NATIONAL LABOR RELATIONS BOARD

Fiscal Year 2020 Financial Statement Audit

Management Letter Report

Castro & Company
Auditors ✓ Advisors

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November 13, 2020

Inspector General
National Labor Relations Board

We have audited the accompanying balance sheets of the National Labor Relations Board (NLRB) as of September 30, 2020 and 2019 and the related statements of net cost, changes in net position, and budgetary resources for the fiscal years then ended, and the related notes to the financial statements and have issued our report thereon dated November 13, 2020.

In planning and performing our work, we considered the NLRB's internal control over financial reporting by obtaining an understanding of the design effectiveness of the NLRB's internal control, determining whether controls had been placed in operation, assessing control risk, and performing tests of the NLRB's controls as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not to express an opinion on the effectiveness of the NLRB's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the 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 the NLRB management, the NLRB Office of Inspector General, and others within the organization 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 in the Management of Government Charge Cards Are Needed (Repeat Condition from FY 2014, FY 2015, FY 2017, FY 2018, and FY 2019)**

As part of our testing of cash disbursements, we selected a sample of 45 disbursements made during the period of October 1, 2019 through March 31, 2020. The purpose of our testing was to assess management controls and compliance with applicable laws, regulations, and procedures relative to cash disbursement including Government charge card transactions. The following condition was noted:

- NLRB did not always oversee the maintenance of master file/official purchase cardholder Records, including purchase card transaction supporting documents and related records. Specifically,
    - For eight (8) of the 10 purchase card transactions tested, the Purchase Card Transaction Request Form (formerly Form 13) used to evidence pre-approval for card purchase was not maintained on file; and
    - For four (4) of the 10 purchase card transactions tested (two cardholders), purchase card statements and related receipts were not reconciled and submitted timely in CitiManager; therefore, supporting documentation was not available for testing.

In the prior fiscal year, we recommended that NLRB management ensure approved reconciliation statements including request forms, invoices and receipts were maintained on file. We reviewed management's corrective action plan regarding this recommendation and determined that adequate monitoring of control activities related to purchase card reconciliation statements had not been completed.

The *Government Charge Card Abuse Prevention Act of 2012,* enacted in October 2012, states:

> § 1909(a) The head of each executive agency that issues and uses purchase cards and convenience checks shall establish and maintain safeguards and internal controls to ensure the following:
>
> (3) The holder of a purchase card and each official with authority to authorize expenditures charged to the purchase card are responsible for
>
> (A) reconciling the charges appearing on each statement of account for that purchase card with receipts and other supporting documentation; and
>
> (B) forwarding a summary report to the certifying official in a timely manner of information necessary to enable the certifying official to ensure that the Federal Government ultimately pays only for valid charges that are consistent with the terms of the applicable Government-wide purchase card contract entered into by the Administrator of General Services…
>
> (7) Records of each purchase card transaction (including records on associated contracts, reports, accounts, and invoices) are retained in accordance with standard Government policies on the disposition of records.

Government Accountability Office's (GAO) *Standards for Internal Control in the Federal Government* states:

> Management clearly documents internal control and all transactions and other significant events need to be clearly documented, and the documentation should be readily available for examination.
>
> Management designs appropriate types of control activities for the entity's internal control system. Control activities help management fulfill responsibilities and address identified risk responses in the internal control system… Management may design a variety of control activities for operational processes, which may include verifications, reconciliations, authorizations and approvals, physical control activities, and supervisory control activities.
>
> 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.
>
> Management should remediate identified internal control deficiencies on a timely basis.

