NATIONAL LABOR RELATIONS BOARD

Fiscal Year 2023 Financial Statement Audit

Management Letter Report

Castro & Company
Auditors ✓ Advisors

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November 13, 2023

Inspector General
National Labor Relations Board

We have audited the financial statements of the National Labor Relations Board (NLRB), which comprise the balance sheets as of September 30, 2023 and 2022, and the related statements of net cost, changes in net position, and budgetary resources for the years then ended, and the related notes to the financial statements, and have issued our report thereon dated November 13, 2023.

In planning and performing our audit of NLRB's financial statements as of and for the year ended September 30, 2023, in accordance with U.S. generally accepted government auditing standards, we considered NLRB's internal control relevant to the financial statement audit in order to design audit procedures that are appropriate under the circumstances, but not for the purpose of expressing an opinion on the effectiveness of NLRB's internal control over financial reporting. Accordingly, we do not express an opinion on NLRB's internal control over financial reporting.

We noted certain matters involving internal control and other operational matters that are summarized in this letter. These comments and recommendations, all of which have been discussed with the appropriate members of management and the NLRB Office of Inspector General, are intended to improve internal control or result in other operating efficiencies.

Our audit procedures are designed primarily to enable us to form an opinion on the financial statements, and therefore may not bring to light all weaknesses or deficiencies in internal control, policies or procedures that may exist.

We would like to express our appreciation to you and all other NLRB personnel who assisted us in completing our work.

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

Sincerely,

Castro & Company, LLC

Alexandria, VA

1. Improvements Needed in the Monitoring of Undelivered Orders and Closeout of Expired Contracts

During our interim procedures, we identified contracts with an expired period of performance where the Undelivered Order (UDO) balance was not de-obligated in a timely manner. As a result, the UDO account balance was overstated by $50,515 as of June 30, 2023. In addition, an incorrect accrual amount was recorded as the accrual calculation used an incorrect period of performance as a basis for the accrual amount, which overstated the Accounts Payable (A/P) account balance by $59,111 as of June 30, 2023.

During our interim testing of UDOs and A/P as of June 30, 2023, we selected a sample of 32 contracts to test. The purpose of our testing was to assess management controls and compliance with applicable laws, regulations, and procedures relative to the NLRB's open obligations and corresponding accruals to support the validity of the UDO balances. The results of our interim testing identified the following exceptions in 4 of the 32 contracts tested:

- Expired Period of Performance (POP):
  - For one contract, we noted a UDO difference of $20,762 due to the contract expiring on September 30, 2022, in which given the nature of the contract, no additional services could be received beyond the contract end date; however, the outstanding obligation was not de-obligated as of June 30, 2023. Supporting documentation provided stated the remaining balance could be de-obligated and that closeout was pending. Further, we noted the contract remained open and the balance was not de-obligated as of September 30, 2023.
  - For one contract, we noted a UDO difference of $10,517 due to the contract expiring on September 30, 2021, in which no additional services were received, and the outstanding obligation was not de-obligated as of June 30, 2023. Supporting documentation provided stated the contract was subject to de-obligation. Further, we noted the contract remained open and the balance was not de-obligated as of September 30, 2023.
  - For one contract, we noted a UDO difference of $19,237 due to the contract expiring on September 30, 2022, in which no additional services were received, and the outstanding obligation was not de-obligated as of June 30, 2023. Supporting documentation provided stated the contract was subject to de-obligation. Further, we noted the contract remained open and the balance was not de-obligated as of September 30, 2023.

- Internal control deficiency and accrual difference noted:
  - For one contract, we noted the executed inter/intra-agency agreement stated an incorrect period of performance start date of "May 1, 2022" rather than the correct date of May 1, 2023. The incorrect period of performance start date caused an accrual difference of $59,111 as of June 30, 2023, due to NLRB calculating and recording an accrual using an incorrect period of performance start date of May 1, 2022, instead of based on the correct start date of May 1, 2023.

