency's leadership and tracked in a manner that can be reviewed and reconciled by OCFO supervisors and managers.*

Response to Audit Recommendation Number 3: OCFO already possesses a system of internal controls to ensure that the expenditures of the Agency's appropriated funds are made as approved by the Agency's leadership and tracked. OCFO has already identified key budgetary controls and has documented the processes. Currently, OCFO/Budget Branch maintains up-to-date tracking spreadsheets that are reviewed by executives, supervisors, and managers during the mid-year reviews and monthly reviews. OCFO will continue to work with the Internal Control Manager to ensure existing procedures or new procedures are implemented in accordance with the GAO Green Book.

Audit Recommendation Number 4: *Develop a filing system to ensure that documentation of the budget process is maintained and readily available for inspection.*

Response to Audit Recommendation Number 4: OCFO already possesses a filing system to maintain documentation of the budget process that is readily available for inspection. And, it should be noted that OCFO provided all of the OIG requested information during this audit. Nevertheless, OCFO concurs with the recommendation to further develop its filing system to ensure budget process documentation is maintained and available for inspection. OCFO/Budget Branch uses the Budcom Folder to file all budget related documentation, including emails. These files can be made available upon request. The filing system includes a folder for each fiscal year. Each fiscal year folder contains folders for: apportionments, awards, congressional budget justification, OMB Budget Request submissions, Fund Status Reports Oracle, Payroll Data by pay period, the Operating Plan, Manpower, and Budget Execution.

Audit Recommendation Number 5*:* *Provide training to Budget personnel on the internal controls develop in response to the recommendations.*

Response to Audit Recommendation Number 5: OCFO concurs with this recommendation. Internal control is a critical performance element in OCFO senior management and staff annual performance plans. The Staff is responsible for, among other requirements, the remediation of all internal control deficiencies that are identified; in particular, those by the Inspector General. Additionally, since July 2019, the OCFO has been evaluating the OCFO standard operating procedures and policies and developing new procedures to ensure that proper internal controls are in place. OCFO has also hired an Internal Controls Manager to oversee the internal control activities of the office. Currently, the OCFO is testing identified key controls. The OCFO will make it a mandatory requirement for all staff to be trained on internal controls on an annual basis, as well as familiarize themselves with the financial management manual.

Audit Recommendation Number 6*:* *Review Budget Branch staff qualifications and engage in a process to ensure appropriate succession planning.*

Response to Audit Recommendation Number 6: The OCFO concurs with this recommendation. The OCFO is continually reviewing the staff's position descriptions to ensure that qualifications are current and valid to evaluate staff performance. The OCFO is making provisions for the development of current staff and replacement of key staff over a period of time. OCFO will request that all OCFO staff develop and maintain individual development plans to ensure proper training and developmental goals are achieved. OCFO has already established strategic and succession planning discussions with the OCFO's senior management team. OCFO aims to attract and retain the best qualified employees possible.

ISABEL MCCONNELL

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Date: 2020.09.09 18:08:01 -04'00'

Isabel Luengo McConnell, Chief Financial Officer