Backpay Accounting

Report No. OIG-AMR-88-20-03
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APPENDIX

Memorandum from the Chief Financial Officer, Response to the National Labor Relations Board’s (NLRB) Office of Inspector General’s (IG) Draft Report on Backpay Accounting, dated November 18, 2019.
EXECUTIVE SUMMARY

During the Audit of the Fiscal Year 2018 Financial Statements, the auditors observed, in a random sample, that there were a number of recurring monthly journal voucher entries. When we reviewed all of the journal vouchers for Fiscal Year 2018, we found additional recurring backpay journal voucher entries that were not included in the random sample. Because we would not expect journal voucher entries to recur month after month, we initiated this audit to determine the cause of the discrepancies.

The objectives of this audit were to determine the appropriateness of recurring backpay journal voucher entries and to determine whether there are adequate internal controls in place for updating and certifying backpay journal voucher entries and reconciling backpay balances in the Agency’s financial system. The scope of the audit is the backpay journal vouchers during Fiscal Year 2018.

We determined that the stated justification in the supporting documentation for the journal voucher entries was not accurate and was misleading. With regard to the individual entries: for eight cases, we determined that the cause of the recurring journal vouchers was that the Finance Branch made entries in Oracle that were not supported by documentation and that the entries made it appear that the case balances were zero when in fact there were funds remaining in the deposit fund account; in seven cases, we determined that the journal voucher entries were the result of accounting errors; for one case, we determined that the journal voucher entries were misleading and concealed an error made by the Finance Branch. Three cases could not be reconciled due to a lack of documentation. We also observed that the Finance Branch did not have a process to seek refunds of tax payments for taxes paid on cancelled disbursements. As a result, the Agency overpaid taxes. We also determined that the Finance Branch personnel are not appropriately implementing the internal controls for the journal vouchers or conducting reconciliations. We made eight recommendations for corrective action.

The Management Comments stated that the Office of the Chief Financial Officer generally agreed with the Office of Inspector General’s findings in the Draft Backpay Accounting report and the Finance Branch is committed to resolving these findings and implementing the recommendations. The Management Comments are attached as an appendix to the report.
BACKGROUND

The National Labor Relations Board (NLRB or Agency) is authorized by the National Labor Relations Act to remedy unfair labor practices. Backpay is a remedy for a monetary loss to an individual called a “discriminatee” that results from an unfair labor practice. Backpay can include, among other things, lost wages, expenses related to lost wages, lost benefits, reimbursement of union dues, and interest on the amount of backpay owed. A charged party who owes backpay is generally referred to as a “respondent.”

Respondents may pay backpay by paying the amount owed directly to the discriminatee and providing proof of payment to the Regional Office; by providing the Regional Office with a check made out to a discriminatee that is then delivered to the discriminatee by the Regional Office; or by depositing the amount of backpay owed into a U.S. Department of Treasury (U.S. Treasury) deposit account, the funds of which are then disbursed by the NLRB to the individual discriminatees.

When backpay is deposited in the U.S. Treasury deposit account, the Agency records the deposits and payments in its financial system, commonly referred to as “Oracle.” The Finance Branch can address timing discrepancies between the U.S. Treasury account and the Oracle balance with a temporary entry in Oracle known as a “journal voucher.” Because the discrepancies should be resolved, the journal vouchers are normally reversed after the financial system monthly reports are completed. Discrepancies that are not related to timing issues should be resolved through a documented reconciliation process.

