UNITED STATES GOVERNMENT
National Labor Relations Board
Office of Inspector General

Audit of the NLRB Fiscal Year 2014 Financial Statements

Report No. OIG-F-19-15-01

December 12, 2014

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National Labor Relations Board
Office of Inspector General

EXECUTIVE SUMMARY

The Accountability of Tax Dollars Act of 2002 requires that the National Labor Relations Board prepare and submit to the Congress and the Director of the Office of Management and Budget audited financial statements.

The Office of Inspector General, National Labor Relations Board, contracted with Castro & Company, LLC (Castro & Company) to perform the audit. The objectives of the audit were to issue an opinion on the fair presentation of the principal financial statements, obtain an understanding of the National Labor Relations Board's internal controls, and test compliance with laws and regulations that could have a direct and material effect on the financial statements. The audit was conducted by Castro & Company in accordance with Government Auditing Standards issued by the Comptroller General of the United States and Office of Management and Budget Bulletin No. 14-02, Audit Requirements for Federal Financial Statements.

This document is our comprehensive report related to auditing the National Labor Relation Board's financial statements and includes Castro & Company's independent auditors' report, independent auditors' report on internal control, independent auditors' report on compliance with laws and regulations, and management letter; the National Labor Relations Board's financial statements and related notes; and the National Labor Relations Board's responses to the independent auditors' reports and management letter.

Castro & Company is responsible for the independent auditors' reports and the conclusions expressed in the reports. We reviewed Castro & Company's reports and related documentation and inquired of its representatives. Our review, as differentiated from an audit in accordance with generally accepted government auditing standards, was not intended to enable us to express, and we do not express, opinions on the financial statements or internal control or conclusions on compliance with laws and regulations. Our review disclosed no instances in which Castro & Company did not comply, in all material respects, with generally accepted government auditing standards.

On November 6, 2014, we transmitted Castro & Company's independent auditors' reports, which were included in the National Labor Relations Board's Fiscal Year 2014 Performance and Accountability Report. The audit results were:

- The financial statements present fairly, in all material respects, the financial condition and activity of the National Labor Relations Board as of and for the year ending September 30, 2014. The financial statements as of and for the year ending September 30, 2013, were audited by other auditors whose report, dated November 26, 2013, expressed an unmodified opinion on those statements.

- The tests on internal controls over financial reporting identified a material weakness due to inadequate controls over undelivered orders, accounts payable, and expenditures. A material weakness is defined as "a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis."

  Castro & Company also identified two significant deficiencies resulting from inadequate controls over the recording of financial information regarding internal use software and insufficient financial resources and/or personnel with appropriate skills. A significant deficiency is defined as "a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness yet important enough to merit attention by those charged with governance."

  Castro & Company's report on internal controls did not provide any assurances on the effectiveness of internal control over financial reporting. Providing assurances on internal control or on the effectiveness of National Labor Relations Board's internal control over financial reporting was not an objective of the audit.

- The tests on compliance with laws and regulations identified no instances of noncompliance with laws and regulations that would be reportable under U.S. generally accepted government auditing standards or Office of Management and Budget's audit guidance. Providing an opinion on compliance with laws and regulations, however, was not an objective of the audit and, accordingly, such an opinion was not expressed.

Castro & Company's independent auditors' report on internal control includes 15 recommendations for corrective action. Comments submitted by the Chief Financial Officer expressed agreement with the findings and recommendations. The comments noted that the Office of the Chief Financial Officer was established in 2012 to improve efficiency and effectiveness in financial operations, reliability of financial reporting, transparency of financial data, and compliance with applicable laws and regulations. The comments explained that, during the past 2 years, the Office of the Chief Financial Officer focused on addressing compliance-related issues that were identified in prior audits. The comments also stated that the Office of the Chief Financial Officer is recruiting and hiring qualified staff, especially in the Finance Branch, as one-third of the staff positions, including two key supervisory positions, were vacant for part or all of Fiscal Year 2014 and that it will continue its efforts to develop strong financial management and internal control structure, including changing some longstanding financial management practices within the National Labor Relations Board.

Castro & Company also issued a management letter that contained two findings related to improvements in internal controls over the management of government charge cards and the management and monitoring of negative leave balances. The management letter also included four recommendations related to those matters and provided information on the status of prior year recommendations. The Chief Financial Officer and the Director of Administration agreed with the findings and recommendations.

The comments of the Chief Financial Officer and the Director of Administration to the independent auditors' reports and the management letter are presented in their entirety in this report.

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Independent Auditor's Report

Inspector General
National Labor Relations Board

We have audited the accompanying balance sheet of the National Labor Relations Board (NLRB) as of September 30, 2014 and the related statements of net cost, changes in net position, and budgetary resources for the fiscal year then ended. The financial statements of NLRB as of September 30, 2013 were audited by other auditors whose report dated November 26, 2013, expressed an unmodified opinion on those statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and, Office of Management and Budget (OMB) Bulletin No. 14-02, *Audit Requirements for Federal Financial Statements*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the audit considers internal control relevant to the agency's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the agency's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the fiscal year 2014 financial statements referred to above present fairly, in all material respects, the financial position of the NLRB as of September 30, 2014, and the related statements of net cost, changes in net position, and budgetary resources for the year then ended in accordance with accounting principles generally accepted in the United States of America. The fiscal year 2013 financial statements were audited by other auditors whose report dated November 26, 2013 expressed an unmodified opinion on those statements.

Required Supplementary and Other Information

U.S. generally accepted accounting principles require that the information in the *Required Supplementary Information*, including *Management's Discussion and Analysis*, be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Federal Accounting Standards Advisory Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. The supplementary information is the responsibility of management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the basic financial statements. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

The information presented in the *Other Accompanying Information* and *Appendices* is presented for purposes of additional analysis and is not required as part of the basic financial statements. Such information has not been subjected to auditing procedures applied by us in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with U.S. *Government Auditing Standards* and OMB Bulletin No. 14-02, we have also issued our reports dated November 6, 2014, on our consideration of NLRB's internal control over financial reporting and the results of our tests of its compliance with certain provisions of laws, regulations, and other matters that are required to be reported under *Government Auditing Standards*. The purpose of those reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with U.S. *Government Auditing Standards* and OMB Bulletin 14-02 in considering the NLRB's internal control and compliance, and should be read in conjunction with this report in considering the results of our audit.

This report is intended solely for the information and use of management and the NLRB Office of Inspector General, OMB, GAO, and Congress, and is not intended to be and should not be used by anyone other than these specified parties.

Castro & Company, LLC

November 6, 2014
Alexandria, VA

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Independent Auditor's Report on Internal Control

Inspector General
National Labor Relations Board

We have audited the financial statements of the National Labor Relations Board (NLRB) as of and for the year ended September 30, 2014, and have issued our report thereon dated November 6, 2014. We conducted our audit in accordance with the auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 14-02, *Audit Requirements for Federal Financial Statements*.

In planning and performing our work, we considered NLRB's internal control over financial reporting by obtaining an understanding of the design effectiveness of NLRB's internal control, determining whether controls had been placed in operation, assessing control risk, and performing tests of 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 NLRB's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of NLRB's internal control over financial reporting. We limited our internal control testing to those controls necessary to achieve the objectives described in the Office of Management and Budget (OMB) Bulletin No. 14-02, *Audit Requirements for Federal Financial Statements*. We did not test all internal controls relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act of 1982 (FMFIA), such as those controls relevant to ensuring efficient operations.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purposes described in the second paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. However, we consider the first deficiency described below to be a material weakness.

We noted less significant matters involving internal control and its operations which we have reported to NLRB management in a separate letter dated November 6, 2014.

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

Castro & Company, LLC

November 6, 2014
Alexandria, VA

MATERIAL WEAKNESS

I. Inadequate Controls over Undelivered Orders, Accounts Payable, and Expenditures

Sufficient documentation was not provided to support the validity of certain Undelivered Orders (UDO) balances, including accruals not being properly recorded. As a result of material misstatements, we were unable to rely on our interim testing as of June 30, 2014 for the UDO, accounts payable (AP), and expenditures balances because of a significant number of testing exceptions, which required us to perform expanded testing related to all UDO's as of September 30, 2014. NLRB did not perform an open obligations review throughout the fiscal year, nor did it recognize and record accruals on a quarterly basis. Rather, management only performed a review of open obligations and recorded estimated accruals at year-end.

During our testing, we noted multiple issues surrounding the accounting for UDO, AP, and expenditures as summarized below.

- For multiple UDOs, the period of performance expired during Fiscal Years (FY) 2010 through 2013, but NLRB had not commenced contract close-out procedures in a timely basis in order to deobligate the UDO balance, even though the contract was completed and all services had been billed and paid.

- Accruals were not recorded on a quarterly basis throughout the fiscal year. NLRB only performed a year-end review of open obligations to provide an amount to accrue for AP, if applicable. However, during our UDO testing, we noted that NLRB did not always have a detailed and documented methodology to accrue expenses for goods/services that were received but not paid. For example:
  - Certain accruals were not supported by proper documentation such as an estimate of services received based on past services received and paid. For certain obligations, NLRB did not include the methodology used for the accruals, even though this information was required. There was no documentation to clearly support Finance Branch's (Finance) review and approval to ensure explanations used by program offices for accrual methodologies used and other needed information were included as required, or that methodologies used for accruals were clearly explained, reasonable, and supported by adequate documentation.
  - Certain accruals recorded by Finance were incorrect, as methodologies used contained accruals for services for which invoices were already paid and recognized in the GL, but for which the accrual was not adjusted, causing overstatements of AP and understatements of the UDO.
  - Certain items that were not properly accrued were related to construction/improvements being performed at various Regional Offices, one of which was 100 percent completed as of June 30, 2014. We noted that NLRB was not properly monitoring those contracts for the potential recognition and recording of leasehold improvements in its financial statements. Additionally, NLRB should be monitoring and recognizing a Construction-In-Progress (CIP) account for any

projects that might eventually be capitalized as a leasehold improvement, including current construction for the new Headquarters building.

- NLRB has a significant number of agreements in place with the General Services Administration (GSA). During our testing, we noted that there were certain older obligations that were based on purchase requisitions and therefore, were not valid contracts. For example, one GSA obligation remained on the books even though the services were never received and should have been deobligated in 2011 and another remained even though it was obligated with FY 2010 funds based on a purchase requisition. Additionally, we were unable to determine with any degree of certainty whether the goods or services ordered were received from GSA based on the limited information reviewed.