The NLRB *Purchase Card Management Plan*, states,

> **4.1 General Information**
> Risk management controls, policies, and practices are necessary for the efficiency and integrity of the Purchase Card Program (PCP). The elimination of payment delinquencies, purchase card misuse, fraud, and other forms of waste and abuse are crucial for a successful program. The APC is responsible for monitoring and managing this process to include:
>
> 4.1.3 Ensuring that purchase card holder (PCH) statements of account and supporting documentation are properly reviewed and monitored by the Approving Official (AO) or Approving Official and Designee (AOD)…
>
> 4.1.5 Maintaining official PCH records, including training, appointment, single and monthly purchase limits, and original approved reconciliation statements.
>
> **4.3 Controls, Practices, and Procedures**
>
> 4.3.1 Effective Management: The management of the PCP is based on a risk management strategy which includes a variety of internal controls designed to minimize purchase card misuse. The AO is the first line manager accountable for ensuring that PCHs under their purview comply with the prescribed controls, practices and procedures, as well as federal laws and regulations. Other key management controls include, but are not limited to:
>
> 4.3.1.1 Effective 4/16/2014, PCHs are required to seek written pre-approval from their AO for all purchases except UPS, USPS, and telephone/cable services which are automatically billed to the NLRB, and some limited exceptions pre-approved by the APC. This approval is in the form of an email request from the PCH and an email response from the AO and shall be attached to the reconciliation statement.

The establishment of written, formal policies and procedures are critical in assuring that a system of internal controls is followed. The lack of monitoring compliance with established procedures can increase the risk of fraud, waste, and abuse occurring in government charge cards.

Recommendations:

1. Ensure purchase card statements and related receipts are properly reconciled by the cardholder, reviewed by Approving Official and submitted timely in CitiManager.

Our testing confirmed a lack of remediation of previous years' findings related to ensuring Purchase Card Transaction Request Forms and approved reconciliation statements including invoices and receipts were maintained on file; therefore, additional recommendations are not deemed necessary at this time.

Management's Response:

In the third quarter of FY 2020, Acquisition Management Branch (AMB) diverted resources to assist cardholders in reconciling their past due statements. AMB has continued this effort to bring cardholders up to date on their statement submission. In addition, cardholders will receive in-depth training in the second quarter of FY 2021 that will cover program requirements and a live lab session to help cardholders through system problems. This training will be held on an annual basis.

Auditor's Response:

The auditors concur with management's response.

2. Improvements in the Internal Controls over Undelivered Orders, Accounts Payable and Quality Reviews of Related Accrued Expenses are Needed (Significant Deficiency related to Accounts Payable and Quality Reviews of Related Accrued Expenses from FY 2019)

During our interim and year-end procedures, we continued to note differences as a result of improper recording of accruals. Certain accruals recorded by the Finance Branch were incorrect, as accrual calculations contained incorrect amounts such as the incorrect option year amount or the invoice was for the wrong Purchase Order (PO), causing overstatements of Accounts Payable (A/P) and understatements of the Undelivered Orders (UDO) balance. In addition, certain accruals were incorrect as a result of NLRB not properly accruing for the correct or entire period for which services had been received, resulting in an understatement of the A/P balance and overstatement of the UDO balance.

During our testing of UDOs and A/P, we selected a sample of 28 UDO transactions as of June 30, 2020. 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 11 of the 28 transactions tested:

- Differences noted as a result of incorrect accruals: Specifically,
  - Two (2) under-accruals which understated the A/P and overstated the UDO balance by $205,095.
    - For one sample, NLRB did not record an accrual for the entire period of June 26 to 30, 2020 for which services had been received.
    - For one sample, an incorrect accrual methodology was used by NLRB to calculate the accrual amount for the month of June. Although NLRB recorded an accrual for services provided for the month of June, NLRB's accrual calculation methodology did not align with the correct line item period of performance dates per the contract.
  - One (1) over-accrual which overstated the A/P and understated the UDO balance by $50,003.
    - For one sample, NLRB used an incorrect invoice corresponding to another PO for the same vendor to calculate the 3-month average as part of the accrual calculation methodology.
- Difference noted as a result of incorrect posting of invoices: For one (1) sample, a system error resulted in the posting the invoices for the PO incorrectly which understated the A/P balance and overstated the UDO balance by $166,792. IBC corrected the error in October 2020 after the issue was brought to NLRB management's attention.
- Internal control deficiency noted: For one (1) sample, we noted that the April invoice was approved for payment by the COR in May but was never sent to IBC for processing of the payment until Castro brought up the issue to NLRB management. Additionally, NLRB did not include the April invoice as part of their accrual as of June 30, 2020. Since the accrual difference was not material in this instance, it was not included as part of the accrual differences noted above.