During the Audit of the Fiscal Year 2018 Financial Statements, the auditors observed, in a random sample, that there were seven recurring monthly journal voucher entries. When we reviewed all of the journal vouchers for Fiscal Year (FY) 2018, we found the following recurring backpay journal voucher entries:
<table>
<thead>
<tr>
<th>Region</th>
<th>Docket Number</th>
<th>Line Description</th>
<th>Beginning Fiscal Year</th>
<th>Amount</th>
<th>Impact on Cash Balance Recorded in Oracle</th>
</tr>
</thead>
<tbody>
<tr>
<td>01</td>
<td>042084</td>
<td>Adj Oracle to match w/Treasury-310-7-023</td>
<td>2018</td>
<td>$994.24</td>
<td>Decrease</td>
</tr>
<tr>
<td>04</td>
<td>085278</td>
<td>Adj Oracle to match w/Treasury-JV201606MARR0179</td>
<td>2016</td>
<td>$20,000.00</td>
<td>Decrease</td>
</tr>
<tr>
<td>04</td>
<td>009008</td>
<td>Adj Oracle to match w/Treasury-04CA09008, not in GWA</td>
<td>2016</td>
<td>$30,000.00</td>
<td>Increase</td>
</tr>
<tr>
<td>04</td>
<td>035947</td>
<td>Adj Oracle to match w/Treasury-4CA35947 not in GWA</td>
<td>2016</td>
<td>$32.00</td>
<td>Increase</td>
</tr>
<tr>
<td>04</td>
<td>037889</td>
<td>Adj Oracle to match w/Treasury-4CA37889 not in GWA</td>
<td>2016</td>
<td>$559.67</td>
<td>Increase</td>
</tr>
<tr>
<td>09</td>
<td>106788</td>
<td>Adj Oracle to match w/Treasury-82FT17273, disbursement not in GWA</td>
<td>2018</td>
<td>$13,544.40</td>
<td>Increase</td>
</tr>
<tr>
<td>13</td>
<td>040551</td>
<td>Adj Oracle to match w/Treasury-13CA40551 not in GWA</td>
<td>2016</td>
<td>$99.26</td>
<td>Increase</td>
</tr>
<tr>
<td>13</td>
<td>045718</td>
<td>Adj Oracle to match w/Treasury-13CA45718 not in GWA</td>
<td>2016</td>
<td>$2,252.09</td>
<td>Increase</td>
</tr>
<tr>
<td>13</td>
<td>046007</td>
<td>Adj Oracle to match w/Treasury-13CA46007 not in GWA</td>
<td>2016</td>
<td>$11.35</td>
<td>Increase</td>
</tr>
<tr>
<td>15</td>
<td>011498</td>
<td>Adj Oracle to match w/Treasury-530122 collection processed backwards in OFF</td>
<td>2017</td>
<td>$7,008.00</td>
<td>Increase</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Adj Oracle to match w/Treasury-590114 Triple A Fedwire not in OFF</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Adj Oracle to match w/Treasury-82FT15199A not in GWA</td>
<td>2016</td>
<td>$6,787.43</td>
<td>Increase</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Adj Oracle to match w/Treasury-82FT15207A not in GWA</td>
<td>2016</td>
<td>$661.18</td>
<td>Increase</td>
</tr>
<tr>
<td>18</td>
<td>019113</td>
<td>Adj Oracle to match w/Treasury-18CA19113A not in GWA</td>
<td>2016</td>
<td>$62.23</td>
<td>Increase</td>
</tr>
<tr>
<td>24</td>
<td>005714</td>
<td>Adj Oracle to match w/Treasury-24CA05714A not in GWA</td>
<td>2016</td>
<td>$862.36</td>
<td>Increase</td>
</tr>
<tr>
<td>24</td>
<td>010339</td>
<td>Adj Oracle to match w/Treasury-82FT17037 not in GWA</td>
<td>2016</td>
<td>$16,728.38</td>
<td>Increase</td>
</tr>
<tr>
<td>24</td>
<td>011292</td>
<td>Adj Oracle to match w/Treasury-JV201606MARR0179</td>
<td>2016</td>
<td>$196.95</td>
<td>Decrease</td>
</tr>
<tr>
<td>26</td>
<td>017564</td>
<td>Adj Oracle to match w/Treasury-The McBurney Corporation, Inv Z6362707A</td>
<td>2017</td>
<td>$270.27</td>
<td>Decrease</td>
</tr>
<tr>
<td>29</td>
<td>010843</td>
<td>Adj Oracle to match w/Treasury-29CA10843 not in GWA</td>
<td>2016</td>
<td>$8,318.43</td>
<td>Increase</td>
</tr>
<tr>
<td>29</td>
<td>013981</td>
<td>Adj Oracle to match w/Treasury-29CA143981A not in GWA</td>
<td>2016</td>
<td>$1,308.91</td>
<td>Increase</td>
</tr>
<tr>
<td>29</td>
<td>014548</td>
<td>Adj Oracle to match w/Treasury-82FT17031, disbursement not in GWA</td>
<td>2018</td>
<td>$1,609.99</td>
<td>Increase</td>
</tr>
<tr>
<td>33</td>
<td>014374</td>
<td>Adj Oracle to match w/Treasury-JV201606MARR0179</td>
<td>2016</td>
<td>$106.00</td>
<td>Decrease</td>
</tr>
</tbody>
</table>

The justification on the journal voucher for the adjustments and reversals was that the adjustments were necessary to
match Oracle to U.S. Treasury and that the differences were primarily due to unposted backpay disbursements and deposits due to timing and backpay cases that were closed with the expectation that the NLRB would transfer the remaining funds to the U.S. Treasury. The journal voucher description also stated that due to the Oracle posting logic, the amounts have not been transferring.

Because we would not expect journal voucher entries to recur month after month, we initiated this audit to determine the cause of the discrepancies.

OBJECTIVE, SCOPE AND METHODOLOGY

The objectives of this audit were to determine the appropriateness of recurring backpay journal voucher entries and to determine whether there are adequate internal controls in place for updating and certifying backpay journal voucher entries and reconciling backpay balances in the Agency’s financial system. The scope of the audit is the backpay journal vouchers during FY 2018.

We reviewed laws, regulations, and Agency policies related to journal voucher processing and backpay accounting. To obtain an understanding of NLRB procedures related to processing, recording, and reconciling backpay transactions, we interviewed NLRB personnel in the Finance Branch, Office of the Chief Financial Officer (OCFO).

From Oracle, we obtained the backpay journal vouchers that were posted during FY 2018. To determine whether there are adequate internal controls in place for updating and certifying backpay journal voucher entries, we obtained and reviewed the journal voucher package that was provided to the Financial Statement auditors during the FY 2018 Financial Statement audit.

We reviewed the detailed records of the journal voucher universe to determine the journal voucher entries that had recurring adjustments and the case number associated with the adjustment. For each case number identified:

- We obtained and reviewed the supporting documentation in the backpay files, monthly tax
payment files, and quarterly tax filing files maintained in the Finance Branch to determine the deposits, payments, and cancellations recorded in the U.S. Treasury system;

- We obtained the backpay transactions recorded in Oracle and the Backpay Management System (BMS) to determine whether the transactions recorded in Oracle and BMS matched the transactions recorded in the U.S. Treasury system; and

- We obtained and reviewed the settlement documentation in the case files from the NLRB case processing system to identify the backpay terms.

We obtained and reviewed the Oracle to BMS reconciliation documentation from the Finance Branch to determine whether the Agency reconciles the backpay case balance with the Oracle balance.

We conducted this performance audit in accordance with generally accepted government auditing standards during the period from November 2018 through September 2019. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

**DETERMINING CAUSES OF RECURRING JOURNAL VOUCHER ENTRIES**

The journal voucher packages should state the justification for the changes to the financial system data. For the recurring entries the justification in the journal voucher package stated that:

Balance differences are primarily due to unposted back pay disbursements and deposits due to timing and back pay cases, which were closed with the expectation that NLRB would transfer the remaining funds to Treasury. Due to the Oracle posting logic, amounts have not been transferring.
We determined that the stated justification was not accurate and was misleading.

