

NATIONAL LABOR RELATIONS BOARD



Fiscal Year 2017 Financial Statement Audit

Management Letter Report

November 6, 2017

Inspector General
National Labor Relations Board

We have audited the accompanying balance sheets of the National Labor Relations Board (NLRB) as of September 30, 2017 and 2016 and the related statements of net cost, changes in net position, and budgetary resources for the fiscal years then ended.

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

1. Improvements in the Internal Controls over the Management and Monitoring of Negative Leave Are Needed (Repeat Condition from FY 2014, FY 2015 and FY 2016)

As part of our testing of accrued leave, we selected a sample of ten (10) employees with a negative leave balance as of September 30, 2017. The purpose of our testing was to assess management controls and compliance with applicable laws, regulations, and procedures relative to accrued annual and sick leave balances.

During our procedures, we noted that the NLRB did not always properly approve and maintain documentation to support the employees' negative annual and sick leave balances. Specifically, we noted that:

- For three (3) employees, only partial documentation was received to show proper approval by the supervisor for the advanced annual and/or sick leave.
- For one (1) employee, no documentation was received to show proper approval by the supervisor for the advanced annual and/or sick leave.
- For seven (7) employees, some of the advanced leave requests were approved after leave was taken.

U.S. Office of Personnel Management (OPM) – *Leave Administration*, states,

Annual Leave:

At its discretion, an agency may advance annual leave to an employee in an amount not to exceed the amount the employee would accrue within the leave year. An agency should not advance annual leave to an employee when it is known (or reasonably expected) that the employee will not return to duty, e.g., when the employee has applied for disability retirement. Before granting advanced annual leave, it is recommended that the approving authority consider such matters as the expectation of return to duty, the need for the employee's services, and the benefits to the agency of retaining the employee.

Employees and their supervisors are mutually responsible for planning and scheduling the use of employees' annual leave throughout the leave year. Employees should request annual leave in a timely manner, and supervisors should provide timely responses to employees' requests.

Advanced Sick Leave:

At its discretion, an agency may advance sick leave to an employee, when required by the exigencies of the situation, for the same reasons it grants sick leave to an employee, subject to the limitations described below. An agency should not advance sick leave to an employee when it is known (or reasonably expected) that the employee will not return to duty, e.g., when the employee has applied for disability retirement. Before granting advanced sick leave, it is recommended that the approving authority consider such matters as the expectation of return to duty, the need for the employee's services, and the benefits to the agency of retaining the employee.

An employee must request sick leave within such time limits as the agency may require. An agency may require employees to request advanced approval for sick leave for their own medical, dental, or optical examination or treatment. To the extent possible, an employee may be required to request advanced approval for sick leave to attend to a family member receiving medical, dental, or optical examination or treatment, to care for a sick family member or one with a serious health condition, for bereavement purposes, and for adoption-related proceedings. If the employee complies with the agency's notification and medical evidence/certification requirements, the agency must grant sick leave.

By not ensuring that agency policies are consistently followed, including obtaining the proper approvals and maintaining applicable documentation to support employees' leave balances in a centralized location, NLRB increases its risk that the accrued leave balance is incorrectly reported, and ultimately causing accrued annual and sick leave to be misstated.

Recommendations:

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

Management's Response:

NLRB concurs with the findings and recommendations as stated. To date, the NLRB Associate Director (AD) for Workforce Relations (WR) has established a series of internal controls to ensure the procedures for effective management of negative leave are monitored and handled in accordance with Agency-wide regulations and policies. The AD has already implemented the process of conducting bi-weekly and monthly audits of negative leave balances and documentation. Discrepancies are reconciled and communicated immediately with the originating offices to ensure a thorough understanding of the policies and procedures and that systemic issues are identified and reported within one pay period. A semi-annual notice is sent to all Agency officials as a reminder for timely reporting of such leave as well as to reinforce its approval prior to leave being granted/used.

WR has also prepared templates of the Advanced Leave Report and the SF-71, Request for Approval of Annual and Sick Leave, which serve as examples of how to correctly complete both forms, along with a sample "Medical Report/Slip" document. All documents and forms related to the management of leave have been available as of March 1, 2017, and are currently being posted on the WR SharePoint site.

As next steps, WR is collaborating with Operations to effectively manage the request for approval and documentation received on advanced annual and sick leave. The NLRB will continue to strengthen its internal controls regarding the timing, retention, and maintenance of records related to advanced leave requests and approval to achieve the level of consistency needed.

Auditor's Response:

The auditors concur with management's response.