- Expired Period of Performance (POP): For six (6) of the 28 samples tested totaling $1,403,201, the vendor contract POP had expired prior to June 30, 2020 but NLRB had not completed contract close-out and de-obligated funds as of June 30, 2020. Specifically, three (3) of the six (6) contracts had a POP that ended between August 31, 2019 and September 20, 2019 which overstated the UDO balance by $995,552. The contracts noted were vendor/non-GSA contracts. We followed up with the Acquisitions Management Branch and Finance Branch as part of our year-end UDO testing procedures to determine whether NLRB had completed contract close-out procedures over the interim samples tested. We noted that only one (1) of the six (6) contracts had been de-obligated and closed out as of September 30, 2020.

Additionally, we selected a sample of five (5) UDO transactions as of September 30, 2020. The results of our year-end testing identified exceptions in one (1) of the five (5) transactions tested. Exceptions noted included the following:

- Differences noted as a result of incorrect accrual: One (1) over-accrual which overstated the A/P and understated the UDO balance by $31,677. We noted that NLRB used the monthly cost for the Base Year instead of using the monthly cost for Option Year 1 which resulted in an accrual difference of $31,677.

The accrual differences noted above were the result of not properly executing quality control reviews of amounts used to calculate accrual estimates rather than the reasonableness of accrual estimates differing from actual amounts.

In prior fiscal years, we recommended that the accrual methodologies be reviewed and approved by appropriate program office personnel or the Contracting Officer's Representative (COR), with quality control review procedures and approvals performed and documented by Finance Branch personnel. However, NLRB did not perform a sufficient detailed review of accruals to ensure estimates were accurate and complete, including going back after the initial accruals were calculated to verify if the amount was still correct.

Additionally, we recommended that NLRB management train responsible program office and Finance Branch personnel on how to monitor obligations and report accruals on an ongoing basis to enhance compliance with the applicable requirements. Although NLRB has conducted informal quarterly training with appropriate program office personnel or CORs, incorrect accrual amounts continue to be recorded by NLRB.

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 clearly documents internal control and all transactions and other significant events in a manner that allows the documentation to be readily available for examination. The documentation may appear in management directives, administrative policies, or operating manuals, in either paper or electronic form. Documentation and records are properly managed and maintained.
>
> Management perform 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.

Statement of Federal Financial Accounting Standards No. 1, *Accounting for Selected Assets and Liabilities*, states:

> Accounts payable are amounts owed by a Federal entity for goods and services received from, progress in contract performance made by, and rents due to other entities…When an entity accepts title to goods, whether the goods are delivered or in transit, the entity should recognize a liability for the unpaid amount of the goods. If invoices for those goods are not available when financial statements are prepared, the amounts owed should be estimated.

Not performing an accurate review of open obligations, expenditures, and accounts payable will result in an understatement/overstatement in A/P and an overstatement/understatement in the obligations.

Recommendation:

2. Ensure contact closeout procedures for expired vendor contracts are initiated and open balances are de-obligated in a timely manner.

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

Management's Response:

In conjunction with AMB, Contracting Officer Representatives (CORs) will be required to follow program requirements outlined in the COR Guide (effective in the second quarter of FY 2021). The COR Guide contains procedures for contract closeout. All CORs and general technical points of contact will be required to take annual training covering the COR guide in its entirety.

Auditor's Response:

The auditors concur with management's response.

