NATIONAL LABOR RELATIONS BOARD

Fiscal Year 2022 Financial Statement Audit

Management Letter Report

Castro & Company
Auditors ✓ Advisors

1635 King Street
Alexandria, VA 22314
Phone: 703.229.4440
Fax: 703.856.7603
www.castroco.com

November 14, 2022

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, 2022 and 2021, 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 14, 2022.

In planning and performing our audit of NLRB's financial statements as of and for the year ended September 30, 2022, 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 Recording and Reporting of Construction In Progress Costs

During our interim procedures, we noted that controls were not consistently operating effectively to ensure the Property, Plant, and Equipment (PP&E) accounts were properly reviewed and correctly reported on the financial statements, and as a result we noted the following:

- The PP&E reconciliation as of June 30, 2022, that was prepared and approved by NLRB management in August 2022, showed NLRB had estimated a percentage of construction completed for four offices (Boston, Memphis, Winston-Salem, and San Francisco); however, NLRB did not record the respective "in progress" amounts to the Construction in Progress (CIP) account as of June 30, 2022. As a result, the CIP account and respective PP&E line item on the balance sheet were understated by $1,587,632 as of June 30, 2022. These errors were corrected as of September 30, 2022 after we brought the errors to management's attention.

- Differences between the percent completed amount recorded in the CIP account and the amount recorded as an Accounts Payable (A/P) accrual understated the A/P balance by $99,148 as of June 30, 2022, specifically:

    - In one instance, we noted a difference of $38,500 due to NLRB recording an accrual for 90% construction completed instead of 95% construction completed as of June 30, 2022.

    - In one instance, we noted an accrual difference of $60,648 due to NLRB recording an accrual for 60% construction completed instead of 75% construction completed as of June 30, 2022.

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

> 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.

FASAB's *Statement of Federal Financial Accounting Standards 6: Accounting for Property, Plant, and Equipment* states

> 34. PP&E shall be recognized when title passes to the acquiring entity or when the PP&E is delivered to the entity or to an agent of the entity. In the case of constructed PP&E, the PP&E shall be recorded as construction work in process until it is placed in service, at which time the balance shall be transferred to general PP&E.

NLRB Property, Plant, and Equipment Guide, dated June 2021, states,

> 6.2.3 Recognition. Costs of new construction or improvement of real property that meet the capitalization criteria outlined above will be captured as construction in progress (CIP) with capital asset indicators until the asset is beneficially occupied or placed in service, whichever occurs first. The status of each new construction or capital improvement real

property project recorded in CIP shall be monitored on a quarterly basis based on the percentage of completion.

By not adequately monitoring Construction in Progress costs, 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.

Recommendations:

1. Develop policies and procedures to ensure accruals related to construction or capital improvement are consistent and accurately recorded in both PP&E and A/P accounts.

2. Develop and implement internal controls to ensure that the Office of Chief Financial Officer's policies and procedures are consistently followed including but not limited to the monitoring of new construction or capital improvements on a quarterly basis and appropriately recording and reporting as projects are completed.

Management's Response to Recommendation 1:

The OCFO concurs with the recommendation. NLRB management will work closely with the program area to ensure that the percentage of completion data is consistent between the PP&E data call and the A/P accruals. NLRB management will ensure policies and procedures for the construction or capital improvements are consistently and accurately recorded in both PP&E and A/P.

Management's Response to Recommendation 2:

The OCFO concurs with the recommendation. NLRB management will develop and implement internal controls to ensure that the Office of Chief Financial Officer's policies and procedures are consistently followed including but not limited to the monitoring of new construction or capital improvements on a quarterly basis and appropriately recording and reporting as projects are completed.

Auditor's Response:

The auditors concur with management's response.

2. Improvements Needed in the Monitoring of Undelivered Orders

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 $628,818 as of June 30, 2022.

During our interim testing of UDOs and A/P as of June 30, 2022, we selected a sample of 31 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 2 of the 31 contracts tested:

- For one contract, we noted a UDO difference of $374,983 due to the contract expiring on May 31, 2019, in which no additional services were received and the outstanding obligations were not de-obligated as of June 30, 2022.

- For one contract, we noted a UDO difference of $253,835 due to the contract expiring on October 28, 2020, in which no additional services were received and the outstanding obligations were not de-obligated as of June 30, 2022.

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 January 2021, 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 COR 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.

CORs 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 undelivered orders (UDO) review process), or to close out a contract, the COR 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.

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

Recommendations:

3. Assess whether the Office of the Chief Financial Officer is adequately staffed with personnel to monitor expired contracts, initial contract close-out, and de-obligate funds in a timely manner.

4. 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.