For eight cases, we determined that the cause of the recurring journal vouchers was that the Finance Branch made entries in Oracle that were not supported by documentation and that the entries made it appear that the case balances were zero when in fact there were funds remaining in the deposit fund account. In seven cases, we determined that the journal voucher entries were the result of accounting errors. For one case, we determined that the journal voucher entries were misleading and concealed an error made by the Finance Branch. Three cases could not be reconciled due to a lack of documentation.

We also observed that the Finance Branch did not have a process to seek refunds of tax payments for taxes paid on cancelled disbursements. As a result, the Agency overpaid taxes.

**Unsupported Entries**

We determined that the recurring journal voucher entries for eight cases were the result of Finance Branch officials making an entry in the Oracle system to reflect that undistributed backpay funds were sent to the U.S. Treasury when in fact funds remained in the Agency’s deposit fund account. In each instance, the backpay files contained a screenshot of a BMS form stating that the funds were transferred to the U.S. Treasury.

Our review of documentation in the Finance Branch’s files failed to provide supporting documentation, and Finance Branch officials were not able to provide documentation to show that the funds had in fact been transferred. Additionally, a Finance Branch official acknowledged that the Oracle system balances show that funds have been transferred to the U.S. Treasury, when in fact the funds were not transferred. In each instance the amount of the recurring journal voucher entry matched the amount of the last Oracle transaction that brought the Oracle balance to zero.
The following chart lists the cases with the recurring journal voucher entries that were tied to Oracle entries stating that remaining balances were deposited with the U.S. Treasury:

<table>
<thead>
<tr>
<th>Case</th>
<th>Date Oracle Entry</th>
<th>Amount</th>
<th>Observations</th>
</tr>
</thead>
<tbody>
<tr>
<td>04-CA-009008</td>
<td>4/12/2016</td>
<td>$30,000</td>
<td>Funds represent a Contempt fine. The last disbursement of backpay was June 2011.</td>
</tr>
<tr>
<td>04-CA-035947</td>
<td>4/11/2016</td>
<td>$32.00</td>
<td>Error by Region resulted in an overpayment by the Respondent of backpay. The last disbursement of backpay was July 2013.</td>
</tr>
<tr>
<td>04-CA-037889</td>
<td>4/8/2016</td>
<td>$559.67</td>
<td>Funds result of the cancellation of a check because it was not negotiated within 1 year. We found no documentation that the Region attempted to find the discriminatee even though later checks issued to the discriminatee were negotiated. The last disbursement of backpay was February 2014.</td>
</tr>
<tr>
<td>13-CA-040551</td>
<td>2/24/2016</td>
<td>$99.26</td>
<td>Funds result of cancellation of checks because they were not negotiated within 1 year. The last disbursement of backpay was October 2012.</td>
</tr>
<tr>
<td>13-CA-046007</td>
<td>2/24/2016</td>
<td>$11.35</td>
<td>Funds result of cancellation of a check because it was not negotiated within 1 year. The last disbursement of backpay was August 2014.</td>
</tr>
<tr>
<td>18-CA-019113</td>
<td>2/29/2016</td>
<td>$62.23</td>
<td>Funds result of cancellation of a check because it was not negotiated within 1 year. The check was a return of funds issued to the respondent in May 2012. In January 2016, the Compliance Officer informed the Finance Branch that he found the check in the Region’s file. The Regional Staff requested that the funds be sent to the U.S. Treasury because of the age of the case and the unsuccessful attempts to return the funds to the respondent.</td>
</tr>
<tr>
<td>24-CA-005714</td>
<td>2/22/2016</td>
<td>$862.36</td>
<td>Funds result of request to cancel a check in the amount of $862.36 to a discriminatee in December 2013. Last disbursement of backpay was November 2012. We also found no documentation of December 2012 Oracle entry of $3,359.94 stating that amount was returned to U.S. Treasury.</td>
</tr>
<tr>
<td>29-CB-013981</td>
<td>3/3/2016</td>
<td>$1,308.91</td>
<td>Funds result of cancellation of checks because they were not negotiated within 1 year. The last disbursement of backpay was July 2014.</td>
</tr>
</tbody>
</table>
U.S. Treasury guidance requires that agencies with deposit funds review the accounts quarterly to determine if they are holding unclaimed money that may be refunded to the depositor. If there are unclaimed funds, those funds are to be transferred to the U.S. Treasury as unclaimed monies, provided the amount exceeds $25 and the funds are fully documented as refundable, but the agency cannot refund the balance because the individual’s whereabouts are unknown.

For each of the cases listed above with an amount in excess of $25, we found no documentation that the NLRB attempted to refund the funds to the respondent or pay a discriminatee.

We also observed that in one case, the location of the discriminatee should have been apparent. As noted in the chart, a discriminatee was issued two checks and then one of the checks was cancelled after it was not negotiated within 1 year. The Finance Branch received notification that the cancellation of the $559.67 check occurred on February 3, 2014. On February 12, 2014, the NLRB made a second disbursement funds to the discriminatees in the case that was again in form of two checks to each of the located discriminatees. On March 5, 2014, the Finance Branch recorded the cancellation of the check in Oracle in the amount of $559.67. There were no additional disbursements of backpay in the case and on April 8, 2016, an entry is made in Oracle that funds in the amount of $559.67 were transferred to the U.S. Treasury. There is no authority for the NLRB to transfer these funds owed to the discriminatee to the U.S. Treasury as a miscellaneous receipt.