3. Lack of Quality Control Procedures Caused Financial Reporting Discrepancies (Repeat Condition from FY 2018 and FY 2019)

The Accountability of Tax Dollars Act of 2002 requires that NLRB submit audited financial statements to Congress and the Director of Office and Management and Budget (OMB) on an annual basis. OMB Circular No. A-136, *Financial Reporting Requirements*, defines the form and content of financial statements to be prepared by NLRB that must also comply with Federal Accounting Standards. The statements must be prepared from an integrated financial management system containing sufficient structure, effective internal control, and reliable data. The financial reports must also be supported by comprehensive policies, with strong internal controls, that prescribe the procedures for processing and summarizing accounting entries and preparing the financial statements.

Financial Reporting

During our review of the NLRB's financial statement preparation process, we identified issues that impacted NLRB's ability to effectively accumulate, assemble, and analyze information presented in its financial statements in accordance with applicable guidance. Examples of the errors noted include the following:

- Beginning balance amounts on the financial statements did not match ending balances from the prior year.
    - During our review of the Statements of Changes in Net Position as of June 30, 2020, we noted that the amounts for Unexpended Appropriation - Beginning Balance and Cumulative Results of Operation - Beginning Balance did not agree to the prior year ending balances. The difference of $70 was due to disbursement in transit from a canceled year that did not properly close in the accounting system at the end of FY 2019. NLRB management did not correct the beginning balances, as NLRB determined the $70 difference to be immaterial. We requested, and NLRB included, the note disclosure 1P in the Performance and Accountability Report to explain the $70 difference.

- Incorrect amounts were reported on the financial statements.
    - During our review of the Statement of Net Cost (SNC) crosswalk as of September 30, 2020, we noted that NLRB had excluded Standard General ledger (SGL) account 520001 Revenue from Services Provided, in the amount of $16,104, from the SNC crosswalk presentation. The error was brought up to NLRB management's attention and the SNC and crosswalk were revised to correct the amounts reported for Resolve Unfair Labor Practices – Net Cost, Resolve Representation Cases – Net Cost, and Total Program Costs.
    - During our review of the Statement of Budgetary Resources (SBR) crosswalk as of September 30, 2020, we noted a difference of $802 in SGL 480101 Unexpended Obligation-Unpaid Beginning, SGL 480101 Unexpended Obligation-Unpaid Ending, and SGL 465011 Allotments – Expired Authority due to a formula error in the crosswalk that should have excluded the manual adjustment of $802 from the SBR crosswalk presentation. The error was brought up to NLRB management's attention and the SBR and crosswalk were corrected.

Journal Vouchers

We noted that NLRB did not follow quality control procedure over the preparation, review, and approval or recording of journal vouchers. During our interim audit procedures, we noted that two (2) of the 39 journal vouchers tested included coversheets that were incorrect, yet they were reviewed and approved by NLRB management. Although the approved coversheets were incorrect, we noted that the journal vouchers were posted to the General Ledger correctly.

In prior fiscal years, we recommended that NLRB develop a process for in-depth and detailed management quality control reviews of the financial statements and notes, and journal vouchers to ensure discrepancies are minimized and errors are timely corrected. We reviewed management's corrective action plan regarding this recommendation and determined that adequate quality control procedures over financial reporting had not been completed.

GAO *Standards for Internal Control in the Federal Government,* states

> Personnel need to possess and maintain a level of competence that allows them to accomplish their assigned responsibilities, as well as understand the importance of effective internal control. Holding individuals accountable to established policies by evaluating personnel's competence is integral to attracting, developing, and retaining individuals.
>
> 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.
>
> Management designs appropriate types of control activities for the entity's internal control system. Control activities help management fulfill responsibilities and address identified risk responses in the internal control system…
>
> Management may design a variety of controls activities for operational processes, which may include verifications, reconciliations, authorizations and approvals, physical control activities, and supervisory control activities.
>
> Management should remediate identified internal control deficiencies on a timely basis.

By not adequately performing management functions specific to monitoring, analysis, review, and oversight, discrepancies may exist but go undetected and uncorrected, thereby causing the financial information to be misstated. Effective management oversight greatly increases NLRB's ability to proactively identify and resolve issues that could result in misstatements in financial accounting and reporting records.