2. Improvements in the Management of Government Charge Cards Are Needed (Repeat Condition from FY 2014 and FY 2015)

As part of our testing of cash disbursements, we selected a sample of 45 disbursements made during the period of October 1, 2016 through March 31, 2017. The purpose of our testing was to assess management controls and compliance with applicable laws, regulations, and procedures relative to cash disbursement transactions. The following conditions were noted:

- NLRB did not always oversee the completion of the required GSA SmartPay/refresher training. Specifically, we noted that for eight (8) purchase cardholders tested, the GSA certifications on file were completed greater than three years ago.

NLRB's purchase and travel cardholders are required to complete GSA SmartPay/refresher training at a minimum every three (3) years; however, some cardholders did not consistently complete the GSA SmartPay/refresher training within the required three (3) years.

In prior fiscal years, we recommended that NLRB management review, implement, and monitor control activities related to the training of cardholders. We reviewed management's corrective action plan regarding this recommendation, and even though NLRB management reviewed policies and updated the Purchase Card Management Plan, the written policies were not always followed.

Additionally, in prior fiscal years, we recommended that NLRB management establish and implement procedures for the periodic review of all active cardholders to determine whether each cardholder has a need for the purchase/travel card, and whether all applicable documentation, including completion of initial and refresher trainings, is maintained. We reviewed management's corrective action plan regarding this recommendation, and determined that management's review of the cardholder files had not been adequately completed as of our testing in May 2017.

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:

(1) There is a record in each executive agency of each holder of a purchase card issued by the agency for official use, annotated with the limitations on single transactions and total transactions that are applicable to the use of each such card or check by that purchase card holder....

(8) Periodic reviews are performed to determine whether each purchase card holder has a need for the purchase card.

(9) Appropriate training is provided to each purchase card holder and each official with responsibility for overseeing the use of purchase cards issued by the executive agency.

(10) The executive agency has specific policies regarding the number of purchase cards issued by various component organizations and categories of component organizations, the credit limits authorized for various categories of card holders, and categories of employees eligible to be issued purchase cards, and that those policies are designed to minimize the financial risk to the Federal Government of the issuance of the purchase cards and to ensure the integrity of purchase card holders.

OMB Circular A-123, Appendix B, Revised, *Improving the Management of Government Charge Card Programs*, states,

[E]ach agency must develop and maintain written policies and procedures for the appropriate use of charge cards consistent with the requirement of this guidance. The plan should be updated annually, or more frequently, if necessary to maintain current. Agencies shall submit a copy of their plan to OMB, Office of Federal Financial Management, on an annual basis, not later than January 31 of each calendar year.

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.

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 controls activities for operational processes, which may include verifications, reconciliations, authorizations and approvals, physical control activities, and supervisory control activities.

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:

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

Management's Response:

NLRB concurs with the findings related to the management of charge cards. The Office of the Chief Financial Officer (OCFO) took steps in FY17 to address the repeat condition from FY14 and FY15 – overseeing the completion of required GSA SmartPay refresher training. Cardholders and Approving Officials were required to take the NLRB online training in SkillPort instead of the GSA refresher training as GSA is revamping their training for the SmartPay 3 program. Management is currently revising policies that govern both purchase and travel programs to align with SmartPay 3 program requirements. The SmartPay 3 program will require the NLRB program participants to move from a manual, somewhat labor intensive paper process to an electronic environment. This change in

processes will allow for adequate monitoring in addition to allowing the NLRB to reduce the number of cardholders it currently has.

Auditor's Response:

The auditors concur with management's response.

3. Inadequate Controls over Undelivered Orders and Accounts Payable (Repeat Condition from FY 2014 (Material Weakness) and FY 2015 and FY 2016 (Significant Deficiency))

Although we noted overall improvements in the process for reviewing Undelivered Orders (UDO) and corresponding accruals in order to support the validity of UDO balances (i.e. obligating documents, invoices), we continue to identify issues due to incorrect accruals that resulted in an under/overstatement in accounts payable (A/P) and under/overstatement in the obligations.