Recommendations

1. We recommend that the OCFO develop procedures to implement the requirements of handling unclaimed money.

2. We recommend that the OCFO review all the backpay cases with funds in the deposit account and disburse any funds that are being held as either being unclaimed or a fine should be remitted to the U.S. Treasury as appropriate.
Errors in Accounting

The following seven cases had accounting errors that we determined were related to the recurring journal voucher entries:

1-CA-042084

Based on the documentation in the backpay and tax files, the Finance Branch made several accounting errors:

- Two checks to one discriminatee totaling $2,866.55 were cancelled in July 2017, 5 days after the disbursement request, which included multiple discriminatees, was made to the U.S. Treasury. The amount of taxes withheld from the wages for the cancelled checks was $994.24;

- When the Finance Branch made the tax payment in July 2017, it deducted the $994.24, the amount from the taxes for the cancelled checks, from the total amount of taxes paid to the U.S. Treasury for that period;

- In Oracle, the tax payment entered for the July 2017 disbursement was for the entire amount of taxes withheld from the disbursement, rather than the amount actually paid. As a result, the Oracle entry overstated the taxes by $994.24;

- In August 2017, the Finance Branch deducted $994.24 from that month’s tax payment with a notation that the deduction was to offset taxes paid in July 2017 on the cancelled checks;

- In September 2017, the Finance Branch added $994.24 to the amount due for that month with the notation that it should not have made the deduction in August 2017;

- In November 2017, an entry was made in Oracle in the amount of $994.24 that offset the overstatement of taxes paid in July 2017;
• In December 2017, the Finance Branch submitted the third quarter statement to the Internal Revenue Service (IRS). That statement had an error because it understated the amount of taxes paid in September 2017 by $994.24 – apparently reporting the figure for the tax liability for that month without the correction that added $994.24;

• In January 2018, the Finance Branch filed a corrected third quarter report with the correct amount paid in September 2017, but also reported that the amount paid was in error and claimed a refund of $994.24;

• In February 2018, the IRS sent a statement to the Agency with a credit of $994.24;

• On September 7, 2018, the backpay payment was again disbursed to the discriminatee and taxes in the amount of $994.24 were withheld;

• On September 27, 2018, the Finance Branch applied the $994.24 credit to the tax payment rather than including that amount in the disbursement of funds from the backpay deposit account; and

• On November 8, 2018, the Finance Branch filed an Adjusted Employer’s Quarterly Federal Tax Return or Claim for Refund (Form 941-X) with the IRS. The Finance Branch stated in the Form 941-X that the 2017 third quarter taxes were overreported by $994.24 and the overreported taxes should be rolled over to 2018 third quarter.

The recurring journal voucher entry for $994.24 began in February 2018 and would appear to be directly related to these accounting errors. The supporting documentation for the journal voucher entry states that the discrepancy is an underreporting in Oracle in amount of $994.24 that relates to November 2018.

The case disbursement data in BMS was not reconciled to Oracle. The cancellation of the checks in July 2017 was not recorded in BMS. Then in September 2018, the Finance Branch processed the disbursement of the backpay payment for the cancelled checks. Because the cancellation of the
checks was not recorded in BMS, that discriminatee appears to have received two backpay disbursements, and the case has a negative balance of $2,866.55.

Based upon the available documentation, we determined that:

- The Finance Branch mistakenly requested a refund of $994.24 in December 2017, and then applied that refund amount when it made the final disbursement of backpay to the discriminatee;

- When the Finance Branch requested the refund, the Oracle system was reporting a discrepancy, but there is no documentation that the Finance Branch personnel resolved the discrepancy; and

- The Finance Branch personnel made recurring journal voucher entries without adequate supporting documentation and failed to reconcile the Oracle balance of $994.24 when the Finance Branch personnel knew or should have known that it disbursed all funds from the case and failed to reconcile the Oracle entries to the BMS entries.

The recurring journal voucher entries ended in November 2018. We did not find any supporting documentation in the backpay file that explained why the recurring journal voucher began or ended.

09-CA-106788

In May 2017, the respondents made a deposit of backpay in the amount of $95,000. On September 26, 2017, the Finance Branch made two requests that the U.S. Treasury disburse funds totaling $47,404.75. On September 29, 2017, the Finance Branch submitted a tax payment that included the taxes on the disbursement in the amounts of $9,025.85 and $13,544.40. On September 28, 2017, the tax payment in the amount of $9,025.85 was recorded in Oracle. On October 4, 2017, the tax payment in the amount of $13,544.40 was recorded in Oracle. Starting in March 2018 and continuing until November 2018, the Finance Branch processed recurring journal voucher entries in the amount of $13,544.40. There is no documentation in the backpay case
file that provides any information regarding why the journal voucher entries started in March or ended in November.

We also observed that the Finance Branch did not record the cancellation of $7,360.44 in disbursements in BMS but did record that amount in Oracle. As a result, the amounts in BMS and Oracle do not balance.

The Finance Branch was posting four recurring journal voucher entries for this case.

The respondent was making a number of recurring deposits of backpay in the amount of $3,504. On July 3, 2017, the respondent made a payment of $3,504. On July 5, 2017, the Finance Branch recorded the deposit in Oracle. On July 18, 2017, the Finance Branch recorded two entries in the amount of $3,504, for a total of $7,008, reversing the July 5, 2017 deposit entries in Oracle and understating the balance by $3,504. On August 7, 2017, the Finance Branch made two entries in the amount of $3,504, for a total of $7,008, that in effect reversed the July 18, 2017 entries. At that point, the July 3, 2017, deposit of $3,504 would have been accurately recorded in Oracle.

In September 2017, the Finance Branch began posting recurring journal voucher entries in the amount of $7,008. The entries terminated in November 2018, but there was no documentation in the backpay file that explained the resolution of the recurring journal voucher entries.

Beginning in June 2016, the Finance Branch began posting a recurring journal voucher in the amount of $3,504. The entry references a deposit voucher numbered 590114. There were recurring deposits in the amount of $3,504, but there is no U.S. Treasury deposit documentation in the backpay file for a deposit voucher numbered 590114. The last recurring journal voucher entry was in February 2018, but we did not find any documentation in the backpay file that explained the resolution of the recurring journal voucher entry.