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

> Internal control should generally be designed to assure that ongoing monitoring occurs in the course of normal operations. It is performed continually and is ingrained in the agency's operations. It includes regular management and supervisory activities, comparisons, reconciliations, and other actions people take in performing their duties.
>
> Internal control and all transactions and other significant events need to be clearly documented, and the documentation should be readily available for examination. The documentation should appear in management directives, administrative policies, or operating manuals and may be in paper or electronic form. All documentation and records should be properly managed and maintained.

The 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.

SFFAS No. 6, *Accounting for Property, Plant, and Equipment*, states:

> 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.

By not performing an open obligations review on a routine basis, the financial data used to generate management reports and financial reports required by applicable laws and regulations are not accurate. As a result, those charged with governance have no reasonable assurance as to whether they have reliable financial information to manage the operations of the Agency.

Because NLRB did not properly recognize accruals when goods and services were received and did not perform the necessary review of open obligations, the statistically projected error related to the UDO testing indicated that the UDO balance was materially overstated as of June 30, 2014 and, therefore, could not be relied upon for financial reporting purposes. As a result of the accrual clean-up done by NLRB during the last quarter of the fiscal year, we were able to determine that the FY 2014 financial statements are fairly presented, but the controls were not in place for the majority of the fiscal year.

Recommendations:

We recommend that NLRB management:

1. Establish, document, and implement policies for performing open obligation reviews on a quarterly basis, including documented quality control procedures and approvals over the reviews.

2. Establish, document, and implement policies to ensure accruals are recorded when goods and/or services are received throughout the fiscal year, at least on a quarterly basis, rather than at only year-end. Accruals recorded should be clearly documented with detailed methodologies to support the amounts recorded. The accrual methodologies should be reviewed and approved by appropriate program office personnel, with quality control review procedures and approvals performed and documented by Finance personnel.

3. Perform a data clean-up for all open obligations and accounts payable general ledger balances to ensure that the balances are properly recorded, with appropriate adjustments posted at the detailed general ledger level.

4. Train responsible program office and Finance personnel on how to monitor obligations and report accruals on an ongoing basis to enhance compliance with the applicable requirements.

5. Perform a reconciliation for each GSA agreement to ensure that the obligations are valid, and documentation exists to clearly support that the goods or services ordered were provided by GSA on a timely basis. Coordination should be performed between Finance, Facilities and Property Branch, and GSA on an ongoing basis.

SIGNIFICANT DEFICIENCIES

II. Inadequate Controls over the Recording and Monitoring of Internal-Use Software and Internal-Use Software in Development

During our testing of the Property, Plant & Equipment (PP&E) balance, we performed a review of the Internal Use Software (IUS) and Internal Use Software in Development (IUS-D) general ledger (GL) accounts. The IUS GL account (GL 1830) is used to recognize the amount of capitalized cost of IUS including purchased off-the-shelf software, contractor-developed software subject to amortization, and internally developed software subject to amortization. The IUS-D GL account (GL 1832) is used to recognize the full cost amount incurred during the software development stage of contractor-developed software, and internally developed software. Upon completion, those costs will be transferred to IUS for capitalization.

Our testing included re-performing a calculation of the current period depreciation for all IUS assets. In addition, we selected a judgmental sample of IUS-D assets with accumulated costs recorded in the IUS-D listing provided by NLRB as of June 30th, which contained significant errors.

During our testing we noted the following:

- NLRB did not recognize depreciation expense for the period of October 1, 2013 through June 30, 2014 for any of the IUS assets recorded in the IUS listing provided. We performed a calculation of the depreciation expense for all software assets listed and as a result noted that NLRB did not recognize depreciation expense in the amount of $2,344,963 as of June 30, 2014. Rather, management intended to record depreciation expense on IUS at year-end. For IUS-D, it has been the practice for the Chief Information Officer to provide Finance with a breakdown of the amount to book as IUS and IUS-D based on his expertise/knowledge. Therefore, IUS-D costs are not being accumulated in accordance with the Statement of Federal Financial Accounting Standards (SFFAS) No. 10, *Accounting for Internal Use Software.* In addition, documentation was not maintained to support the balances recorded for any of the IUS-D accumulated costs.

- NLRB was unable to provide documentation to clearly support any of the IUS-D assets selected for testing. Upon further discussions, it was noted that NLRB was unable to provide documentation to support the IUS-D balance of $6,795,871 recorded on its balance sheet as of June 30th.

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

> Internal control and all transactions and other significant events need to be clearly documented, and the documentation should be readily available for examination. The documentation should appear in management directives, administrative policies, or operating manuals and may be in paper or electronic form. All documentation and records should be properly managed and maintained.

SFFAS No. 6, *Accounting for Property, Plant, and Equipment*, states,

> Depreciation expense is calculated through the systematic and rational allocation of the cost of general PP&E, less its estimated salvage/residual value, over the estimated useful life of the general PP&E. Depreciation expense shall be recognized on all general PP&E, except land and land rights of unlimited duration.
>
> Depreciation expense shall be accumulated in a contra asset account-accumulated depreciation. Amortization expense shall be accumulated in a contra asset account-accumulated amortization. General PP&E shall be reported in the basic financial statements: the balance sheet, and the statement of net cost. The acquisition cost of general PP&E shall be recognized as an asset. Subsequently, except for land which is a nondepreciable asset that acquisition cost shall be charged to expense through depreciation. The depreciation expense shall be accumulated in a contra asset account—accumulated depreciation.

SFFAS No. 10, *Accounting for Internal Use Software*, states,

> Internal use software means software that is purchased from commercial vendors "off-the-shelf," internally developed or contractor-developed solely to meet the entity's internal or operational needs…Entities should capitalize the cost of software when such software meets the criteria for general property, plant, and equipment (PP&E).
>
> For internally developed software, capitalized cost should include the full cost (direct and indirect cost) incurred during the software development stage. Such cost should be limited to cost incurred after a. management authorizes and commits to a computer software project and believes that it is more likely than not that the project will be completed and the software will be used to perform the intended function with an estimated service life of 2 years or more and b. the completion of conceptual formulation, design, and testing of possible software project alternatives (the preliminary design stage).
>
> Such costs include those for new software (e.g., salaries of programmers, systems analysts, project managers, and administrative personnel; associated employee benefits; outside consultants' fees; rent; and supplies) and documentation manuals.
>
> For COTS software, capitalized cost should include the amount paid to the vendor for the software. For contractor-developed software, capitalized cost should include the amount paid to a contractor to design, program, install, and implement the software. Material internal cost incurred by the federal entity to implement the COTS or contractor-developed software and otherwise make it ready for use should be capitalized. Costs incurred after final acceptance testing has been successfully completed should be expensed.

Because NLRB did not recognize depreciation expense on IUS assets for the period of October 1, 2013 through June 30, 2014, the PP&E balance presented on the balance sheet as of June 30, 2014, was overstated by $2,344,963. In addition, expenses presented on the Statement of Net Cost were understated by the same amount. For IUS-D, because documentation was not maintained to support the $6,795,871, we were unable to determine whether the balance recorded on IUS-D and presented on the balance sheet as of June 30 was valid, accurate or fairly stated. We were able to determine that the FY 2014 financial statements are fairly presented because NLRB made the necessary corrections to the final year-end issued financial statements.

Recommendations:

We recommend that NLRB Management:

6. Ensure that all assets are depreciated, at a minimum, on a quarterly basis in order to properly reflect asset, contra-asset and expense balances.

7. Perform a quarterly review of the IUS-D asset account, in order to determine whether accumulated costs are being recorded in accordance with SFFAS No. 10 and software assets which are completed are timely moved to the IUS account for capitalization.

8. Perform a review of documentation used to record IUS assets and IUS-D costs to determine whether adequate supporting documentation exists. Any estimation methodologies used need to be clearly documented and assumptions used properly supported in accordance with SFFAS No. 35, *Estimating the Historical Cost of General Property, Plant, and Equipment.*

9. Update documented policies and procedures to ensure adequate monitoring and review of purchases to allow for proper recording and reporting as required by applicable accounting standards.

10. Train personnel on the policies and procedures surrounding IUS and IUS-D, including the requirements of SFFAS No. 10, to enhance their ability to identify items that should be capitalized rather than expensed.

III. Insufficient Finance Resources and/or Personnel with Appropriate Skill Sets Which Caused Financial Reporting Discrepancies

The Accountability of Tax Dollars Act of 2002 (ATDA) extends to NLRB the requirement to submit to Congress and the Director of Office of Management and Budget (OMB) audited financial statements. OMB Circular No. A-136, *Financial Reporting Requirements,* defines the form and content of financial statements to be prepared by NLRB. To accomplish the objective of complying with the ATDA, NLRB is required to develop a system to prepare a complete set of financial statements on a timely basis in accordance with U.S. generally accepted accounting principles. The statements are to result from an accounting system that is a fundamental part of an integrated financial management system containing sufficient structure, effective internal control and reliable data. Financial reporting also consists of policies and procedures related to the processing and summarizing of accounting entries, and the preparation of financial statements.

During our testing of NLRB's financial statement preparation, we noted that improvement is needed to ensure that NLRB can accurately produce its quarterly financial statements and perform related analyses. The errors we noted related to incorrect accumulation of account balances and incorrect postings to the financial reporting system. These errors occurred because of ineffective management reviews and approvals to ensure that transactions and adjustments were accurate and properly supported. The NLRB made the necessary corrections to the final issued financial statements.

A major objective of internal control is to ensure the integrity of the underlying accounting data supporting the financial statements. A key control is performing reconciliations of significant account balances. An adequate reconciliation provides assurances that transactions are properly processed and recorded in the accounting records in a timely manner.

The Finance Branch did not have sufficient adequate resources and personnel with appropriate skill sets and expertise to perform financial management accounting and reporting. Furthermore, during the course of our audit it was not apparent that the NLRB had a program to cross train personnel in performing day-to-day financial management accounting and financial reporting tasks.

