

NATIONAL LABOR RELATIONS BOARD



Fiscal Year 2019 Financial Statement Audit

Management Letter Report

November 15, 2019

Inspector General
National Labor Relations Board

We have audited the accompanying balance sheets of the National Labor Relations Board (NLRB) as of September 30, 2019 and 2018 and the related statements of net cost, changes in net position, and budgetary resources for the fiscal years then ended, and the related notes to the financial statements and have issued our report thereon dated November 15, 2019.

In planning and performing our work, we considered the NLRB's internal control over financial reporting by obtaining an understanding of the design effectiveness of the NLRB's internal control, determining whether controls had been placed in operation, assessing control risk, and performing tests of the NLRB's controls as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not to express an opinion on the effectiveness of the NLRB's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the NLRB's internal control over financial reporting.

We noted certain matters involving internal control and other operational matters that are summarized in this letter. These comments and recommendations, all of which have been discussed with the appropriate members of management and the NLRB Office of Inspector General, are intended to improve internal control or result in other operating efficiencies.

Our audit procedures are designed primarily to enable us to form an opinion on the financial statements, and therefore may not bring to light all weaknesses or deficiencies in internal control, policies or procedures that may exist.

We would like to express our appreciation to you and all other NLRB personnel who assisted us in completing our work.

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

Sincerely,

Castro & Company, LLC

Alexandria, VA

1. Improvements in the Management of Government Charge Cards Are Needed (Repeat Condition from FY 2014, FY 2015, FY 2017 and FY 2018)

As part of our testing of cash disbursements, we selected a sample of 45 disbursements made during the period of 10/1/18 through 3/31/19. The purpose of our testing was to assess management controls and compliance with applicable laws, regulations, and procedures relative to cash disbursement transactions. The following condition was noted:

- NLRB did not always oversee the maintenance of master file/official cardholder records including training, charge card transaction supporting documents and related records. Specifically,
 - For eight purchase cardholders and one travel cardholder tested, the General Services Administration (GSA) certifications on file were completed more than three years ago.
 - For two purchase cardholders and one travel cardholder tested, there was no certificate on file to support the cardholder's completion of the required training.
 - For five of 10 purchase card transactions tested, supporting documentation including the request form, credit card statement and receipt was not maintained on file.

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

NLRB's Purchase Card Management Plan requires the Agency Program Coordinator (APC) to maintain official purchase cardholder records including training, appointment, purchase limits, and original approved reconciliation statements. Additionally, all matching invoices/sales receipts must be attached to the credit card statement; however, NLRB did not consistently follow its purchase card policy to maintain documentation of purchase card transactions on file.

In prior fiscal years, we recommended that NLRB management review, implement, and monitor control activities related to the training of cardholders. Additionally, we recommended that NLRB management establish and implement procedures for the periodic review of all active cardholders to determine whether each cardholder has a need for the purchase/travel card, and whether all applicable documentation, including completion of initial and refresher trainings, is maintained. We reviewed management's corrective action plan regarding these recommendations and determined that adequate monitoring of control activities related to the training of cardholders had not been completed.

The *Government Charge Card Abuse Prevention Act of 2012*, enacted in October 2012, states,

§ 1909(a) The head of each executive agency that issues and uses purchase cards and convenience checks shall establish and maintain safeguards and internal controls to ensure the following:

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

- (3) The holder of a purchase card and each official with authority to authorize expenditures charged to the purchase card are responsible for
 - (A) reconciling the charges appearing on each statement of account for that purchase card with receipts and other supporting documentation; and
 - (B) forwarding a summary report to the certifying official in a timely manner of information necessary to enable the certifying official to ensure that the Federal Government ultimately pays only for valid charges that are consistent with the terms of the applicable Government-wide purchase card contract entered into by the Administrator of General Services...
- (7) Records of each purchase card transaction (including records on associated contracts, reports, accounts, and invoices) are retained in accordance with standard Government policies on the disposition of records.
- (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.