In June 2015, the Finance Branch made a tax payment, but did not include the taxes withheld from two rounds of disbursements for this case in the amounts of $6,787.43 and
In January 2016, the Finance Branch submitted corrected payroll tax information for the underpayment in June 2015. The Finance Branch also recorded the payment of the taxes in Oracle. We did not find, however, any documentation in the backpay file or the Finance Branch’s tax files that the funds were actually paid to the U.S. Treasury. Starting in May 2016, the Finance Branch began posting recurring journal voucher entries in the amounts of $6,787.43 and $661.18. The Finance Branch stopped posting the recurring journal voucher entries in November 2018, but we did not find any documentation in the backpay file that explained the resolution of the recurring journal voucher entry.

We also observed accounting errors in BMS. Taxes paid by one discriminatee were removed from BMS when a backpay payment was reissued. Twelve cancellations of backpay payments totaling $3,227.99 were not recorded in BMS.

24-CA-010339 and 24-CA-011292

These cases are accounted for in a single backpay case file under 24-CA-010339.

The first of the two recurring journal voucher entries relates to a tax payment. On December 15, 2016, the tax payment in the amounts of $16,728.38 and $1,351.84 were recorded in Oracle. On December 30, 2016, the Finance Branch made tax payments for the case in the amounts of $16,728.38 and $1,351.84. In January 2017, the Finance Branch made two journal voucher entries for the cases in the amounts of $16,728.38 and $1,351.84. The journal voucher entries in both amounts continued until September 2017 when the journal voucher entry for $1,351.84 ended, but the entry for $16,728.38 continued as a recurring monthly journal voucher entry.

The second recurring journal voucher entry relates to deposits of backpay through the Treasury Offset Program (TOP). The Finance Branch received a total of $1,576.50 in debt collection payments. The TOP collections were recorded in Oracle. In April 2016, the Finance Branch posted a one-time journal voucher entry and reversed it in May 2016 in the amount of $196.65 that appears to have appropriately reconciled the case for that accounting period because the
U.S. Treasury deposit is dated March 30, 2016 and corresponding Oracle entry is dated April 19, 2016. On June 30, 2016, the Finance Branch received the last TOP payment and then posted the receipt of funds in Oracle on July 21, 2016. In December 2016, the Finance Branch started posting recurring monthly journal voucher entries that decreased the Oracle balance by $196.65.

Based on our reconciliation of the financial information for these cases, it appears that the initial journal voucher entries may have been appropriate to reconcile the deposit funds account with Oracle because of timing issues with deposits and payments. However, we found no documentation to support that the timing issues existed in December 2016, and there is no basis for the recurring journal voucher entries.

26-CA-017564

The Finance Branch personnel made duplicate entries in Oracle for the cancellation of a check. In March 2015, a check in the amount of $270.27 was cancelled and an entry was made in Oracle. In April 2015, a second entry was made in Oracle for that same amount with a reference to the same cancelled payment. In December 2016, a check to another discriminatee in the amount of $270.27 was cancelled because it was not negotiated within 1 year and an entry for that amount was made in Oracle in October 2017.

Beginning in October 2017, a discrepancy in the amount of $270.27 was reported in Oracle and the Finance Branch began making recurring journal voucher entries in that amount. We found no documentation that the Finance Branch personnel attempted to reconcile the Oracle balance.

We also found that the BMS entries were misleading because cancelled checks were entered as deposits rather than cancellations of payments. As a result, the BMS data makes it appear that discriminatees who received reissued disbursements were paid twice. We also found that one cancelled check was not entered in BMS.
In July 2016, the Finance Branch cancelled two checks to a discriminatee that had been issued in the wrong amounts that totaled $21,736.11. There was a July 2016 Oracle entry for the payment in the amount of $21,736.11. Taxes in the amount of $3,525.03 were paid to the U.S. Treasury, and an entry in that amount was made in Oracle. The cancellation of the checks was not recorded in Oracle until October 2017. From December 2016 through November 2017, the Finance Branch made recurring journal voucher entries in the amount of $21,736.11. In November 2016, the Finance Branch reissued the checks in the correct amount of $9,926.63, with taxes in the amount of $1,609.99. The difference in taxes between the original disbursement and the corrected disbursement was $1,915.04. That amount was taken as a credit against the entire amount due for the taxes paid in November. There was no Oracle entry to record the offset for the tax overpayment. In February 2018, the Finance Branch began posting recurring journal voucher entries in the amount of the $1,609.99 – the amount of taxes on the corrected disbursement in November 2017.

During our review of this case, we also observed discrepancies between the Oracle and BMS entries. In Oracle, there was no entry for the return of funds for a cancelled check in the amount of $746. In BMS, there were no entries for the return of funds for cancelled checks totaling $71,036.40.

**Recommendation**

3. We recommend that the Finance Branch reconcile the backpay cases with recurring journal voucher entries and take appropriate action to correct the accounting errors.

**Misleading Accounting Entries**

The backpay funds for case 04-CB-085278 were the result of a consent order by the U.S. Court of Appeals for the Third Circuit. The order directed the respondent to pay $40,000 to the Board. The order stated that the Board could then allocate the funds, in the Board’s sole discretion, to non-compliance fines; reimbursement of costs and attorney fees; or compensatory damages for the parties injured by the
respondent’s conduct. The $40,000 was to be paid in two installments of $20,000, with the first installment due in 30 days and the second installment a year later. The consent order was dated July 30, 2015.

On August 20, 2015, the Supervisory Attorney in the Contempt, Compliance, and Special Litigation Branch (CCSLB) sent a check dated August 10, 2015, from the respondent in the amount of $20,000 to the Finance Branch with instructions to pay that amount to the charging party and stated that further instructions will be provided. Later, on August 20, 2015, the Trial Attorney, CCSLB, sent instructions to the Finance Branch that the $20,000 was to be paid to the charging party through its legal representative and provided the mailing address. The Director, Finance Branch, acknowledged receipt of the instructions.