During our review of NLRB's financial statement preparation process, we identified certain issues, as summarized below that impact NLRB's ability to effectively accumulate, assemble, and analyze information presented in its financial statements in accordance with applicable guidance:

- During our interim testing procedures, we requested and reviewed the third quarter financial statements prepared by NLRB and submitted to OMB. During our review, we noted the following:

    - NLRB did not submit an analysis of significant variances, including explanations for any significant variances, as part of its quarterly financial statement submission to OMB.

- NLRB did not submit to OMB the required unaudited notes to the financial statements within the 45 calendar days after the end of the third quarter interim reporting period (June 30, 2014). Additionally, NLRB did not provide a justification, based on data availability, to: (1) request alternate deadlines; or (2) provide preliminary, placeholder (e.g. prior year), or pro forma information, in lieu of such notes.
- The financial statement package did not contain evidence of final review and approval by NLRB management.

- As part of our testing of Journal Vouchers (JVs), we reviewed JVs prepared and posted to Oracle by NLRB for the period of October 1, 2013 through June 30, 2014. NLRB prepared a total of twenty-eight (28) JVs for the period of October 1, 2013 through June 30, 2014. As a result of our testing, we noted the following:

  - For 11 of the 28 JVs prepared, NLRB was unable to provide the JV and related supporting documentation.
  - For the 17 JVs we obtained and reviewed, eight (8) JVs did not contain sufficient detail to document and support the purpose for the manual JV, and four (4) JVs did not contain evidence of management's review and approval.

- Additionally, NLRB did not have sufficient quality control procedures in place and continued to make errors in the draft year-end financial statements that were not corrected until brought to their attention by the auditors. For example, NLRB did not report an updated amount for the Estimated Future Federal Employees Compensation Act (FECA) liability for FY 2014 on the year-end draft financial statements. Rather, NLRB erroneously reported the same amount from the prior fiscal year. In addition, certain balances did not tie within the financial statements or footnotes. NLRB made the necessary correction to the final issued year-end financial statements.

NLRB does not have sufficient adequate resources to implement financial statement reporting requirements and sufficient controls in place to ensure that the financial statements are thoroughly prepared, reviewed and presented in accordance with applicable OMB circulars and Federal financial accounting standards. Additionally, NLRB places heavy reliance on the Department of Interior (DOI), Interior Business Center (IBC), which provides financial management support services to NLRB including the preparation of NLRB's financial statements. The NLRB, however, is responsible for the review and submission of its financial statement package to OMB. NLRB does not have a Financial/Accounting Manual in place, and is currently working on documenting/establishing one. In addition, NLRB does not have written policies and procedures in place specific to the processing and recording of JVs.

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

> People are what make internal control work. The responsibility for good internal controls rests with all managers. Management sets the objectives, puts the control

> mechanisms and activities in place, and monitors and evaluates the control. However, all personnel in the organization play important roles in making it happen. All personnel need to possess and maintain a level of competence that allows them to accomplish their assigned duties, as well as understand the importance of developing and implementing good internal control. Management needs to identify appropriate knowledge and skills needed for various jobs and provide needed training, as well as candid and constructive counseling, and performance appraisals.
>
> Internal control and all transactions and other significant events need to be clearly documented, and the documentation should be readily available for examination. The documentation should appear in management directives, administrative policies, or operating manuals and may be in paper or electronic form. All documentation and records should be properly managed and maintained.
>
> Control activities are an integral part of an entity's planning, implementing, reviewing, and accountability for stewardship of government resources and achieving effective results…They include a wide range of diverse activities such as approvals, authorizations, verifications, reconciliations, performance reviews, maintenance of security, and the creation and maintenance of related records which provide evidence of execution of the activities as well as appropriate documentation.

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

IV.3 Statements and Variances Required To Be Submitted Quarterly

> Agencies are required to submit an analysis of significant variances along with the quarter's three financial statements.

IV.4 Third Quarter Unaudited Interim Financial Notes

> Agencies must submit unaudited notes (and other required supplemental disclosure information as deemed relevant and useful-e.g., RSI, RSSI, and OI) along with unaudited interim financial statements. Agencies should complete key notes, such as those notes that present a greater risk of failing to meet the prescribed disclosure requirements. The purpose of these submission is to: (1) allow agencies to receive comments from OMB in advance of the year-end deadline, so that they will have sufficient time to improve the accuracy and conformity of these notes for the year-end submission of PARs or AFRs, and (2) enable Treasury's Bureau of the Fiscal Service to conduct preliminary analysis on agency data to facilitate preparation of the Financial Report of the U.S. Government (FR).
>
> Agencies will submit their unaudited notes and supplemental information through the OMB MAX system. Consult the Treasury Financial Manual (TFM) for the applicable due date. In some cases, interim data may not be available, or it may not be cost-efficient to obtain the interim data. Based on data availability, agencies may: (1)

request alternate deadlines; or (2) provide preliminary, placeholder (e.g. prior year), or pro forma information. In addition, the Fiscal Service will contact selected agencies directly to assist in the drafting of key FR notes and supplemental information.

Without the adequate staffing levels and the proper skill sets, the Finance Branch will continue to encounter challenges in its accounting and financial reporting processes. By not adequately performing management functions specific to monitoring, analysis, oversight, and reconciliations, discrepancies may exist but go undetected and uncorrected; thereby causing the financial information to be misstated. Effective management oversight greatly increases NLRBs ability to proactively identify and resolve issues that could result in misstatements in financial accounting and reporting records.

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

In addition, by not having controls and written policies and procedures in place, NLRB increases the risk that transactions will be processed in a manner that is inconsistent with applicable accounting standards; thereby causing the financial records and statements to be misstated.

Recommendations:

We recommend that NLRB management:

11. Perform an assessment of its organizational structure to ensure the CFO's Office is adequately staffed with individuals that possess adequate experience in compiling Federal financial statements, including Federal accounting and financial reporting knowledge and experience to enhance NLRB's ability to comply with accounting and financial reporting standards. Once the assessment is completed, corrective action needs to be taken for any deficiencies identified in current staffing competencies or additional staffing needs.

12. Develop and provide on-going training to NLRB staff on federal accounting and reporting requirements to enhance NLRB's ability to compile financial statements and the Performance and Accountability Report in accordance with applicable standards.

13. Establish and document the policies and procedures over the financial statement preparation process, including management's documented quality control review and approval of all quarterly financial statements.

14. Ensure variance analysis and explanations of significant variances are prepared, reviewed and submitted as part of NLRB's quarterly financial statement submission to OMB.

15. Finalize the Financial Manual documenting the procedures needed to ensure NLRB complies with applicable accounting, financial management and reporting standards and regulations. The manual should include specific procedures required to process JVs, including: (1) Verifying the accuracy of data on the JVs, (2) Ascertaining that the JVs and supporting documentation are properly authorized, and (3) Determination that the transactions are legal.

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Independent Auditor's Report on
Compliance with Laws and Regulations

Inspector General
National Labor Relations Board

We have audited the financial statements of the National Labor Relations Board (NLRB) as of and for the year ended September 30, 2014, and have issued our report thereon dated November 6, 2014. We conducted our audits in accordance with the auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 14-02, *Audit Requirements for Federal Financial Statements*.

The management of NLRB is responsible for complying with laws and regulations applicable to NLRB. We performed tests of its compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts, and certain other laws and regulations specified in the Office of Management and Budget (OMB) Bulletin No. 14-02, *Audit Requirements for Federal Financial Statements*, including the requirements referred to in the Federal Managers' Financial Integrity Act of 1982 (FMFIA). We limited our tests of compliance to these provisions, and we did not test compliance with all laws and regulations applicable to NLRB.

The results of our tests of compliance with applicable laws and regulations, and government-wide policies, described in the preceding paragraph identified no instances of noncompliance that are required to be reported under *Government Auditing Standards* or OMB guidance.

Providing an opinion on compliance with certain provisions of laws and regulations and government-wide policies was not an objective of our audit, and accordingly, we do not express such an opinion.

This report is intended solely for the information and use of management and the NLRB Office of Inspector General, OMB, GAO, and Congress, and is not intended to be and should not be used by anyone other than these specified parties.

Castro & Company, LLC

November 6, 2014
Alexandria, VA

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

November 3, 2014

TO: David P. Berry, Inspector General

FROM: Ronald E. Crupi, Chief Financial Officer

SUBJECT: Response to the Audit of the National Labor Relations Board Fiscal Year 2014 Financial Statements

We have reviewed the subject report and concur with the factual findings and recommendations. We would like to note that many of the specific deficiencies identified in the report were from June 2014, and appreciate the auditor's unmodified opinion and determination that our financial statements present fairly, in all material respects, the financial position of the National Labor Relations Board as of September 30, 2014.

The Office of the Chief Financial Officer (OCFO) was established in 2012 to improve efficiency and effectiveness in financial operations, reliability of financial reporting, transparency of financial data, and compliance with applicable laws and regulations. During the past two years, the OCFO's focus has necessarily been on the latter component, i.e., addressing compliance-related issues that were identified by the previous auditors. Those audit findings were remediated by the close of Fiscal Year 2014.

We continue to recruit and hire qualified staff within the OCFO and especially in the Finance Branch, as one-third of the staff positions, including two key supervisory positions, were vacant for part or all of Fiscal Year 2014. Our standard operating procedure is to use existing and new resources to continue the development of a strong financial management and internal control structure within the Agency, which also requires changing some longstanding financial management practices within the Agency. The OCFO continues to infuse more discipline, structure, and internal control in the financial management lifecycle and throughout the financial management process.

Prior to your audit, we established a Management Internal Control (MIC) program within OCFO, wherein we began documenting processes and recommending strategies to measure risk, manage risk, and improve internal controls to mitigate risk. The OCFO plans to continue an ongoing assessment of our processes on a regular basis, always seeking methods to improve the way we do business.

Below is our response to the auditor's specific recommendations. Due to similarities in the recommendations, we have grouped the responses where appropriate. A management action plan will be developed to track the progress on these recommendations.

Recommendations numbered 1, 2, 6, 7, 8, 9, 13, 14: The OCFO will build on existing procedures and continue to document and implement policies and procedures for the review of obligations, accruals, property (including software, depreciation, and related documentation), and financial reporting (including data analysis and reconciliations), as well as documented quality control and management approvals.