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

Management clearly documents internal control and all transactions and other significant events need to be clearly documented, and the documentation should be readily available for examination.

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

Management performs ongoing monitoring of the design and operating effectiveness of the internal control system as part of the normal course of operations. Ongoing monitoring includes regular management and supervisory activities, comparisons, reconciliations, and other routine actions.

Management should remediate identified internal control deficiencies on a timely basis.

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:

1. Ensure approved reconciliation statements including request forms, invoices and receipts are maintained on file.

Our testing confirmed a lack of remediation of previous years' findings related to performing periodic reviews of active cardholders and all applicable documentation, including completion of initial and refresher trainings; therefore, additional recommendations are not deemed necessary at this time.

Management's Response:

The OCFO concurs with the recommendation. The Agency migrated to SmartPay 3, the General Services Administration's (GSA) new purchase and travel card programs, in December 2018. As part of the post-SmartPay 3 implementation activities, all SmartPay 3 travel card holders' certificates were baselined and final procedures for recertification are being developed.

In addition, the new SmartPay 3 purchase cardholders and program officials were impacted by the transition, creating a backlog of reconciliation statements. Now that the program has been in place for almost year, OCFO plans to implement retroactive reviews of cardholders' statements. Cardholders with certificates older than three years will take the GSA's purchase card training course by the second quarter of FY 2020. All cardholders will take the NLRB purchase card training by the fourth quarter of FY 2020 to help ensure packages are completed timely with the appropriate documentation.

Auditor's Response:

The auditors concur with management's response.

2. Lack of Quality Control Procedures Caused Financial Reporting and Accounting Discrepancies (Repeat Condition from FY 2018)

The Accountability of Tax Dollars Act of 2002 requires that NLRB submit audited financial statements to Congress and the Director of OMB on an annual basis. OMB Circular No. A-136, *Financial Reporting Requirements*, defines the form and content of financial statements to be prepared by NLRB that must also comply with Federal Accounting Standards. The statements must be prepared from an integrated financial management system containing sufficient structure, effective internal control, and reliable data. The financial reports must also be supported by comprehensive policies, with strong internal controls, that prescribe the procedures for processing and summarizing accounting entries and preparing the financial statements.

During the audit, we identified issues that impacted NLRB's ability to effectively accumulate, assemble, and analyze information presented in its financial statements in accordance with applicable guidance. Examples of the errors noted include the following:

Property, Plant, and Equipment (PP&E)

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

- NLRB recorded Leasehold Improvements of \$1,053,572 in January 2019 for the Cleveland, Little Rock and Philadelphia projects and inadvertently did not remove the Construction-in-Progress (CIP) balance for those projects. As a result, the CIP account was overstated by \$819,775 as of 6/30/19. This error was corrected as of 9/30/19 after we brought the error to management's attention.
- NLRB did not correctly calculate the amortization for assets placed in service in February and March 2019. As a result, Accumulated Amortization was understated and the Net Book Value was overstated by \$31,037 as of 6/30/19. This error was corrected as of 9/30/19 after we brought the error to management's attention.
- The PP&E reconciliation as of 6/30/19 that was prepared and approved by NLRB management in July 2019 did not include the Internal Use Software in Development account which had a balance of \$1,932,623. The PP&E reconciliation was revised after we brought the error to management's attention.
- Four assets in the Capitalized Equipment Inventory memo dated April 16, 2019 from the Property Management Section listed as "Item Surplused" and recommended for removal from inventory were not removed from the listing of equipment assets as of 6/30/19. We noted the four assets were fully depreciated as of 6/30/19. Additionally, one asset (conference table) was listed as "Item Added" but was not recorded as an addition to the Equipment account as of 6/30/19. As a result, the Equipment balance was understated by \$34,383. We noted the asset was recorded in the Equipment account after we brought the issue to management's attention.
- For three retired/disposed assets selected for testing, the date retired/disposed per the disposal support did not match the date recorded as disposed by NLRB.