On September 3, 2015, the Finance Branch deposited the $20,000 with U.S. Treasury as “miscellaneous receipts” rather than into NLRB’s deposit funds account for backpay.

On January 28, 2016, the Trial Attorney notified the Director, Finance Branch, that the charging party had not yet received the payment of $20,000 and requested that the Director verify that payment had not yet been made and, if so, provide an estimate of when the payment would be made. On February 2, 2016, the Director, Finance Branch, responded that the funds had been deposited into the “wrong” U.S. Treasury account and then “swept” into the General Receipts account at the end of the fiscal year. The Director also stated that they were contacting U.S. Treasury to find out how to make a correction and get the funds credited back to “our” account. The Finance Branch backpay file contains documentation that the Finance Branch researched how to seek a correction for the deposit error, but there was no documentation that any corrective action was taken.

On April 19, 2016, the Finance Branch recorded an entry in Oracle to show the receipt of $20,000 for case 04-CB-085278. That entry did not reference any Treasury deposit information. On March 1, 2016, the Finance Branch made an entry in the BMS to case 04-CB-085278 for a deposit of $20,000. The BMS entry appears to reference the U.S. Treasury deposit number for the September 3, 2015, deposit to miscellaneous receipts. On May 3, 2016, a payment to
the charging party’s legal representative in the amount of $20,000 was processed in BMS and a U.S. Treasury check was processed in the amount of $20,000 payable to the charging party’s legal representative. On May 18, 2016, an entry was recorded in Oracle to show a payment of $20,000 for case 04-CB-085278.

On August 9, 2016, a second check for $20,000 was sent to the Finance Branch by the Supervisory Attorney, CCSLB, with instructions to pay that amount to the charging party’s legal representative. On August 11, 2016, the Finance Branch recorded a deposit of $20,000 in BMS for case 04-CB-085278. The BMS entry references a U.S. Treasury deposit number. On August 16, 2016, the Finance Branch recorded an entry in Oracle to show the receipt of $20,000 for case 04-CB-085278. That entry references a U.S. Treasury deposit number. There are no further entries in the U.S. Treasury, Oracle, or BMS systems for any additional disbursements or deposits. The initial adjusting journal voucher entry was in December 2016.

When we reconciled the U.S. Treasury, Oracle, and BMS entries for case 04-CB-085278, we found Oracle and BMS overstated the amount of cash by $20,000 because there was no documentation to show any accounting entries that corrected the first deposit of the $20,000 from miscellaneous receipts to the deposit funds account for backpay. Based on the documentation in the case file:

- The entries in Oracle on April 19, 2016, and BMS on March 1, 2016, in the amount $20,000, were erroneous in that those funds were deposited as miscellaneous receipts and were not available to the NLRB for disbursement to the charging party’s legal representative;

- There were no funds in the NLRB’s deposit funds account for backpay that were allocated to case 04-CB-085278 to cover the May 3, 2016, payment to the charging party’s legal representative;

- The deposit of the respondent’s August 9, 2016 payment of $20,000 to the deposit funds account for Backpay offset the erroneous payment of May 3, 2016; and
- Because the Oracle and BMS systems overstate the cash balance for case 04-CB-085278, the monthly journal voucher adjustments and reversals are concealing the Finance Branch’s mishandling of funds it was holding for a third party.

**Recommendation**

4. We recommend that the Finance Branch determine if any funds can be recovered from the miscellaneous receipts and:

   a. If funds can be recovered, make appropriate accounting entries and disburse the funds; or

   b. If funds cannot be recovered, obtain a decision from the General Counsel on whether to seek authority to use appropriated funds to make the discriminatees whole

**Cases Not Reconciled**

Three of the cases, 13-CA-45718, 29-CA-010843, and 33-CA-14374, could not be reconciled because the records in the Finance Branch were either not kept as a case file or the documents in the case file were not adequate to make a determination.

**Recommendation**

5. We recommend that the Finance Branch reconstruct the three backpay files with appropriate documentation of the receipt and disbursements of backpay funds and then reconcile the cases.

**Tax Overpayments**

When reviewing the disbursements and cancellations, we observed that there were 10 cases that had cancelled payments of taxable income. The cancellation of a disbursement of taxable backpay can create accounting issues if the funds are not disbursed to the same discriminatees in a timely manner.

For two of the cases, the disbursements were issued to the discriminatees without any additional tax consequences. For one case, as described above, the Finance Branch sought a refund of taxes that were not paid. For the remaining seven cases the funds were not again disbursed to the same
discriminatee and there was no documentation that a tax refund or credit was obtained resulting in apparent tax overpayments. The following table lists the tax overpayments and a brief description of our observations:

<table>
<thead>
<tr>
<th>Case</th>
<th>Tax Overpayment Amount</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>04-37889</td>
<td>$309.10</td>
<td>A check for a disbursement of taxable backpay was cancelled and taxes were paid. The disbursement was not reissued. We found no documentation to support that a tax refund was requested or received.</td>
</tr>
<tr>
<td></td>
<td>$3,180.34</td>
<td>Checks for disbursement of taxable backpay were cancelled and taxes were paid in the amount of $1,814.50. We found no documentation to support that a tax refund was requested or received. The returned funds were then distributed to the remaining discriminatees as taxable income with $1,365.84 in taxes withheld and paid.</td>
</tr>
<tr>
<td>13-46007</td>
<td>$5.49</td>
<td>A check for a disbursement of taxable backpay was cancelled and taxes were paid. The disbursement was not reissued. We found no documentation to support that a tax refund was requested or received.</td>
</tr>
<tr>
<td>15-11498</td>
<td>$597.39</td>
<td>Checks for disbursement of taxable backpay were cancelled and taxes were paid. The disbursements were not reissued. We found no documentation to support that a tax refund was requested or received.</td>
</tr>
<tr>
<td>18-19113</td>
<td>$30.18</td>
<td>Checks for disbursement of taxable backpay were cancelled and taxes were paid. The disbursements were not reissued. We found no documentation to support that a tax refund was requested or received.</td>
</tr>
<tr>
<td>24-10339 / 24-11292</td>
<td>$683.20</td>
<td>A check for a disbursement of taxable backpay was cancelled in the net amount of $5,137.59 after it became known that the discriminatee was deceased. The amount of payroll taxes was $683.20. The backpay was then disbursed to the heirs without any withholdings in the amount of gross amount due of $5,479.20. No documentation to support that a tax refund was received.</td>
</tr>
<tr>
<td>26-17564</td>
<td>$88.25</td>
<td>A check for a disbursement of taxable backpay was cancelled and taxes were paid. The disbursement was not reissued. We found no documentation to support that a tax refund was requested or received.</td>
</tr>
<tr>
<td>29-14548</td>
<td>$3,621.55</td>
<td>Checks for disbursement of taxable backpay were cancelled and taxes were paid. The disbursements were not reissued. We found no documentation to support that a tax refund was requested or received.</td>
</tr>
</tbody>
</table>