Recommendations numbered 3, 5: The OCFO has begun and will continue to perform a data clean up of existing obligations, accounts payable, and other general ledger accounts, ensuring validity and coordinating with all appropriate stakeholders, inside and outside the Agency.

Recommendations numbered 4, 10, 12: The OCFO will develop a comprehensive training program for OCFO staff, and other applicable NLRB stakeholders, on obligation reviews, accruals, property capitalization standards, and other federal accounting and reporting requirements.

Recommendation numbered 11: The OFCO will assess our organizational structure and staffing levels to ensure that roles and responsibilities are properly assigned, that existing staff are properly trained and cross-trained, and that appropriate staffing requirements are met.

Recommendation numbered 15: The OCFO will continue its development of a Financial Management Manual (FMM) and will make it readily available to all appropriate staff, to ensure compliance with applicable accounting, financial management, and reporting standards. The FMM will cover all processes noted above in the recommendations, as well as specific procedures for manual Journal Vouchers and related documentation.

Ronald E. Crupi
Ronald E. Crupi
Chief Financial Officer

NATIONAL LABOR RELATIONS BOARD

Fiscal Year 2014 Financial Statement Audit

Management Letter Report

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Auditors & Advisors

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November 06, 2014

Inspector General
National Labor Relations Board

We have audited the accompanying balance sheet of the National Labor Relations Board (NLRB) as of September 30, 2014 and the related statements of net cost, changes in net position, and budgetary resources for the fiscal year then ended. The financial statements of NLRB as of September 30, 2013 were audited by other auditors whose report dated November 26, 2013, expressed an unmodified opinion on those statements.

In planning and performing our work, we considered NLRB's internal control over financial reporting by obtaining an understanding of the design effectiveness of NLRB's internal control, determining whether controls had been placed in operation, assessing control risk, and performing tests of 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 NLRB's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of 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, 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 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

Castro & Company, LLC

1. Improvements in the Internal Controls over the Management of Government Charge Cards are Needed

As part of our testing of cash disbursements, we selected a sample of 45 disbursements made during the period of October 1, 2013 through March 31, 2014. The purpose of our testing was to assess management controls and compliance with applicable laws, regulations, and procedures relative to cash disbursement transactions.

During our procedures we noted that NLRB did not always oversee the establishment and maintenance of master file/official cardholder records, including training, appointment, single and monthly purchase limits, and related records. Specifically, we noted that:

- For 13 cardholders (five purchase cardholders and eight travel cardholders), official cardholder records were not maintained by NLRB to evidence the proper appointment of cardholders.
- Three travel cardholders did not have documentation of having a current status regarding travel card training. For two travel cardholders, we noted that the GSA certificates on file had a completion date of May 2011; however, as of June 2014 the required refresher training, which should be completed at a minimum every three years, had not been completed by those two cardholders as required. For one travel cardholder, there was no certificate on file to support the cardholder's completion of the required training.

NLRB's Purchase Card Management Plan requires training and card applications to be documented as complete before a new credit card account is processed by the bank; however, NLRB did not consistently maintain documentation of cardholder appointments. Also, even though NLRB has a Travel Card Management Plan that was completed in 2012 as a result of an Office of Inspector General audit recommendation from 2011, management was unaware of its existence. For the two cardholders who had not completed refresher training, NLRB noted that the refresher training had not been completed because management was waiting to provide training to all cardholders at once; however, management was unable to provide an expected date as to when that training was going to be provided or completed.

Public Law ''*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.

Office of Management and Budget (OMB) Circular A-123, Appendix B, Revised, *Improving the Management of Government Charge Card Programs*, states,

> …each 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,

> Internal control should generally be designed to assure that ongoing monitoring occurs in the course of normal operations. It is performed continually and is ingrained in the agency's operations. It includes regular management and supervisory activities, comparisons, reconciliations, and other actions people take in performing their duties.
>
> Internal control and all transactions and other significant events need to be clearly documented, and the documentation should be readily available for examination.
>
> Control activities are an integral part of an entity's planning, implementing, reviewing, and accountability for stewardship of government resources and achieving effective results…They include a wide range of diverse activities such as approvals, authorizations, verifications, reconciliations, performance reviews, maintenance of security, and the creation and maintenance of related records which provide evidence of execution of the activities as well as appropriate documentation.

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:

We recommend NLRB Management:

1. Review, implement, and monitor control activities related to the training and appointment of cardholders.
2. Establish and implement procedures for 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.

2. Improvements in the Internal Controls over the Management and Monitoring of Negative Leave are Needed

As part of our testing of accrued leave, we selected a sample of six (6) employees with a negative leave balance as of September 30, 2014. 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 NLRB did not always properly approve and maintain documentation to support the employee's negative annual and sick leave balance. Specifically, we noted that:

- For two (2) employees, only partial documentation was received to show proper approval by supervisor and HR for advanced annual leave.
- For three (3) employees, no documentation was received to show proper approval by supervisor and HR for advanced annual and/or sick leave.
- For two (2) employees, some advanced annual leave requests were approved after leave was taken. In addition, the leave requests did not properly indicate approval/disapproval of advanced annual leave.
- For one (1) employee, a negative sick and annual leave balance still exists and is reported as part of the accrued leave balance even though the employee retired due to disability in April 2012.

By not ensuring proper controls are maintained, including the proper approval and maintenance of documentation to support the employee's leave balance 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.

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.

Recommendations:

We recommend NLRB Management:

3. Establish policies for the maintenance of negative leave requests and supporting documentation in a centralized location.

4. Perform a review of employees with negative sick balances to verify requests were approved in accordance with policies and procedures and to determine whether stated balances are valid.

Status of Prior Year Management Letter Comments

The FY 2013 Management Letter Report issued by the predecessor auditor identified the following control deficiencies:

Finding Identified in FY 2012	Status in FY 2014
Information Technology – Active Directory Accounts	Partially Resolved

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

Date: December 4, 2014

To: David P. Berry
Inspector General

From: Ronald E. Crupi
Chief Financial Officer

Subject: Response to Draft Fiscal Year 2014 Financial Statement Audit Management Letter Report

As noted in the above subject report, the Office of the Chief Financial Officer has reviewed and concurs with the recommendations pertaining to the internal controls over the Management of Government Charge Cards. The Finance department will implement improvements to the travel card enrollment process and maintain supporting documentation for cardholders, including current and refresher training certificates. These improvements will be implemented during fiscal year 2015.

The Director of Administration will be submitting a response to the recommendations related to the Management and Monitoring of Negative Leave in a separate memo.

Ronald E. Crupi

Ronald E. Crupi, Chief Financial Officer

Copy: Chairman
General Counsel
Deputy General Counsel

UNITED STATES GOVERNMENT
National Labor Relations Board
Division of Administration

National Labor Relations Board 1935 2010

Date: December 5, 2014

To: David P. Berry
Inspector General

From: Caroline H. Krewson
Director of Administration

Subject: Response to Draft Fiscal Year 2014 Financial Statement Audit Management Letter Report

The purpose of this memorandum is to respond to the Office of Inspector General's (OIG's) Draft Fiscal Year 2014 Financial Statement Audit Management Letter Report. The report identified improvements needed in the internal controls for the management and monitoring of negative leave (advanced leave). We agree with the OIG's recommendation that advanced leave requests and supporting documentation should be maintained in a centralized location. Based thereon, we plan on instituting a process for the Office of Human Resources (OHR) to receive and retrieve information from each Regional and Headquarters office about their respective advanced leave approvals for each pay period. In this regard, managers and supervisors are expected to properly document the amount and justification for approval via the leave form or and/or related memo, which is to be submitted electronically to OHR. This information will then be separately stored electronically within OHR. Further, we agree that a review of employees with negative sick balances is needed to verify that requests were approved in accordance with policies and procedures and to determine whether stated balances are valid. Therefore, OHR will establish a protocol whereby Workforce Relations staff within the OHR will regularly review the information provided to determine whether stated balances are valid and to verify that advanced leave was approved in accordance with applicable policies and procedures. These improvements will be instituted during the first half of FY 2015.

Principal Financial Statements

Auditor's Reports And Principal Financial Statements

Principal Statements

National Labor Relations Board
BALANCE SHEET
As of September 30, 2014 and 2013 *(in dollars)*

	FY 2014	FY 2013
Assets:		
Intragovernmental:		
Fund balance with Treasury (Note 2)	$ 32,894,527	$ 23,321,588
Advances (Note 4)	97,195	97,196
Total Intragovernmental	**32,991,722**	**23,418,784**
Accounts and Interest Receivable, Net	56,171	60,893
General property, plant and equipment, net (Note 6 and 10)	5,065,456	13,685,712
Total Assets	**$ 38,113,349**	**$ 37,165,389**
Liabilities:		
Intragovernmental:		
Accounts payable (Note 7)	$ 4,414,162	$ 1,085,760
Employer contributions and payroll taxes	1,190,012	987,135
FECA liability (Note 8 and 10)	444,171	719,585
Custodial Liability	-	213,501
Total Intragovernmental	**6,048,345**	**3,005,981**
Accounts payable	3,843,641	7,629,226
Estimated future FECA liability	916,494	1,008,521
Other		
Accrued payroll and benefits	4,296,251	3,650,218
Accrued annual leave	14,129,842	13,644,627
Total Liabilities	**$ 29,234,573**	**$ 28,938,573**
Net position:		
Unexpended appropriations	19,217,677	9,852,964
Cumulative results of operations (Note 10)	(10,338,901)	(1,626,148)
Total Net Position	8,878,776	8,226,816
Total Liabilities and Net Position	**$ 38,113,349**	**$ 37,165,389**

The accompanying notes are an integral part of these financial statements.

National Labor Relations Board

STATEMENT OF NET COST

For the Years Ended September 30, 2014 and 2013 *(in dollars)*

	FY 2014	FY 2013
Program Costs:		
Resolve Representation Cases		
Net Cost	**$ 34,567,665**	**$ 44,443,321**
Resolve Unfair Labor Practices		
Net Cost	**$ 253,496,211**	**$ 233,327,431**
Other		
Costs	-	6,124
Less: Earned Revenue	-	6,124
Net Cost	**-**	**-**
Total		
Costs	$ 288,063,876	$ 277,776,876
Less: Earned Revenue	-	6,124
Net Cost of Operations (Note 11)	**$ 288,063,876**	**$ 277,770,752**

The accompanying notes are an integral part of these financial statements.