GAO's *Standards for Internal Control in the Federal Government* states:

> Internal control comprises the plans, methods, policies, and procedures used to fulfill the mission, strategic plan, goals, and objectives of the entity. Internal control serves as the first line of defense in safeguarding assets. In short, internal control helps managers achieve desired results through effective stewardship of public resources.
>
> Transactions are promptly recorded to maintain their relevance and value to management in controlling operations and making decisions. This applies to the entire process or life cycle of a transaction or event from its initiation and authorization through its final classification in summary records. In addition, management designs control activities so that all transactions are completely and accurately recorded.
>
> 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. Ongoing monitoring may include automated tools, which can increase objectivity and efficiency by electronically compiling evaluations of controls and transactions.
>
> Management should remediate identified internal control deficiencies on a timely basis.

NLRB Financial Management Manual, dated February 2023, states,

> The Budget Branch in conjunction with the Acquisitions Management Branch must ensure timely de-obligation procedures are initiated for contracts within their area of responsibility.
>
> *Obligation Review, De-obligation, and Closeout*
>
> Each Contracting Officer's Representative (COR)/Point of Contact (POC) must:
>
> - Monitor assigned contracts to ensure unexpended obligated funds are de-obligated after receipt of last invoice and proper closeout procedures are initiated in a timely manner.
>
> Each Contracting Officer (CO) must ensure that all contract actions comply with applicable Federal Acquisition Regulations, Agency supplemental regulation and policies, and that all appropriate documentation is maintained in the electronic contract files.
>
> CORs/POCs monitor their individual obligations at least monthly and request additional funds or initiate de-obligations and contract or Interagency Agreement (IAA) closeouts when necessary.
>
> To request a de-obligation of funds (outside of the accrual or UDO review process), or to close out a contract, the COR/POC must communicate with the CO, who reviews the contract file, and reach out to the vendor or Federal agency to confirm that all invoices or Intra-Governmental Payment and Collection (IPAC) supporting documentation have been received (as applicable). The CO then modifies the contract and records the de-obligation action in Oracle Federal Financials (OFF).

By not monitoring expired contracts and de-obligating funds in a timely manner, obligations can both accumulate and remain open for a long period of time, which could result in an overstatement of obligations.

Recommendations:

Our testing confirmed a lack of remediation of previous years' findings related to monitoring of expired contracts; therefore, additional recommendations are not deemed necessary at this time.

Management's Response:

In the FY 2022 Financial Statement Audit, the Office of the Inspector General made the following recommendation: *Ensure monitoring of expired contracts is performed on a quarterly basis, contract closeout procedures are initiated, and open balances are de-obligated in a timely manner.*

The OCFO concurs with this recommendation and is finalizing updates to the existing policy documentation and is establishing a new standard operating procedure to ensure expired contracts are closed and deobligated in a timely manner. The OCFO is currently monitoring the reviews on a monthly basis to ensure closeout procedures and deobligation of open balances are initiated properly and timely.

Auditor's Response:

The auditors concur with management's response.

2. Improvements in Monitoring over Security Management Are Needed

Security management is the foundation of a security-control structure and reflects senior management's commitment to addressing security risks. Information security management programs provide a framework and continuous cycle of activity for managing risk, developing and implementing effective security policies, assigning responsibilities, and monitoring the adequacy of NLRB's information system controls.

Continuous monitoring of service organizations and complementary user entity controls (CUECs) not covered in the System and Organization Controls (SOC1) report is important since these controls have not been tested in the SOC1 report. The user entity must and should evaluate those controls to ensure they are designed and operating effectively to ensure that financial data is not compromised and is accurate.

During our audit procedures, we noted continuous monitoring and/or controls analysis was not conducted for CUECs not covered by an NLRB system's SSAE 18 SOC 1 report issued by the third-party service provider.

NLRB did not have adequate controls in place to perform periodic assessments for controls not covered by the SOC1 report for the system. Additionally, NLRB did not follow implemented processes and checklists to review the SOC1 reports and test CUEC from the SOC1 reports annually.