Recommendation:

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

Management's Response:

The OCFO concurs with the recommendation. To refine and strengthen the financial statements and journal voucher review, the Finance Branch will:

- Conduct quarterly reviews to reconcile any differences of the financial statement crosswalks with the U.S. Department of the Treasury, Bureau of the Fiscal Service;
- Provide regular training to employees to ensure employees' continued level of knowledge that allows them to accomplish their assigned responsibilities, as well as understand the importance of effective internal controls; and
- Enhance current management reviews to ensure ongoing monitoring. This includes comparisons and reconciliations of financial reporting activities.

Auditor's Response:

The auditors concur with management's response.

Status of Prior Year Management Letter Comments

The Fiscal Year (FY) 2019, 2018 and 2014 Management Letter Reports issued by Castro & Company identified the following control deficiencies that were considered open at the end of FY 2020:

Fiscal Year	Finding Identified	Status in FY 2020
FY 2014	Improvements in the Internal Controls over the Management of Government Charge Cards are Needed	Partially Resolved
FY 2018	Improvement in the General Information Technology Controls and Monitoring over Security Management, Configuration Management, and Contingency Planning Are Needed.	Partially Resolved
FY 2019	Lack of Quality Control Procedures Caused Financial Reporting and Accounting Discrepancies	Partially Resolved

December 11, 2020

TO: David P. Berry, Inspector General

FROM: Isabel Luengo McConnell, Chief Financial Officer

SUBJECT: Response to the Fiscal Year 2020 Financial Statement Audit, Management Letter Report

1. **Purpose:**
   The purpose of this document is to provide a response to the National Labor Relations Board (NLRB), Office of Inspector General (OIG), to the Fiscal Year (FY) 2020 Financial Statement Audit, Management Letter Report. The Office of the Chief Financial Officer (OCFO) has reviewed the recommendations and provides responses to each recommendation.

2. **Recommendation Number 1:**
   Ensure purchase card statements and related receipts are properly reconciled by the cardholder, reviewed by Approving Official and submitted timely in CitiManager.

3. **Response to Recommendation Number 1**:
   In the third quarter of FY 2020, Acquisition Management Branch (AMB) diverted resources to assist cardholders in reconciling their past due statements. AMB has continued this effort to bring cardholders up to date on their statement submission. In addition, cardholders will receive in-depth training in the second quarter of FY 2021 that will cover program requirements and a live lab session to help cardholders through system problems. This training will be held on an annual basis.

4. **Recommendation Number 2:**
   Ensure contact closeout procedures for expired vendor contracts are initiated and open balances are de-obligated in a timely manner.

5. **Response to Recommendation Number 2**:
   In conjunction with AMB, Contracting Officer Representatives (CORs) will be required to follow program requirements outlined in the COR Guide (effective in the second quarter of FY 2021). The COR Guide contains procedures for contract closeout. All CORs and general technical points of contact will be required to take annual training covering the COR guide in its entirety.

6. **Recommendation Number 3:**
   Our testing confirmed a lack of remediation of previous years' findings; therefore, additional recommendations are not deemed necessary at this time.

7. **Response to Recommendation Number 3:**
   The OCFO concurs with the recommendation. To refine and strengthen the financial statements and journal voucher review, the Finance Branch will:
   - Conduct quarterly reviews to reconcile any differences of the financial statement crosswalks with the U.S. Department of the Treasury, Bureau of the Fiscal Service;
   - Provide regular training to employees to ensure employees' continued level of knowledge that allows them to accomplish their assigned responsibilities, as well as understand the importance of effective internal controls; and
   - Enhance current management reviews to ensure ongoing monitoring. This includes comparisons and reconciliations of financial reporting activities.

ISABEL MCCONNELL Digitally signed by ISABEL MCCONNELL
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Isabel Luengo McConnell, Chief Financial Officer