National Labor Relations Board

STATEMENT OF CHANGES IN NET POSITION

For the Years Ended September 30, 2014 and 2013 *(in dollars)*

	Consolidated Total FY 2014	Consolidated Total FY 2013
Cumulative Results of Operations:		
Beginning Balance	$ (1,626,148)	$ (2,954,778)
Beginning balance, as adjusted	(1,626,148)	(2,954,778)
Budgetary Financing Sources:		
Appropriations-used	263,749,337	263,043,308
Non-exchange revenue	(160,231)	(213,501)
Other Financing Sources (Non-Exchange):		
Imputed financing costs (Note 13)	15,762,017	16,056,074
Other		213,501
Total Financing Sources	**279,351,123**	**279,099,382**
Net Cost of Operations	(288,063,876)	(277,770,752)
Net Change	**(8,712,753)**	**1,328,630**
Cumulative Results of Operations (Note 10)	**(10,338,901)**	**(1,626,148)**
Unexpended Appropriations:		
Beginning Balance	9,852,964	10,058,724
Beginning balance, as adjusted	9,852,964	10,058,724
Budgetary Financing Sources:		
Appropriations received	274,224,000	278,306,006
Appropriations used	(263,749,337)	(263,043,308)
Rescissions & cancelled appropriations	(1,109,950)	(15,468,458)
Total Budgetary Financing Sources	**9,364,713**	**(205,760)**
Total Unexpended Appropriations	**19,217,677**	**9,852,964**
Net Position	**$ 8,878,776**	**$ 8,226,816**

The accompanying notes are an integral part of these financial statements.

National Labor Relations Board

STATEMENT OF BUDGETARY RESOURCES

For the Years Ended September 30, 2014 and 2013 *(in dollars)*

		FY 2014		FY 2013
Budgetary Resources:				
Unobligated balance, brought forward, October 1:	$	4,988,244	$	5,779,205
Unobligated balance brought forward, October 1, as adjusted	$	4,988,244	$	5,779,205
Recoveries of prior year unpaid obligations		2,450,471		1,162,637
Other changes in unobligated balance (+ or -)		(1,110,159)		(911,385)
Unobligated balance from prior year budget authority, net		6,328,556		6,030,457
Appropriations (discretionary)		274,224,000		263,748,933
Spending authority from offsetting collections (discretionary)		158,656		37,479
Total Budgetary Resources	**$**	**280,711,212**	**$**	**269,816,869**
Status of Budgetary Resources:				
Obligations incurred (Note 10)	$	276,282,401	$	264,828,625
Unobligated balance, end of year				
Apportioned		333,058		725,834
Unapportioned		4,095,753		4,262,410
Total unobligated balance, end of year		4,428,811		4,988,244
Total Budgetary Resources	**$**	**280,711,212**	**$**	**269,816,869**
Change in Obligated Balance:				
Unpaid Obligations				
Unpaid obligations, brought forward, October 1 (gross)	$	18,223,752	$	20,841,062
Obligations incurred		276,282,401		264,828,625
Outlays (gross)		(263,589,967)		(266,283,298)
Recoveries of prior year unpaid obligations (-)		(2,450,471)		(1,162,637)
Unpaid obligations, end of year (gross)		28,465,715		18,223,752
Obligated balance, start of year (+ or -)	$	18,223,752		20,841,062
Obligated balance, end of year (net)	**$**	**28,465,715**	**$**	**18,223,752**
Budget Authority and Outlays, Net:				
Budget authority, gross (discretionary)	$	274,382,656	$	263,786,412
Actual offsetting collections (discretionary)(-)		(158,656)		(37,479)
Budget Authority, net (discretionary)	**$**	**274,224,000**	**$**	**263,748,933**
Outlays, gross (discretionary)	$	263,589,967		266,283,298
Actual offsetting collections (discretionary)(-)		(158,656)		(37,479)
Outlays, net (discretionary)		263,431,311		266,245,819
Agency Outlays, net (discretionary)	**$**	**263,431,311**	**$**	**266,245,819**

The accompanying notes are an integral part of these financial statements.

Notes To Principal Statements

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The National Labor Relations Board (NLRB) is an independent federal agency established in 1935 to administer the National Labor Relations Act (NLRA). The NLRA is the principal labor relations law of the United States, and its provisions generally apply to private sector enterprises engaged in, or to activities affecting, interstate commerce. The NLRB's jurisdiction includes the U.S. Postal Service (other government entities, railroads, and airlines are not within the NLRB's jurisdiction). The NLRB seeks to serve the public interest by reducing interruptions in commerce caused by industrial strife. The NLRB does this by providing orderly processes for protecting and implementing the respective rights of employees, employers, and unions in their relations with one another. The NLRB has two principal functions: (1) to determine and implement, through secret ballot elections, free democratic choice by employees as to whether they wish to be represented by a union in dealing with their employers and, if so, by which union; and (2) to prevent and remedy unlawful acts, called unfair labor practices (ULP), by either employers, unions, or both. The NLRB's authority is divided both by law and delegation. The five-member Board (Board) primarily acts as a quasi-judicial body in deciding cases on formal records. The General Counsel investigates and prosecutes ULP charges before administrative law judges, whose decisions may be appealed to the Board; and, on behalf of the Board, conducts secret ballot elections to determine whether employees wish to be represented by a union.

B. Basis of Accounting and Presentation

These financial statements have been prepared to report the financial position, net cost, changes in net position, and budgetary resources of the NLRB as required by the Accountability of Tax Dollars Act of 2002. These financial statements have been prepared from the books and records of the NLRB in accordance with accounting principles generally accepted in the United States of America (GAAP), and the form and content requirements of the Office of Management and Budget (OMB) Circular No. A-136, *Financial Reporting Requirements, revised as of September 18, 2014.* GAAP for federal entities are the standards prescribed by the Federal Accounting Standards Advisory Board (FASAB), which is the official standard-setting body for the Federal government. While the statements have been prepared from the books and records of the NLRB in accordance with GAAP for federal entities and the formats prescribed by OMB, the statements are in addition to the financial reports used to monitor and control budgetary resources which are prepared from the same books and records. These financial statements present proprietary and budgetary information.

The Balance Sheet presents agency assets and liabilities, and the difference between the two, which is the agency's net position. Agency assets include both entity assets – those which are available for use by the agency – and non-entity assets – those which are managed by the agency but not available for use in its operations. Agency liabilities include both those covered by budgetary resources (funded) and those not covered by budgetary resources (unfunded). If investments are made for backpay, these funds are not recognized on the balance sheet of any federal entity. A note disclosure is required to provide information about its fiduciary activities. See Note 1F, Fiduciary Activities, for additional information.

The Statement of Net Cost presents the gross costs of programs less earned revenue to arrive at the net cost of operations for both programs and for the Agency as a whole.

The Statement of Changes in Net Position reports beginning balances, budgetary and other financing sources, and net cost of operations, to arrive at ending balances.

The Statement of Budgetary Resources provides information about how budgetary resources were made available as well as their status at the end of the period. Recognition and measurement of budgetary information reported on this statement is based on budget terminology, definitions, and guidance in OMB Circular No. A-11, *Preparation, Submission, and Execution of the Budget, dated July 25, 2014*.

The Agency is required to be in substantial compliance with all applicable accounting principles and standards established, issued, and implemented by the FASAB, which is recognized by the American Institute of Certified Public Accountants (AICPA) as the entity to establish GAAP for the Federal government. The Federal Financial Management Integrity Act (FFMIA) of 1996 requires the Agency to comply substantially with (1) federal financial management systems requirements, (2) applicable federal accounting standards, and (3) the U.S. Government Standard General Ledger at the transaction level.

The FY 2016 Budget of the United States (also known as the President's Budget) with actual numbers for FY 2014 was not published at the time that these financial statements were issued. The President's Budget is expected to be published in February 2015 and will be available from the United States Government Printing Office. There are no differences in the actual amounts for FY 2013 that have been reported in the FY 2015 Budget of the United States and the actual numbers that appear in the FY 2013 Statement of Budgetary Resources.

OMB financial statement reporting guidelines for FY 2014 require the presentation of comparative financial statements for all of the principal financial statements. The NLRB is presenting comparative FY 2014 financial statements for the Balance Sheet, Statement of Net Cost, Statement of Changes in Net Position, and Statement of Budgetary Resources, and these statements have been prepared in accordance with generally accepted accounting principles.

The financial statements should be read with the realization that they are for a component of the United States Government, a sovereign entity. One implication of this is that liabilities cannot be liquidated without legislation that provides resources and legal authority to do so.

The accounting structure of federal agencies is designed to reflect both accrual and budgetary accounting transactions. Under the accrual method of accounting, revenues are recognized when earned, and expenses are recognized when a liability is incurred, without regard to receipt or payment of cash.

The budgetary accounting principles, on the other hand, are designed to recognize the obligation of funds according to legal requirements, which in many cases is prior to the occurrence of an accrual based transaction. The recognition of budgetary accounting transactions is essential for compliance with legal constraints and controls over the use of federal funds.

The information as presented on the Statement of Net Cost is based on the programs below:

Representation Cases are initiated by the filing of a petition by an employee, a group of employees, a labor organization acting on their behalf, or in some cases by an employer. The petitioner requests an election to determine whether a union represents, or in some cases continues to represent, a majority of the employees in an appropriate bargaining unit and therefore should be certified as the employees' bargaining representative. The role of the Agency is to investigate the petition and, if necessary, conduct a hearing to determine whether the employees constitute an appropriate bargaining unit under the NLRA. The NLRB must also determine which employees are properly included in the bargaining unit, conduct the election if an election is determined to be warranted, hear and decide any post-election objections to the conduct of the election and, if the election is determined to have been fairly conducted, to certify its results.

ULP Cases are initiated by individuals or organizations through the filing of a charge with the NLRB. If the NLRB Regional Office believes that a charge has merit, it issues and prosecutes a complaint against the charged party, unless settlement is reached. A complaint that is not settled or withdrawn is tried before an administrative law judge (ALJ), who issues a decision, which may be appealed by any party to the Board. The Board acts in such matters as a quasi-judicial body, deciding cases on the basis of the formal trial record according to the law and the body of case law that has been developed by the Board and the federal courts.