As part of our testing of UDO and A/P, we selected a sample of 21 UDO transactions as of September 30, 2017. The results of our year-end testing identified exceptions in 3 of the 21 transactions tested. Exceptions noted included the following:

- Differences noted as a result of incorrect accruals: For one (1) transaction, we noted an accrual difference of \$269,864 due to NLRB recording an accrual for an invoice that was already recorded in the GL as of 9/30 which overstated the A/P balance and understated the UDO balance as of September 30, 2017. For one (1) transaction, we noted an accrual difference of \$9,293 due to NLRB recording an accrual for 21 percent of construction completion when the documentation provided supported a 26 percent construction completion as of 9/30 which understated the A/P balance and overstated the UDO balance as of September 30, 2017.
- Difference noted as a result of incorrect recording in the General Ledger (GL): For one (1) transaction, which was also noted in first bullet above, we noted a UDO difference of \$150,182 due to NLRB incorrectly recording an invoice to the GL for PO NLR6331016F0023 when it should have been booked to PO NLR63310014F0162. We noted that NLRB corrected this error subsequent to September 30, 2017.
- Difference noted as a result of insufficient documentation to support the deobligation: For one (1) transaction, we noted a UDO difference of \$17,541 related to a de-obligation against the PO that was not adequately supported.

Additionally, we selected a sample of 22 UDO transactions as of June 30, 2017. The results of our interim UDO and A/P testing identified exceptions in 6 of the 22 transactions tested. Exceptions noted included the following:

- Differences noted as a result of incorrect accruals which overstated the A/P balance and understated the UDO balance as of June 30, 2017. For one (1) transaction, NLRB recorded two accruals for June services provided based on FY 2016 and FY 2017 funding when only one accrual for FY 2017 funding should have been recorded. For one (1) transaction, NLRB recorded an accrual based on an estimate of the contract being 15 percent completed as of June

30, 2017. A modification to the contract was issued in July 2017 to cancel and fully de-obligate the contract; therefore, an accrual should not have been recorded as on June 30, 2017.

- Differences noted as a result of incorrect accruals which understated the A/P balance and overstated the UDO balance as of June 30, 2017. For four (4) transactions, NLRB did not properly recognize an accrual for the entire period for which services were received.

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.

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.

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.

Statement of Federal Financial Accounting Standards (SFFAS) 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.

31 U.S.C § 1501 (a)(1) states, in part, that an amount shall be recorded as an obligation of the United States Government only when supported by documentary evidence of a binding agreement between

the agency and another person, including an agency, that is in writing and executed before the end of the period of availability of the funds.

Not performing an accurate review of open obligations, expenditures, and accounts payable resulted in an under/overstatement in A/P and under/overstatement in the obligations. Additionally, the financial data used to generate management and financial reports required by applicable laws and regulations was not accurate. As a result, those charged with governance did not have reliable financial information to manage the operations of the Agency.

Recommendations:

This finding was noted in our internal control report in fiscal years (FY) 2014, FY 2015, and FY 2016 and our testing confirmed a lack of remediation; therefore, new recommendations are not deemed necessary at this time.

Management's Response:

NLRB concurs with the findings and recommendations related to UDOs and accounts payable. The OCFO continues to address the internal control issues identified in the FY17 audit. We agree with the recommendation and that there has been a “significant improvement over prior years when that matter was reported as a material weakness and a significant deficiency in the audit report”. The OCFO is preparing additional guidance and is flowcharting the UDO process, which will include documentation of internal controls. The NLRB has also begun consulting with another agency (US International Trade Commission) that has experienced similar issues and has successfully implemented the necessary internal controls. Additionally, the Department of Treasury is mandating the NLRB, along with other agencies, to implement the Invoice Processing Platform (IPP). IPP is a secure, Web-based service that more efficiently manages government invoicing from purchase orders through payment notification. This system will also assist with automating and streamlining the invoice/UDO process. With the steps mentioned above, the NLRB projects that it will successfully close out these findings and recommendations in FY18.

Auditor's Response:

The auditors concur with management's response.

4. Inadequate Management Review and Oversight Which Caused Deficiencies in Finalizing and Submitting the NLRB FY 2017 Performance and Accountability Report (PAR) to OMB Timely

The Accountability of Tax Dollars Act of 2002 requires that the NLRB submit audited financial statements to Congress and the Director of OMB on an annual basis. OMB Circular No. A-136, *Financial Reporting Requirements*, dated August 15, 2017, defines the form and content for the PAR and financial statements to be prepared by the 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 financial statement preparation process, we obtained a copy of the draft PAR to be submitted to OMB by the NLRB. The draft PAR was reviewed to ensure the accuracy of the financial statements and notes and to verify that the PAR was prepared in accordance with OMB Circular A-136.

Prior to issuance of our audit reports, we noted that the draft version of the PAR provided was still in an initial draft format. We verified the accuracy of the financial information, statements, and notes and compliance with OMB Circular No. A-136 of this version, with the understanding that only formatting and incorporation of the audit reports were needed.