Management's Response to Recommendation 3:

The OCFO concurs with the recommendation. During Fiscal Year (FY) 2022, the Acquisitions Management Branch (AMB) experienced a 43% reduction in staffing resources due to retirements. In October 2022, AMB hired two Senior Contract Specialists to bring the staff up to three Senior Contract Specialists. Additionally, AMB currently has an AMB Director and a purchasing agent bringing the Full Time Equivalents (FTEs) to five. However, the current staff level is not enough to meet all AMB's requirements as determined by AMB's own staff assessment completed in calendar year 2022, which analyzed the acquisition and administrative functions and determined additional FTEs were required to make AMB fully operational. AMB continues to monitor expired contracts, to perform initial contract close-out, and to de-obligate funds in a timely manner with the assistance of the program offices. NLRB management realized that AMB's limited resources have a direct negative impact on meeting the Branch's procurement lead time and is committed to addressing this issue to the extent possible given the NLRB's current budget limitations. Thus, at present, the Agency's ability to add even more staff to AMB is constrained by the fact that, for the last nine years, the NLRB budget has been kept constant at $274.2 million. The Agency commits to prioritizing and revisiting staffing within AMB throughout the year.

Management's Response to Recommendation 4:

The OCFO concurs with this recommendation. AMB management will work with the program areas to monitor contracts that are expiring. AMB will also ensure that closeout procedures are properly initiated and that open balances are de-obligated based.

Auditor's Response:

Regarding management's response to Recommendation 3, management's corrective action will be reviewed as part of the FY 2023 audit follow-up. The auditors concur with management's response to Recommendation 4.

Status of Prior Year Management Letter Comments

Castro & Company determined that the prior year control deficiencies were remediated at the end of FY 2022.

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

December 7, 2022

TO: David P. Berry, Inspector General

FROM: Isabel Luengo McConnell, Chief Financial Officer

SUBJECT: Response to the Fiscal Year 2022 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 2022 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:

Develop policies and procedures to ensure accruals related to construction or capital improvements are consistent and accurately recorded in both property, plant, and equipment (PP&E) and accounts payable (A/P).

Response to Recommendation Number 1:

The OCFO concurs with the recommendation. NLRB management will work closely with the program area to ensure that the percentage of completion data is consistent between the PP&E data call and the A/P accruals. NLRB management will ensure policies and procedures for the construction or capital improvements are consistently and accurately recorded in both PP&E and A/P.

Recommendation Number 2:

Develop and implement internal controls to ensure that the Office of Chief Financial Officer's policies and procedures are consistently followed including but not limited to the monitoring of new construction or capital improvements on a quarterly basis and appropriately recording and reporting as projects are completed.

Response to Recommendation Number 2:

The OCFO concurs with the recommendation. NLRB management will develop and implement internal controls to ensure that the Office of Chief Financial Officer's policies and procedures are consistently followed including but not limited to the monitoring of new construction or capital improvements on a quarterly basis and appropriately recording and reporting as projects are completed.

Recommendation Number 3:

Assess whether the Office of the Chief Financial Officer is adequately staffed with personnel to monitor expired contracts, initial contract close-out, and de-obligate funds in a timely manner.

Response to Recommendation Number 3:

The OCFO concurs with the recommendation. During FY 2022, the Acquisitions Management Branch (AMB) experienced a 43% reduction in staffing resources due to retirements. In October 2022, AMB hired two Senior Contract Specialists to bring the staff up to three Senior Contract Specialists. Additionally, AMB currently has an AMB Director and a purchasing agent bringing the Full Time Equivalents (FTEs) to five. However, the current staff level is not enough to meet all AMB's requirements as determined by AMB's own staff assessment completed in calendar year 2022, which analyzed the acquisition and administrative functions and determined additional FTEs were required to make AMB fully operational. AMB continues to monitor expired contracts, to perform initial contract close-out, and to de-obligate funds in a timely manner with the assistance of the program offices. NLRB management realized that AMB's limited resources have a direct negative impact on meeting the Branch's procurement lead time and is committed to addressing this issue to the extent possible given the NLRB's current budget limitations. Thus, at present, the Agency's ability to add even more staff to AMB is constrained by the fact that, for the last nine years, the NLRB budget has been kept constant at $274.2 million. The Agency commits to prioritizing and revisiting staffing within AMB throughout the year.

Recommendation Number 4:

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 4:

The OCFO concurs with this recommendation. AMB management will work with the program areas to monitor contacts that are expiring. AMB will also ensure that closeout procedures are properly initiated and that open balances are de-obligated based.

ISABEL MCCONNELL Digitally signed by ISABEL MCCONNELL
Date: 2022.12.07 17:47:31 -05'00'

Isabel Luengo McConnell, Chief Financial Officer