C. Budgets and Budgetary Accounting

Congress annually adopts a budget appropriation that provides the NLRB with authority to use funds from the U.S. Treasury (Treasury) to meet operating expense requirements. The NLRB has single year budgetary authority and all unobligated amounts at year-end are expired. At the end of the fifth year, all amounts not expended are canceled. All revenue received from other sources must be returned to the Treasury.

Budgetary accounting measures appropriation and consumption of budget/spending authority or other budgetary resources and facilitates compliance with legal constraints and controls over the use of federal funds. Under budgetary reporting principles, budgetary resources are consumed at the time of purchase. Assets and liabilities, which do not consume current budgetary resources, are not reported, and only those liabilities for which valid obligations have been established are considered to consume budgetary resources.

Transactions are recorded on an accrual accounting basis. Under the accrual method, revenues are recognized when earned and expenses are recognized when a liability is incurred, without regard to receipt or payment of cash.

D. Financing Sources

The NLRB receives funds to support its programs through annual appropriations. These funds may be used to pay program and administrative expenses (primarily salaries and benefits, occupancy, travel, and contractual service costs).

For accounting purposes, appropriations are recognized as financing sources (appropriations used) at the time expenses are accrued. Appropriations expended for general property, plant and equipment are recognized as expenses when the asset is consumed in operations (depreciation and amortization).

E. Fund Balance with the Treasury

The NLRB does not maintain cash in commercial bank accounts. Cash receipts and disbursements are processed by the Treasury. The agency's records are reconciled with those of Treasury. The fund balances with the Treasury are primarily appropriated funds that are available to pay current liabilities and to finance authorized purchases. Funds with the Treasury represent the NLRB's right to draw on the Treasury for allowable expenditures. In addition, funds held with the Treasury also include escrow funds that are not appropriated but are backpay funds that are the standard Board remedy whenever a violation of the NLRA has resulted in a loss of employment or earnings. Cash received and investments made for backpay funds are not recognized on the balance sheet. A note disclosure is required to provide information about its fiduciary activities. See Note 1F, Fiduciary Activities, for further explanation.

See Note 2 for additional information on Fund Balance with Treasury.

F. Fiduciary Activities

Fiduciary activities are the collection or receipt, and the management, protection, accounting, and investment, and disposition by the Federal government of cash or other assets in which non-Federal individuals or entities have an ownership interest that the Federal government must uphold. Fiduciary cash and other assets are not assets of the Federal government. Fiduciary activities are not recognized on the proprietary financial statements, but are reported on schedules in the notes to the financial statements. (See SFFAS No. 31, Accounting for Fiduciary Activities).

The fiduciary funds collected by NLRB and held in escrow accounts with the Treasury are funds that are not appropriated but are backpay funds that are the standard Board remedy whenever a violation of the NLRA has resulted in a loss of employment or earnings. The NLRB may invest funds in Federal government securities for backpay that are held in the escrow account at Treasury. Any cash received for the investments made for backpay funds will not be recognized on the balance sheet of any federal entity. A note disclosure is still required to provide information about its fiduciary activities. See Note 3, Fiduciary Activities.

The Federal government securities include Treasury market-based securities issued by the Federal Investment Branch of the Bureau of the Fiscal Service. Market-based securities are Treasury securities that are not traded on any securities exchange, but mirror the prices of marketable securities with similar terms.

It is expected that Investments will be held until maturity; therefore they are valued at cost and adjusted for amortization of discounts, if applicable. The discounts are recognized as adjustments to interest income, utilizing the straight-line method of amortization for short-term securities (i.e., bills). Investments, redemptions, and reinvestments are controlled and processed by the Department of the Treasury.

There exists a signed Memorandum of Understanding (MOU) between the NLRB and the Treasury establishing the policies and procedures that the NLRB and the Treasury agree to follow for investing monies in, and redeeming investments held by, the deposit fund account in Treasury.

See Note 3 for additional information on Fiduciary Activities.

G. Advances

Advances consist of amounts advanced by the NLRB to other government agencies. See Note 4 for additional information on the Advances.

H. Accounts Receivable, Net of Allowance for Doubtful Accounts

Accounts Receivable primarily consists of amounts due the NLRB from Agency employees. Accounts receivable are stated net of allowance for doubtful accounts. The allowance is estimated based on an aging of account balances, past collection experience, and an analysis of outstanding accounts at year-end.

See Note 5 for additional information on Accounts Receivable.

I. General Property, Plant and Equipment

General property, plant and equipment consist primarily of telephone systems, computer hardware and software. The Agency has no real property. Please see subsequent reference to remainder interest in Florida real estate obtained as a remedy in a ULP case.

General property, plant and equipment, with the exception of software, costing $15,000 or more per unit is capitalized at cost and depreciated using the straight-line method over the useful life. Other property items are expensed when purchased. Expenditures for repairs and maintenance are charged to operating expenses as incurred. The useful life for this category is three to twelve years. There are no restrictions on the use or convertibility of general property, plant and equipment.

Internal Use Software. Internal use software (IUS) includes purchased commercial off-the-shelf software (COTS), contractor-developed software, and software that was internally developed by Agency employees. IUS is capitalized at cost if the acquisition cost is $100,000 or more. For COTS software, the capitalized costs include the amount paid to the vendor for the software; for contractor-developed software it includes the amount paid to a contractor to design, program, install, and implement the software. Capitalized costs for internally developed software include the full cost (direct and indirect) incurred during the software development stage. During FY 2014, the Agency performed an evaluation of the Internal Use Software capitalization policy and changed the standard useful life to three years, in order to more accurately match expenses with the time period in which the benefits were received from the software. We continue to use the conventional straight-line method.

Internal Use Software in Development. Internal use software in development is software that is being developed, but not yet put into production. At the time the software is moved into production the costs will be moved into the IUS account and amortized accordingly, as described above. The NLRB continues to enhance a major software development project called the Next Generation Case Management System (NXGen) that replaced a number of case tracking systems with one enterprise-wide system. NXGen supports the President's Management Agenda, such as for e-Gov, E-Filing, e-FOIA, and public web-based access to NLRB data. This project has been a multiple year undertaking in which a large portion of the system was rolled out in FY 2011.

See Note 6 for additional information on General Property, Plant and Equipment, Net.

J. Non-Entity Assets

Assets held by the NLRB that are not available to the NLRB for obligation are considered non-entity assets.

See Note 9 for additional information on Non-Entity Assets.

K. Liabilities

Liabilities represent the amount of monies or other resources that are likely to be paid by the NLRB as the result of a transaction or event that has already occurred. However, no liability can be paid by the NLRB absent an appropriation. Liabilities for which an appropriation has not been enacted are therefore classified as Liabilities Not Covered by Budgetary Resources and there is no certainty that the appropriation will be enacted. Also, liabilities of the NLRB arising from other than contracts can be abrogated by the government, acting in its sovereign capacity.

L. Liabilities Not Covered by Budgetary Resources

Liabilities represent the amount of monies or other resources that are likely to be paid by the NLRB as the result of a transaction or event that has already occurred. Liabilities not covered by budgetary resources result from the receipts of goods or services in the current or prior periods, or the occurrence of eligible events in the current or prior periods for which appropriations, revenues, or other financing sources of funds necessary to pay the liabilities have not been made available through Congressional appropriations or current earnings of the reporting entity.

Intragovernmental

The U.S. Department of Labor (DOL) paid Federal Employees Compensation Act (FECA) benefits on behalf of the NLRB which had not been billed or paid by the NLRB as of September 30, 2014 and 2013, respectively.

See Notes 8 and 10 for additional information on intragovernmental liabilities not covered by budgetary resources.

Federal Employees Workers' Compensation Program

The Federal Employees Workers' Compensation Program (FECA) provides income and medical cost protection to covered federal civilian employees injured on the job, to employees who have incurred work-related occupational diseases, and to beneficiaries of employees whose deaths are attributable to job-related injuries or occupational diseases. The FECA program is administered by DOL, which pays valid claims and subsequently seeks reimbursement from the NLRB for these paid claims.

The FECA liability consists of two components. The first component is based on actual claims paid by DOL but not yet reimbursed by the NLRB. The NLRB reimburses DOL for the amount of the actual claims as funds are appropriated for this purpose. There is generally a two- to three-year time period between payment by DOL and reimbursement by the NLRB. As a result, the NLRB recognizes a liability for the actual claims paid by DOL and to be reimbursed by the NLRB.

The second component is the estimated liability for future benefit payments as a result of past events. This liability includes death, disability, medical, and miscellaneous costs. The NLRB determines this component annually, as of September 30, using a method that considers historical benefit payment patterns.

The NLRB uses the methodology of reviewing the ages of the claimant on a case-by-case basis (because of the small number of claimants) to evaluate the estimated FECA liability. The determination was made to use the life expectancy of claimants of 80 and 84 years for male and female, respectively.

See Notes 8 and 10 for additional information on the FECA liability.

Accrued Annual Leave

Accrued annual leave represents the amount of annual leave earned by the NLRB employees but not yet taken.

See Notes 8 and 10 for additional information on Accrued Annual Leave.

M. Contingencies

The criteria for recognizing contingencies for claims are:

1. a past event or exchange transaction has occurred as of the date of the statements;
2. a future outflow or other sacrifice of resources is probable; and
3. the future outflow or sacrifice of resources is measurable (reasonably estimated).

The NLRB recognizes material contingent liabilities in the form of claims, legal action, administrative proceedings and suits that have been brought to the attention of legal counsel, some of which will be paid by the Treasury Judgment Fund. It is the opinion of management and legal counsel that the ultimate resolution of these proceedings, actions and claims, will not materially affect the financial position or results of operations.

Contingencies are recorded when losses are probable, and the cost is measurable. When an estimate of contingent losses includes a range of possible costs, the most likely cost is reported; where no cost is more likely than any other, the lowest possible cost in the range is reported. This item will normally be paid from appropriated funds.

See Note 16 for additional information on Contingencies.

N. Unexpended Appropriations

Unexpended appropriations represent the amount of the NLRB's unexpended appropriated spending authority as of the fiscal year-end that is unliquidated or is unobligated and has not lapsed, been rescinded, or withdrawn.

O. Annual, Sick, and Other Leave

Annual and Sick Leave Program.