The following criteria relates to the conditions identified above:

- National Institute of Standards and Technology Special Publication 800-53, Revision 5, *Security and Privacy Controls for Information Systems and Organizations*
- GAO's Standards for Internal Control in the Federal Government, Principle 16 – Perform Monitoring Activities
- NLRB's *Information Security System and Services Acquisition Policy, No. SA-1* revised May 7, 2021
- NLRB's *Information Security Risk Assessment Policy, No. RA-1* issued October 14, 2021
- NLRB's *Information Security Access Control Policy, No. AC-1* revised June 17, 2021

By not performing periodic assessments for controls not covered by the SOC1, there is an increased risk of exploitation because specific controls are not being assessed and/or monitored by NLRB or a third-party provider, which could in turn lead to a lack of financial data integrity for NLRB.

Recommendation:

We recommend the Office of the Chief Information Officer identify controls that are not covered by the SOC1 report for the system and perform assessment/analysis annually.

Management's Response:

OCIO concurs with the recommendation and will be performing corrective actions to identify controls that are not covered by the SOC1 report for the system and perform assessment/analysis annually.

Auditor's Response:

The auditors concur with management's response.

Status of Prior Year Management Letter Comments

The Fiscal Year (FY) 2022 Management Letter Reports issued by Castro & Company identified the following control deficiencies:

Finding Identified	**Status in FY 2023**
Improvements Needed in the Recording and Reporting of Construction in Progress Costs	Resolved
Improvements Needed in the Monitoring of Undelivered Orders	Partially Resolved

APPENDIX A – MANAGEMENT'S RESPONSE

UNITED STATES NATIONAL LABOR RELATIONS BOARD
OFFICE OF THE CHIEF FINANCIAL OFFICER

December 8, 2023

TO: David P. Berry, Inspector General

FROM: Isabel Luengo McConnell, Chief Financial Officer

SUBJECT: Response to the Fiscal Year 2023 Financial Statement Audit, Management Letter Report

Purpose:

The purpose of this document is to provide a response to the National Labor Relations Board (NLRB), Office of the Inspector (OIG), for the Fiscal Year 2023 Financial Statement Audit, Management Letter Report. The Office of the Chief Financial Officer (OCFO) has reviewed the recommendations and provides responses to each recommendation.

Recommendation Number 1:

Our testing confirmed a lack of remediation of previous years' findings related to monitoring of expired contracts; therefore, additional recommendations are not deemed necessary at this time.

In the FY 2022 Financial Statement Audit, the Office of the Inspector General made the following recommendation: *Ensure monitoring of expired contracts is performed on a quarterly basis, contract closeout procedures are initiated, and open balances are de-obligated in a timely manner.*

Response to Recommendation Number 1:

The OCFO concurs with this recommendation and is finalizing updates to the existing policy documentation and is establishing a new standard operating procedure to ensure expired contracts are closed and deobligated in a timely manner. The OCFO is currently monitoring the reviews on a monthly basis to ensure closeout procedures and deobligation of open balances are initiated properly and timely.

ISABEL MCCONNELL Digitally signed by ISABEL MCCONNELL
Date: 2023.12.08 09:57:33 -05'00'

Isabel Luengo McConnell, Chief Financial Officer

UNITED STATES GOVERNMENT
National Labor Relations Board
Office of the Chief Information Officer

Memorandum

To: David Berry
Inspector General

From: Prem Aburvasamy
Chief Information Officer

Date: December 5, 2023

Subject: NLRB Fiscal Year 2023 Financial Statement Audit Management Letter

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Management Response:

Thank you for the opportunity to provide Management Response to the Office of the Inspector General (OIG) draft report, Fiscal Year 2023 Financial Statement Audit Management Letter.

The OIG audits are always valuable as they afford us an independent assessment of our operations and help inform our continuous efforts to enhance the security of our program. OCIO concurs with the recommendation and will be performing corrective actions to identify controls that are not covered by the SOC1 report for the system and perform assessment/analysis annually.

I appreciate the opportunity to respond to the draft report. If you have any questions or require additional information regarding our response, please contact me.

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