**Recommendation**

6. We recommend that the Finance Branch officials consult with the Internal Revenue Service and then develop and implement internal controls to address the tax payments and refunds.
INTERNAL CONTROLS

The GAO Standards for Internal Control in the Federal Government (Standards) state that it is the responsibility of management to develop and maintain documentation of its internal control system. The Standards also state that effective documentation assists in management’s design of internal control by establishing and communicating the who, what, when, where, and why of internal control execution to personnel. Documentation also provides a means to retain organizational knowledge and mitigate the risk of having that knowledge limited to a few personnel, as well as a means to communicate that knowledge as needed to external parties, such as external auditors. Also, the process should separate the responsibilities for authorizing transactions, processing and recording them, reviewing the transactions, and handling any related assets so that no one individual controls all key aspects of a transaction or event.

Journal Voucher Documentation and Review

The Finance Branch’s Journal Voucher Preparation Guide documents the journal voucher internal control process and requires that each journal voucher have the following documentation to support the entries:

- Cover Sheet - stating the accounting information and purpose of the journal voucher;
- Spreadsheet - listing the detailed accounting information for the journal voucher;
- Transaction Justification - a worksheet with the journal voucher transaction justification;
- Trial Balance (pre-journal voucher) - this worksheet stores the trial balance for the funds affected by the journal voucher;
- Trial Balance (post-journal voucher) - this worksheet stores the trial balance for the funds affected by the journal voucher;
• Oracle Confirmations - this worksheet stores the screenshots of the journal voucher being entered into Oracle and of the Posting; and

• Additional Supporting Documentation - additional worksheets can be added to the journal voucher to store supporting documentation. This includes calculation spreadsheets and Account Analysis reports.

The internal controls also require that in the journal voucher package, the accountant is to provide a sufficiently detailed explanation to ensure that any questions regarding the entry can be answered by reviewing the description and additional notes. The explanation should include the purpose of the journal voucher, reference any relevant supporting documentation, and serve as the basis for the related amounts to include estimations or calculations. The documentation should provide enough detail to satisfy an auditor, internal or external.

Although these documented internal controls should be adequate to ensure that backpay journal vouchers are appropriate adjustments, based on our observations, we determined that the Finance Branch personnel are not appropriately implementing the internal controls for the journal vouchers. We observed that in each instance, the journal voucher package contained “boilerplate” language that provided no detailed information to explain why the entries were being processed. Therefore we determined that the journal voucher packages contained the required documents, but that those documents failed to meet the internal control requirement of a sufficiently detailed explanation. We also observed that there was a segregation of duties in the preparation and approval of the journal vouchers, but that the segregation of duties was apparently not effective to ensure the implementation of the documented internal control requirements.

**Recommendation**

7. We recommend that the Finance Branch provide training to its accountants and approving officials on the requirements of its journal voucher documentation requirements and process.
Reconciliations Between Systems

The basic internal control for cash accounts is to conduct reconciliations on a regular and recurring basis. The U.S. Treasury’s Financial Manual requires that each agency have policies and documented procedures that provide for regular and routine reconciliation of general ledger accounts through investigation of differences, determination of specific causes of differences, and initiation of corrective action. Additionally, the U.S. Treasury Financial Manual also states that agencies with deposit accounts should conduct periodic reviews of the account, at least quarterly, and process appropriate adjustments.

In order to reconcile the backpay deposit account, it is necessary to reconcile Oracle and BMS. BMS is the system that is used to create the disbursement schedules that result in the disbursement requests to the U.S. Treasury and maintain detailed payee information. Oracle is the financial system that is considered the financial system of record for backpay information. The Backpay Cycle Memorandum for the Backpay process states that an accountant reconciles the BMS to Oracle on a monthly basis.

Our determination is that the reconciliation of BMS to Oracle is a key internal control that is necessary for a reconciliation of backpay deposit account.

When we interviewed Finance Branch personnel, we were told that they reconciled the BMS and Oracle on a monthly basis. Our review of the documentation that was provided by the personnel did not support that assertion. Instead we found that Finance Branch personnel created a spreadsheet for each month in FY 2018 that listed the differences between Oracle and BMS. As described to us by the Finance Branch personnel, this process was not documented in approved policies or procedures.

