NATIONAL LABOR RELATIONS BOARD

Fiscal Year 2021 Financial Statement Audit

Management Letter Report

Castro & Company
Auditors ✓ Advisors

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November 12, 2021

Inspector General
National Labor Relations Board

We have audited the accompanying balance sheets of the National Labor Relations Board (NLRB) as of September 30, 2021 and 2020 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 12, 2021.

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. Insufficient Quality Control Procedures Caused Financial Reporting Discrepancies (Repeat Condition from FY 2018, FY 2019, and FY 2020)

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 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.

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:

- Changes to reporting guidance for Fiscal Year (FY) 2021 were not incorporated into the financial statements
    - During our review of the financial statements and related crosswalks as of September 30, 2021, we noted NLRB did not incorporate changes to the crosswalks and financial statements for the Balance Sheet and Statement of Changes in Net Position (SCNP) as required by the August 2021 Treasury Financial Manual (TFM) and the August 10, 2021 update of OMB Circular A-136, which were utilized to prepare the respective financial statements. Specifically, we noted the crosswalk line numbers and accounts did not match the FY 2021 Treasury Crosswalk line numbers and accounts. We also noted the SCNP incorrectly included line-item headers that were not consistent with the updated TFM and OMB Circular A-136 financial statement presentation format.
- Incorrect amounts were reported on the financial statements.
    - During our review of the financial statements and related crosswalks and schedules as of September 30, 2021, we identified an error of $607,812 on the reported balances for Imputed Cost, Imputed Financing Sources, Total Financing Sources, and Net Cost of Operations. Specifically, we noted NLRB calculated the Imputed Cost for FY 2021 and recorded the journal voucher using the incorrect FERS-RAE and FERS-FRAE Agency Contributions and Employee Withholdings rates in the calculation of Imputed Cost, yet the Imputed Cost journal voucher was reviewed and approved by NLRB management. After we brought the error to management's attention, a journal voucher was recorded in October 2021 to correct the Imputed Cost to the correct balance of $12.9M.
- Beginning balance amounts on the financial statements did not match ending balances from the prior year.
    - During our review of the SCNP as of June 30, 2021 and September 30, 2021, we noted the amounts for Unexpended Appropriation - Beginning Balance and Cumulative Results of Operations - Beginning Balance did not agree to the prior year ending balances. The difference of $93 was due to a Treasury confirmation payment that was incorrectly processed to the prior fiscal year. NLRB management did not

correct the beginning balances, as NLRB determined the $93 difference to be immaterial. NLRB included the note disclosure 1O in the Performance and Accountability Report to explain the $93 difference. In FY 2020, we noted a $70 difference in the SCNP Unexpended Appropriation and Cumulative Results of Operations beginning balances related to a different error in the prior year.

In prior fiscal years, we recommended that NLRB develop a process for in-depth and detailed management quality control reviews of the financial statements, notes, and journal vouchers to ensure discrepancies are minimized and errors are timely corrected. Although procedure guides related to financial reporting, including the Financial Management Manual, were updated and finalized in FY 2021, NLRB did not consistently follow the process guides with respect to the performance of quality control reviews. Additionally, NLRB incorporated a financial statement review checklist that includes checklist items for ensuring the financial statements and crosswalks comply with the TFM and OMB Circular A-136; however, it did not appear that NLRB reviewed the changes in the FY 2021 TFM and updated OMB Circular A-136, which is a fundamental step and key control in the preparation of the crosswalks and financial statements. We reviewed management's corrective action plan regarding this recommendation and determined that sufficient 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.

Office of Personnel Management, Benefits Administration Letter, No. 20-304 dated May 2020 states,

> At its April 2018 meeting, the Board of Actuaries of the Civil Service Retirement System recommended revised long-term economic assumptions and changes to the demographic assumptions for use in actuarial valuations of Civil Service Retirement System (CSRS) and Federal Employees Retirement System (FERS). These revised assumptions resulted in new

> normal cost percentages that increase agencies' contribution rates for FERS employees, FERS-Revised Annuity Employees (FERS-RAE) and FERS- Further Revised Annuity Employees (FERS-FRAE) beginning in October 2020.
>
> The new contribution rates will become effective with the first pay period beginning on or after October 1, 2020.

NLRB Office of the Chief Financial Officer, Financial Management Manual, dated January 1, 2021 states,

> During the year, the Accountant reviews the Treasury USSGL website for updates to the financial statement crosswalks and implements any changes affecting the SGL accounts.