Annual leave is accrued as it is earned by employees and is included in personnel compensation and benefit costs. Each year, the balance in the accrued annual leave liability account is adjusted to reflect current pay rates. Annual leave earned but not taken, within established limits, is funded from future financing sources. Sick leave and other types of non-vested leave are expensed as taken.

See Note 10 for additional information on Annual Leave.

P. Life Insurance and Retirement Plans

Federal Employees Group Life Insurance (FEGLI) Program.

Most NLRB employees are entitled to participate in the FEGLI Program. Participating employees can obtain "basic life" term life insurance, with the employee paying two-thirds of the cost and the NLRB paying one-third. Additional coverage is optional, to be paid fully by the employee. The basic life coverage may be continued into retirement if certain requirements are met. The Office of Personnel Management (OPM) administers this program and is responsible for the reporting of liabilities. For each fiscal year, OPM calculates the U.S. Government's service cost for the post-retirement portion of the basic life coverage. Because the NLRB's contributions to the basic life coverage are fully allocated by OPM to the pre-retirement portion of coverage, the NLRB has recognized the entire service cost of the post-retirement portion of basic life coverage as an imputed cost and imputed financing source.

Retirement Programs.

The NLRB employees participate in one of two retirement programs, either the Civil Service Retirement System (CSRS), a defined benefit plan, or the Federal Employees Retirement System (FERS), a defined benefit and contribution plan. On January 1, 1987, FERS went into effect pursuant to Public Law 99-335. Most of the NLRB employees hired after December 31, 1983, are automatically covered by FERS and Social Security. Employees hired prior to January 1, 1984, could elect to either join FERS and Social Security or remain in CSRS. Employees covered by CSRS are not subject to Social Security taxes, nor are they entitled to accrue Social Security benefits for wages subject to CSRS. The NLRB contributes a matching contribution equal to 7 percent of pay for CSRS employees.

FERS consists of Social Security, a basic annuity plan, and the Thrift Savings Plan. The Agency and the employee contribute to Social Security and the basic annuity plan at rates prescribed by law. In addition, the Agency is required to contribute to the Thrift Savings Plan a minimum of 1 percent per year of the basic pay of employees covered by this system and to match voluntary employee contributions up to 3 percent of the employee's basic pay, and one-half of contributions between 3 percent and 5 percent of basic pay. For FERS employees, the Agency also contributes the employer's share of Medicare. The maximum amount of base pay that an employee participating in FERS may contribute is $17,500 in calendar year (CY) 2015 to this plan. Employees belonging to CSRS may also contribute up to $17,500 of their salary in CY 2015 and receive no matching contribution from the NLRB. The maximum for catch-up contributions for CY 2015 is $5,500. For CY 2015, the regular and catch-up contributions may not exceed $23,000. The sum of the employees' and the NLRB's contributions are transferred to the Federal Retirement Thrift Investment Board.

OPM is responsible for reporting assets, accumulated plan benefits, and unfunded liabilities, if any, applicable to CSRS participants and FERS employees government-wide, including the NLRB employees. The NLRB has recognized an imputed cost and imputed financing source for the difference between the estimated service cost and the contributions made by the NLRB and covered CSRS employees.

The NLRB does not report on its financial statements FERS and CSRS assets, accumulated plan benefits, or unfunded liabilities, if any, applicable to its employees. Reporting such amounts is the responsibility of OPM. The portion of the current and estimated future outlays for CSRS not paid by the NLRB is, in accordance with Statement of Federal Financial Accounting Standards (SFFAS) No. 5, Accounting for Liabilities of the Federal government, included in the NLRB's financial statements as an imputed financing source.

Liabilities for future pension payments and other future payments for retired employees who participate in the Federal Employees Health Benefits and the FEGLI programs are reported by OPM rather than the NLRB.

SFFAS No. 5, Accounting for Liabilities of the Federal government, requires employing agencies to recognize the cost of pensions and other retirement benefits during their employees' active years of service. OPM actuaries determine pension cost factors by calculating the value of pension benefits expected to be paid in the future, and provide these factors to the agency for current period expense reporting. Information was also provided by OPM regarding the full cost of health and life insurance benefits.

In FY 2014, the NLRB, utilizing OPM provided cost factors, recognized $7,744,311 of pension expenses, $7,991,274 of post-retirement health benefits expenses, and $26,486 of post-retirement life insurance expenses, beyond amounts actually paid. The NLRB recognized offsetting revenue of $15,762,071 as an imputed financing source to the extent that these intragovernmental expenses will be paid by OPM. In comparison, in FY 2013, the NLRB, recognized $7,613,342 of pension expenses, $8,415,585 of post-retirement health benefits expenses, and $27,146 of post-retirement life insurance expenses, beyond amounts actually paid. The NLRB recognized offsetting revenue of $16,056,073 as an imputed financing source from OPM.

See Note 13 for additional information.

Q. Operating Leases

The NLRB has no capital lease liability or capital leases. Operating leases consist of real and personal property leases with the General Services Administration (GSA) and commercial copier leases. Regarding NLRB's building lease, the GSA entered into a lease agreement for the NLRB's rental of building space. The NLRB pays GSA a standard level users charge for the annual rental. The standard level users charge approximates the commercial rental rates for similar properties. The NLRB is not legally a party to any building lease agreements, so it does not record GSA-owned properties as assets. The real property leases are for NLRB's Headquarters and Regional Offices and the personal property leases are for GSA cars and copiers.

See Note 12 for additional information on Operating Leases.

R. Net Position

Net position is the residual difference between assets and liabilities and is composed of unexpended appropriations and cumulative results of operations. Unexpended appropriations represent the amount of unobligated and unexpended budget authority. Unobligated balances are the amount of appropriations or other authority remaining after deducting the cumulative obligations from the amount available for obligation. The cumulative results of operations are the net result of the NLRB's operations since inception.

S. Use of Management Estimates

The preparation of the accompanying financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make certain estimates and assumptions that directly affect the results of reported assets, liabilities, revenues, and expenses. Actual results could differ from these estimates.

T. Tax Status

The NLRB, as an independent Board of the Executive Branch, a federal agency, is not subject to federal, state, or local income taxes, and, accordingly, no provision for income tax is recorded.

U. Comparative Data

Comparative data for the prior year have been presented for the principal financial statements and their related notes.

V. Subsequent Events

Subsequent events and transactions occurring after September 30, 2014 through the date of the auditor's opinion have been evaluated for potential recognition or disclosure in the financial statements. The date of the auditors' opinion also represents the date that the financial statements were available to be issued.

Note 2. Fund Balance with Treasury

Treasury performs cash management activities for all federal agencies. The net activity represents Fund Balance with Treasury. The Fund Balance with Treasury represents the right of the NLRB to draw down funds from Treasury for expenses and liabilities. Fund Balance with Treasury by fund type as of September 30, 2014 and September 30, 2013 consists of the following:

(in thousands)	General Funds	Escrow Funds	Total Fund Balance with Treasury
FY 2014 Entity Assets	$ 32,735		$ 32,735
Non-Entity Assets		$ 160	$ 160
Total	$ 32,735	$ 160	$ 32,895
FY 2013 Entity Assets	$ 23,108		$ 23,108
Non-Entity Assets		$ 214	$ 214
Total	$ 23,108	$ 214	$ 23,322

Fund Balance with Treasury by Fund Type:

The status of the fund balance may be classified as unobligated available, unobligated unavailable, and obligated. Unobligated funds, depending on budget authority, are generally available for new obligations in current operations. The unavailable balance includes amounts appropriated in prior fiscal years, which are not available to fund new obligations.

The obligated but not yet disbursed balance represents amounts designated for payment of goods and services ordered but not yet received or goods and services received but for which payment has not yet been made.

Obligated and unobligated balances reported for the status of Fund Balance with Treasury do not agree with obligated and unobligated balances reported on the Statement of Budgetary Resources because the Fund Balance with Treasury includes items for which budgetary resources are not recorded, such as deposit funds and miscellaneous receipts.

Status of Fund Balance with Treasury as of September 30, 2014 and September 30, 2013 consists of the following:

Fund Balance with Treasury by Availability:

(in thousands)	FY 2014	FY 2013
Unobligated Balance		
Available	$ 333	$ 726
Unavailable	4,096	4,262
Obligated balance not yet disbursed	28,306	18,120
Non-budgetary fund balance with Treasury	160	214
Totals	$ 32,895	$ 23,322

Note 3. Fiduciary Activities

Effective for the period beginning after September 30, 2008, the cash received and the investments made for backpay funds will not be recognized on the balance sheet of any federal entity. A note disclosure is still required to provide information about its fiduciary activities. See Note 1F, Fiduciary Activities, for further explanation.

Backpay funds are the standard Board remedy whenever a violation of the NLRA has resulted in a loss of employment or earnings. NLRB holds these funds in an escrow account with Treasury or invests the funds that are authorized by the Regional Compliance Officers and other management officials in market-based Treasury securities issued by the Federal Investment Branch of the Bureau of Fiscal Service.

There exists a signed MOU between the NLRB and the U.S. Treasury (Treasury) establishing the policies and procedures that the NLRB and the Treasury agree to follow for investing monies in, and redeeming investments held by, the deposit fund account in Treasury.

Schedule of Fiduciary Activity As of September 30, 2014 and 2013

(in thousands)	FY 2014	FY 2013
Fiduciary net assets, beginning of the year	$ 2,587	$ 5,203
Fiduciary revenues	8,953	5,145
Investment earnings	0	0
Disbursements to and on the behalf of beneficiaries	(4,991)	(7,761)
Increase (Decrease) in fiduciary net assets	$ 3,962	$ (2,616)
Fiduciary net assets, end of year	$ 6,549	$ 2,587

Fiduciary Net Assets As of September 30, 2014 and 2013

(in thousands)	FY 2014	FY 2013
Fiduciary Assets		
Cash and cash equivalents	$ 6,549	$ 2,587
Investments	0	0
Fiduciary Liabilities		
Less: Liabilities	0	0
Total Fiduciary net assets	$ 6,549	$ 2,587

Note 4. Advances

Intragovernmental

Intragovernmental Advances were paid to the United States Postal Service for postage meter funding, and to the Department of Transportation for the employee transit subsidy program.