From our review of the spreadsheets, we found that the Finance Branch officials identified 303 discrepancies between Oracle and BMS and only 96, or 32 percent of the discrepancies, were annotated with information explaining the cause of the discrepancies as shown in the table below:
<table>
<thead>
<tr>
<th>Month</th>
<th>Differences Identified</th>
<th>Reasons Annotated</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Oct-17</td>
<td>30</td>
<td>0</td>
<td>0%</td>
</tr>
<tr>
<td>Nov-17</td>
<td>18</td>
<td>4</td>
<td>22%</td>
</tr>
<tr>
<td>Dec-17</td>
<td>21</td>
<td>13</td>
<td>62%</td>
</tr>
<tr>
<td>Jan-18</td>
<td>21</td>
<td>2</td>
<td>10%</td>
</tr>
<tr>
<td>Feb-18</td>
<td>11</td>
<td>7</td>
<td>64%</td>
</tr>
<tr>
<td>Mar-18</td>
<td>11</td>
<td>0</td>
<td>0%</td>
</tr>
<tr>
<td>Apr-18</td>
<td>71</td>
<td>1</td>
<td>1%</td>
</tr>
<tr>
<td>May-18</td>
<td>26</td>
<td>21</td>
<td>81%</td>
</tr>
<tr>
<td>Jun-18</td>
<td>20</td>
<td>18</td>
<td>90%</td>
</tr>
<tr>
<td>Jul-18</td>
<td>22</td>
<td>17</td>
<td>77%</td>
</tr>
<tr>
<td>Aug-18</td>
<td>35</td>
<td>0</td>
<td>0%</td>
</tr>
<tr>
<td>Sep-18</td>
<td>17</td>
<td>13</td>
<td>76%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>303</strong></td>
<td><strong>96</strong></td>
<td><strong>32%</strong></td>
</tr>
</tbody>
</table>

We also observed that 7 cases identified by the Finance Branch official as having differences between Oracle and BMS in multiple months were also cases with recurring journal voucher entries.

When reviewing the backpay files, we observed that deposit and payment information is recorded on a paper stapled to the front of the file folder and on the file folder itself. It appears that this manual method was also used as a means of tracking backpay transactions. We observed no methods of reconciling these paper records with either Oracle or BMS.

From our review, we determined that the Finance Branch does not have an effective process to reconcile the BMS and Oracle fund balance. Because the Finance Branch was not conducting effective reconciliations between BMS and Oracle, the probability of unresolved discrepancies between Oracle and the U.S. Treasury deposit account balance increased.

*Recommendation*

8. We recommend that the Finance Branch develop and implement a documented process to reconcile BMS to Oracle and Oracle to the U.S. Treasury deposit account.
Date: November 18, 2019

To: David Berry
Inspector General

From: Isabel Luengo McConnell
Chief Financial Officer

Subject: Response to the National Labor Relations Board’s (NLRB) Office of Inspector General’s (IG) Draft Report on Backpay Accounting

Purpose:

The purpose of this memorandum is to respond on behalf of the NLRB management to your audit report on the assessment of the appropriateness of the recurring monthly journal voucher entries related to Backpay Accounting.

The OCFO acknowledges the deficiencies listed in the Inspector General (IG) Report related to Backpay Accounting. The Finance Branch is committed to resolving these findings and implementing the IG recommendations. Below are the OCFO responses to the IG’s recommendations.

Recommendation 1:

The Office of the Chief Financial Officer (OCFO) develop procedures to implement the requirements of handling unclaimed money.

Response to Recommendation 1:

OCFO management agrees with the recommendation. The Finance Branch will develop procedures to implement the requirements of handling unclaimed money.

Recommendation 2:

The Finance Branch review all the backpay cases with funds in the deposit account and disburse any funds that are being held as either being unclaimed or a fine should be remitted to the U.S. Treasury as appropriate.
Response to Recommendation 2:

OCFO management agrees with the recommendation. The Finance Branch will develop and document a process to review all the backpay cases with funds in the deposit account and disburse any funds that are being held as either unclaimed or a fine should be remitted to the U.S. Treasury as appropriate.

Recommendation 3:

The Finance Branch reconcile the backpay cases with recurring journal voucher entries and take appropriate action to correct the accounting errors.

Response to Recommendation 3:

OCFO management agrees with the recommendation. Finance is currently reconciling Backpay Management System (BMS) to Oracle which includes the reconciliation of recurring journal vouchers (JV). The Finance Branch is working to resolve discrepancies to identify and correct recurring journal vouchers.

Recommendation 4:

The Finance Branch determine if any funds can be recovered from the miscellaneous receipts and:

a. If funds can be recovered, make appropriate accounting entries and disburse the funds; or

b. If funds cannot be recovered, obtain a decision from the General Counsel on whether to seek authority to use appropriated funds to make the discriminatees whole

Response to Recommendation 4:

OCFO management agrees with the recommendation. The Finance Branch has recovered $20,0000 from the miscellaneous account from the Department of the Treasury in September 2019 and is working to disburse funds to the appropriate discriminatees.

Recommendation 5:

The Finance Branch reconstruct the backpay files with appropriate documentation of the receipt and disbursements of backpay funds and then reconcile the cases.

Response to Recommendation 5:

OCFO management agrees with the recommendation. The Finance Branch will reconstruct the three referenced backpay files with appropriate documentation of the receipts and disbursements of backpay funds and then reconcile the cases.
Recommendation 6:

Finance Branch officials consult with the Internal Revenue Service (IRS) and then develop and implement internal controls to address the tax payments and refunds.

Response to Recommendation 6:

OCFO management agrees with the recommendation. The Finance Branch will consult the IRS and develop and implement internal controls to address the tax payments and refunds.

Recommendation 7:

Finance Branch provide training to its accountants and approving officials on the requirements of its journal voucher documentation requirements and process.

Response to Recommendation 7:

OCFO management agrees with the recommendation. The Finance Branch will develop training materials and train the staff and approving officials on the requirements for journal voucher documentation and process.

Recommendation 8:

Finance Branch develop and implement a documented process to reconcile BMS to Oracle and Oracle to the U.S. Treasury deposit account.

Response to Recommendation 8:

OCFO management agrees with the recommendation. The Finance Branch has implemented a process to reconcile BMS to Oracle and Oracle to the U.S. Treasury deposit account. The Finance Branch will also document this process.