However, based on our final review of the PAR prior to the submission to OMB on November 15, 2017, we noted that additional revisions to the PAR's content were made by the NLRB, and the PAR had not been sent to the contractor for formatting. We also noted that required information in the notes to the financial statements had been erroneously deleted since the version that was previously reviewed in detail by us for accuracy. Upon further inquiry, we noted that the Office of the Chief Financial Officer, the organization with primary responsibility for preparation of the financial statements and notes, was not consulted about the changes to the notes. In addition, any changes to the financial information subsequent to the version reviewed by us should have been discussed with the OIG and us prior to any changes being made. Revisions to the PAR were still being made and several versions were being circulated by the NLRB on the OMB submission due date. As a result, the final PAR was not submitted by the NLRB to OMB timely.

NLRB management did not perform adequate reviews and oversight over the NLRB's final financial reporting package, including proper oversight of new personnel responsible for compiling and incorporating information into the PAR and proper communication of submission deadlines, to ensure the timely submission of the NLRB's FY 2017 PAR.

Office of Management and Budget (OMB) Circular A-136, Revised, Financial Reporting Requirements, states,

I.5. Submission Deadlines

Final PARs, AFRs, and AMRs are due to OMB, the Government Accountability Office (GAO), and the Congress by 6 p.m. EST on November 15th of the fiscal year following the fiscal year that is being reported. When November 15th falls on a weekend or holiday, the due date is the next business day.

The final reports should be posted to the agencies' website the same day the report is submitted to OMB, GAO, and the Congress.

II.4. Financial Section – PAR Section 3/AFR Section 2

Preparation of the annual financial statements is the responsibility of agency management and each agency CFO should prepare a policy bulletin or memorandum guiding agency financial and management personnel in the preparation of the annual financial statements.

GAO's *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.

Management designs control activities in response to the entity's objectives and risks to achieve an effective internal control system. Control activities are the policies, procedures, techniques, and mechanisms that enforce management's directives to achieve the entity's objectives and address related risks. As part of the control environment component, management defines responsibilities, assigns them to key roles, and delegates authority to achieve the entity's objectives...

Control activities help management fulfill responsibilities and address identified risk responses in the internal control system. ... Management may design a variety of transaction control activities for operational processes, which may include verifications, reconciliations, authorizations and approvals, physical control activities, and supervisory control activities.

People are what make internal control work. Management is responsible for an effective internal control system. As part of this responsibility, management sets the entity's objectives, implements controls, and evaluates the internal control system. However, personnel throughout an entity play important roles in implementing and operating an effective internal control system.

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.

If NLRB does not perform a detailed management review to ensure the financial statements, notes, and PAR submissions to OMB are in compliance with the requirements of OMB Circular A-136, NLRB increases its risk that the PAR can present inaccurate, misleading, and/or inconsistent information.

Recommendations:

We recommend that NLRB Management:

- Establish and document the policies and procedures over the preparation and submission of the NLRB PAR, including schedule completion deadlines, management's quality control review, and approval of the final PAR submission to OMB.
- Perform an analysis to determine whether it would more efficient for the Agency to submit a separate Agency Financial Report and an Agency Performance Report, which is more suitable for a smaller agency, rather than consolidating the two reports into a PAR.

Management’s Response:

The NLRB concurs with the auditors’ findings regarding completion of the PAR. The Agency has had an established process in place to complete this task on an annual basis. The Division of Administration and OCFO will conduct a joint review of the project from start to finish to gain an understanding of the issues encountered and to gather lessons learned. The review will also include an assessment of whether the NLRB should continue to generate a PAR and will capture recommendations to the Agency leadership regarding available options and/or alternatives for communicating the results of the financial statements audit and the results of performance measurement as required by the Office of Management and Budget. The Agency will document the recommendations, options, and decisions to mitigate the issues identified.

Auditor’s Response:

The auditors concur with management’s response.

Status of Prior Year Management Letter Comments

The FYs 2016, 2015 and 2014 Management Letter Reports issued by Castro & Company and the FY 2012 Management Letter report issued by the predecessor auditor identified the following control deficiencies:

Fiscal Year	Finding Identified	Status in FY 2017
FY 2012	Information Technology – Active Directory Accounts	Resolved
FY 2014	Improvements in the Internal Controls over the Management of Government Charge Cards are Needed	Partially Resolved
FY 2014	Improvements in the Internal Controls over the Management and Monitoring of Negative Leave are Needed	Unresolved
FY 2015	Improvements in the Management, Monitoring and Reporting of Budget and Available Spending Amounts Needed	Resolved
FY 2016	Lack of Multi-Factor Authentication used by NLRB to Govern Access to PII Systems by Privileged Users	Resolved