Note 5. Accounts Receivable, Net of Allowances for Doubtful Accounts

The FY 2014 intragovernmental accounts receivable is zero and the FY 2013 amount was zero:

(in thousands)	FY 2014	FY 2013
With the public		
Accounts receivable	$ 74	$ 75
Allowance doubtful accounts	(18)	(14)
Accounts receivable-net	$ 56	$ 61

Note 6. General Property, Plant and Equipment, Net

General property, plant and equipment consist of that property which is used in operations and consumed over time. The table below summarizes the cost and accumulated depreciation for general property, plant and equipment.

Depreciation expense for the years ended September 30, 2014 and September 30, 2013 was $6,748,970 and $3,851,380 (in dollars), respectively.

(in thousands) FY 2014	Asset Cost	Accumulated Depreciation/ Amortization	Net Asset Value
Equipment	$ 3,383	$ 2,641	$ 742
Internal Use Software	27,785	23,666	4,119
Internal Use Software in Development	204	0	204
Totals	$ 31,372	$ 26,307	$ 5,065

(in thousands) FY 2013	Asset Cost	Accumulated Depreciation/ Amortization	Net Asset Value
Equipment	$ 2,713	$ 2,495	$ 218
Internal Use Software	23,735	17,063	6,672
Internal Use Software in Development	6,796	0	6,796
Totals	$ 33,244	$ 19,558	$ 13,686

Note 7. Intragovernmental Accounts Payable

These accounts payables are with our federal trading partners, of which the largest amounts are with the General Services Administration (GSA).

Note 8. Liabilities Not Covered by Budgetary Resources

Liabilities not covered by budgetary resources represent amounts owed in excess of available congressionally appropriated funds or other amounts. The custodial liability represents amounts collected from the public for court costs, freedom of information requests and other miscellaneous amounts that must be transferred to the Treasury.

The composition of liabilities not covered by budgetary resources as of September 30, 2014 and September 30, 2013, is as follows:

(in thousands)	FY 2014	FY 2013
Intragovernmental:		
FECA-Unfunded	$ 444	$ 720
Total Intragovernmental	444	720
Estimated Future FECA	917	1,009
Accrued Annual Leave	14,130	13,645
Total Liabilities not covered by budgetary resources	15,491	15,374
Total Liabilities covered by budgetary resources	13,744	13,565
Total Liabilities	$ 29,235	$ 28,939

Note 9. Non-Entity Assets

Non-Entity assets, restricted by nature, consist of miscellaneous receipt accounts. These amounts represent cash collected and accounts receivable (net of allowance for doubtful accounts). The miscellaneous receipts represent court costs and freedom of information requests that must be transferred to the Treasury.

The composition of non-entity assets as of September 30, 2014 and September 30, 2013, is as follows:

(in thousands)	FY 2014	FY 2013
Non-entity assets		
Fund Balance with Treasury	160	214
Entity assets	40,541	39,539
Total Assets	40,701	39,753

Additionally, NLRB received a remainder interest in real property valued at approximately $46,000 as part of a settlement. This asset is not included in the table above.

Note 10. Cumulative Results of Operations

(in thousands)	FY 2014	FY 2013
FECA paid by DOL	$ (173)	$ (206)
FECA – Unfunded	(444)	(720)
Estimated Future FECA	(917)	(1,009)
Accrued Annual Leave	(14,130)	(13,645)
General Property, Plant & Equipment, Net	5,065	13,686
Other	260	268
Cumulative Results of Operations	$ (10,339)	$ (1,626)

Note 11. Intragovernmental Costs and Exchange Revenue

For the intragovernmental costs, the buyer and seller are both federal entities. The earned revenue is the reimbursable costs from other federal entities. The NLRB has the authority to provide administrative law judges' services to other federal entities. There is no exchange revenue with the public.

(in thousands)	FY 2014	FY 2013
Resolve Representation Cases		
Intragovernmental Costs	$ 10,547	$ 8,444
Costs with the Public	24,021	35,999
Total Net Cost – Resolve Representation Cases	$ 34,568	$ 44,443
Resolve Unfair Labor Practices		
Intragovernmental Costs	$ 77,342	$ 44,332
Costs with the Public	176,154	188,996
Total Net Cost – Resolve Unfair Labor Practices	$ 253,496	$ 233,328
Other		
Intragovernmental Costs	$ 0	$ 6
Less: Intragovernmental Earned Revenue	0	6
Total Net Cost – Other	$ 0	$ 0
Net Cost of Operations	$ 288,064	$ 277,771

Note 12. Operating Leases

GSA Real Property. Most of NLRB's facilities are rented from the GSA, which charges rent that is intended to approximate commercial rental rates. The terms of NLRB's occupancy agreements (OA) with GSA will vary according to whether the underlying assets are owned by GSA or rented by GSA from the private sector. The NLRB has OAs with GSA, which sets forth terms and conditions for the space the Agency will occupy for an extended period of time. Included within the OAs are 120 to 180 day notification requirements for the Agency to release space. For purposes of disclosing future operating lease payments in the table below, federally-owned leases are included in years FY 2015 through FY 2019.

Rental expenses for operating leases for the year ended September 30, 2014 were $26,732,911 for Agency lease space and $3,287,279 for Agency building security. For FY 2013 the operating lease costs were $26,151,885 and the Agency building security portion was $2,960,531. NLRB Headquarters will be moving to a new location in late FY 2015, resulting in a reduction in rent costs. The rent credits realized in 2016 will be used to offset furniture and equipment costs.

(in thousands) Fiscal Year	GSA Real Property
2015	26,200
2016	17,680
2017	22,100
2018	22,800
2019	23,500
Total Future Lease Costs	$ 112,280

Note 13. Imputed Financing Costs

OPM pays pension and other future retirement benefits on behalf of federal agencies for federal employees. OPM provides rates for recording the estimated cost of pension and other future retirement benefits paid by OPM on behalf of federal agencies. The costs of these benefits are reflected as imputed financing in the consolidated financial statements. Expenses of the NLRB paid or to be paid by other federal agencies at September 30, 2014 and 2013 consisted of:

(in thousands)	FY 2014	FY 2013
Office of Personnel Management:		
Pension expenses	$ 7,744	$ 7,613
Federal employees health benefits	7,991	8,416
Federal employees group life insurance program	27	27
Total Imputed Financing	$ 15,762	$ 16,056

Note 14. Appropriations Received

The NLRB received $274,224,000 and $278,306,006 in warrants for the fiscal years ended September 30, 2014 and 2013, respectively. The amount shown on the Statement of Budgetary Resources under caption "Permanently not available" for FY 2014 was the FY 2009 cancelled appropriation for the amount of $1,110,159, and the rescission amount of zero. For FY 2013, the total amount was $911,385 for the FY 2008 cancelled appropriation and a rescission amount of $556,612. It should also be noted that the Agency had a sequestration reduction of $14,000,461 in FY 2013.

Note 15. Statement of Budgetary Resources

The Statement of Budgetary Resources provides information about how budgetary resources were made available as well as their status at the end of the period. It is the only financial statement exclusively derived from the entity's budgetary general ledger in accordance with budgetary accounting rules that are incorporated into GAAP for the Federal government. The total Budgetary Resources of $280,711,212 as of September 30, 2014 and $269,816,869 as of September 30, 2013, includes new budget authority, unobligated balances at the beginning of the year, spending authority from offsetting collections, recoveries of prior year obligations and permanently not available. The amount of budgetary resources obligated for undelivered orders was $28,465,715 for FY 2014 and $18,223,752 for FY 2013. The NLRB's unobligated balance available at September 30, 2014 was $333,058 and at September 30, 2013 was $725,834.

Apportionment Categories of Obligations Incurred. NLRB's obligations incurred as of September 30, 2014 and September 30, 2013 by apportionment Category A and B is shown in the following table. Category A apportionments distribute budgetary resources by fiscal quarters and Category B apportionments typically distribute budgetary resources by activities, projects, objects or a combination of these categories. OMB does not require the Agency to separate its funding and therefore all obligations incurred were from one funding category.

(in thousands) FY 2014	Apportioned Category A	Not Subject to Apportioned	Total
Obligations Incurred:			
Direct	$ 276,282	-	$ 276,282
Reimbursable	0	-	0
Total Obligations Incurred	$ 276,282	-	$ 276,282

(in thousands) FY 2013	Apportioned Category A	Not Subject to Apportioned	Total
Obligations Incurred:			
Direct	$ 264,823	-	$ 264,823
Reimbursable	6	-	6
Total Obligations Incurred	$ 264,829	-	$ 264,829

Note 16. Contingencies

The NLRB is involved in various lawsuits incidental to its operations. There is one case involving NLRB employees, that has a reasonable possibility of an unfavorable outcome and fees may be in excess of $100,000 but not more than $200,000. While the ultimate outcome of these matters is not presently determinable, it is the opinion of management that the resolution of outstanding claims will not have a materially adverse effect on the financial position of NLRB.

Note 17. Reconciliation of Net Cost of Operations to Budget

For the Month Ended September 30, 2014 and 2013

(in thousands)	FY 2014	FY 2013
Resources Used to Finance Activities		
Current Year Gross Obligations	$ 276,282	$ 264,829
Budgetary Resources from Offsetting Collections		
Spending Authority from Offsetting Collections		
Earned		
Collected	(159)	(37)
Recoveries of Prior Year Unpaid Obligations	(2,450)	(1,162)
Other Financing Resources		
Imputed Financing Sources	15,762	16,056
Other	0	0
Total Resources Used to Finance Activity	$ 289,435	$ 279,686
Resources Used to Finance Items Not Part of the Net Cost of Operations		
Budgetary Obligations and Resources not in the Net Cost of Operations		
Change in Undelivered Orders	(4,893)	(585)
Current Year Capitalized Purchases	(2,929)	(4,009)
Components of the Net Cost of Operations which do not Generate or Use Resources in the Reporting Period		
Revenues without Current Year Budgetary Effect		
Other Financing Sources Not in the Budget	(15,762)	(16,056)
Costs without Current Year Budgetary Effect		
Depreciation and Amortization	6,749	3,851
Disposition of Assets	0	0
Future Funded Expenses	(210)	(564)
Imputed costs	15,762	16,056
Bad Debt Expense	7	14
Other Expenses Not Requiring Budgetary Resources	(95)	(622)
Net Cost of Operations	$ 288,064	$ 277,771