NLRB Journal Voucher Preparation Guide, dated June 2021 states,

> **Journal Voucher Review**
> The Branch Chiefs will review all journal vouchers. Journal vouchers must be approved, indicated by a signed and dated journal voucher package, before the Associate Chief Financial Officer, Finance (ACFOF) will approve.
>
> **Journal Voucher Approvals**
> For the manual journal voucher approval process, the Accountant will prepare and enter the journal voucher into Oracle. The manual journal voucher will be reviewed by the Branch Chiefs and approved in Oracle by the ACFOF. These manual journal vouchers will be signed by the preparer, reviewer, and approver…
>
> The ACFOF and/or Chief Financial Officer (CFO) are the designated Journal Voucher approvers. The ACFOF approves all manual journal vouchers prior to posting into Oracle. The CFO will only review and approve the manual journal voucher that has a materiality that exceeds 1.5% of the related financial statement line item that is affected by the items noted above. The CFO will be the final approver on this process.

See also applicable criteria in:

- OMB Circular A-136, *Financial Reporting Requirements*

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 errors in presentation and/or 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.

- *Changes to reporting guidance for Fiscal Year (FY) 2021 were not incorporated into the financial statements*. The Finance Branch has incorporated periodic reviews between the Treasury Financial Manual (TFM) and the Agency's financial statements; however, we will strengthen our process with more recurring and in-depth periodic reviews.
- *Incorrect amounts were reported on the financial statements.* This error relates to the calculation of imputed cost for the amount of $607,812. The Finance Branch has used the same FERS Revised Annuity Employees **(**FERS-RAE) and FERS Further Revised Annuity Employees (FERS-FRAE) memos from the Office of Personnel Management (OPM) since 2011. OPM placed the updated memos in the folder for FY 2011 versus FY 2021 folder. To prevent for this error of happening again, the Finance Branch will reach out to OPM for the information and request that moving forward, updated memos be placed in the updated year's folder.
- *Beginning balance amounts on the financial statements did not match ending balances from the prior year.* This is an error that was communicated to the auditors that affected FY 2020 ending balance and FY 2021 beginning balance. The Finance Branch has also communicated the issue to U.S. Department of the Interior, Interior Business Center (IBC). The Finance Branch will place additional controls to prevent this for happening again.

Auditor's Response:

The auditors concur with management's response; however, the errors noted above could have been avoided with stronger internal controls in place with respect to management quality control reviews. For example, the OCFO stated above that since 2011, the Finance Branch used the FERS-RAE and FERS-FRAE memorandums that OPM placed in the folder for FY 2011 versus the FY 2021 folder. However, the updated memorandums from OPM were readily available to the public on the OPM website.

Status of Prior Year Management Letter Comments

The FY 2014 and FY 2019 Management Letter Reports issued by Castro & Company identified the following control deficiencies that were considered open at the end of FY 2021:

Fiscal Year	Finding Identified	Status in FY 2021
FY 2014	Improvements in the Internal Controls over the Management of Government Charge Cards are Needed	Partially Resolved
FY 2019	Lack of Quality Control Procedures Caused Financial Reporting and Accounting Discrepancies	Partially Resolved

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

December 13, 2021

TO: David P. Berry, Inspector General

FROM: Isabel Luengo McConnell, Chief Financial Officer

SUBJECT: Response to the Fiscal Year 2021 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 the Inspector (OIG), Fiscal Year 2021 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:** *Our testing confirmed a lack of remediation of previous years' findings; therefore, additional recommendations are not deemed necessary at this time.*

3. **Response to Recommendation Number 1**: The OCFO concurs with the recommendation.

    - *Changes to reporting guidance for Fiscal Year (FY) 2021 were not incorporated into the financial statements.* The Finance Branch has incorporated periodic reviews between the Treasury Financial Manual (TFM) and the Agency's financial statements; however, we will strengthen our process with more recurring and in-depth periodic reviews.

    - *Incorrect amounts were reported on the financial statements.* This error relates to the calculation of imputed cost for the amount of $607,812. The Finance Branch has used the same FERS Revised Annuity Employees (FERS-RAE) and FERS Further Revised Annuity Employees (FERS-FRAE) memos from the Office of Personnel Management (OPM) since 2011. OPM placed the updated memos in the folder for FY 2011 versus FY 2021 folder. To prevent for this error of happening again, the Finance Branch will reach out to OPM for the information and request that moving forward, updated memos be placed in the updated year's folder.

    - *Beginning balance amounts on the financial statements did not match ending balances from the prior year.* This is an error that was communicated to the auditors that affected FY 2020 ending balance and FY 2021 beginning balance. The Finance Branch has also communicated the issue to U.S. Department of the Interior, Interior Business Center (IBC). The Finance Branch will place additional controls to prevent this for happening again.

ISABEL MCCONNELL

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Isabel Luengo McConnell, Chief Financial Officer