As part of the FY 2016 financial statement audit, we recommended that NLRB ensure all assets were properly recorded and depreciated to properly reflect asset, contra-asset, and expense balances. Additionally, we recommended that NLRB develop and implement standardized policies and procedures to ensure accountability, monitoring, and oversight of the PP&E disposals; however, the issues noted above as part of the FY 2019 financial statement audit confirm a lack of remediation of the prior year's finding; therefore, additional recommendations are not deemed necessary at this time.

Backpay

During our testing procedures of the Backpay balance as of 6/30/19 and 9/30/19, we performed a review of the General Ledger accounts used to record fiduciary funds collected by NLRB and held in escrow accounts with the Treasury. Backpay funds administered by NLRB are used to provide a remedy to discriminatees when a violation of the National Labor Relations Act results in a monetary loss to discriminatees due to an unfair labor practice. The Backpay funds that are held by NLRB are received from a charged party/respondent. The Finance Branch disburses the Backpay funds when directed to do so by a Regional Office.

During our audit, we noted reconciling differences of \$289,804 as of 6/30/19, and \$186,052 as of 9/30/19 between balances reported in the Backpay Management System (BMS) and balances reported in Oracle Federal Financial (OFF) system and Treasury. NLRB management was not reconciling balances in the BMS to the balances in the OFF system on a monthly basis as required by NLRB's internal policy.

Additionally, we noted that there was no evidence of review and approval by NLRB management on the Backpay reconciliation as of 9/30/19. Similar issues were noted on the Fund Balance with Treasury reconciliations for July, August and September 2019.

The issues noted above stem from the Finance Branch not performing adequate quality review procedures to timely detect certain financial reporting and accounting errors until we brought the issue to management's attention.

GAO Standards for Internal Control in the Federal Government, states

Personnel need to possess and maintain a level of competence that allows them to accomplish their assigned responsibilities, as well as understand the importance of effective internal control. Holding individuals accountable to established policies by evaluating personnel's competence is integral to attracting, developing, and retaining individuals.

Management performs ongoing monitoring of the design and operating effectiveness of the internal control system as part of the normal course of operations. Ongoing monitoring includes regular management and supervisory activities, comparisons, reconciliations, and other routine actions.

Management clearly documents internal control and all transactions and other significant events need to be clearly documented, and the documentation should be readily available for examination.

Management designs appropriate types of control activities for the entity's internal control system. Control activities help management fulfill responsibilities and address identified risk responses in the internal control system...

Management may design a variety of control activities for operational processes, which may include verifications, reconciliations, authorizations and approvals, physical control activities, and supervisory control activities.

NLRB's *FY 2019 Backpay Cycle Memo*, states

An accountant reconciles the Backpay System case balances to the OFF system balances on a monthly basis.

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

Recommendations:

2. Refine and strengthen policies, procedures, and processes to ensure that reconciling differences identified are corrected in a timely manner.

Our testing confirmed a lack of remediation of previous years' findings related to PP&E, quality control reviews, and reconciliations; therefore, additional recommendations are not deemed necessary at this time.

Management's Response:

The OCFO concurs with the recommendation. To refine and strengthen policies, procedures, and processes that ensure reconciling differences identified are corrected in a timely manner; OCFO is:

- Actively working to ensure all assets are properly recorded and depreciated by increasing the level of the PP&E review process and working closely with the Program Areas to ensure accurate reporting.
- Currently reconciling the Backpay Management System (BMS) with Oracle and reconciling Oracle with the Fund Balance with Treasury (FBwT). OCFO is also reconciling the U.S. Treasury Deposit Account with the Treasury's Central Accounting Reporting System (CARS).

Auditor's Response:

The auditors concur with management's response.

3. Improvement in General Information Technology Controls and Monitoring over Access Control and Security Management Are Needed (New Condition)

Our testing identified other matters involving internal control and its operations in two general IT control subject areas: access control and security management. During our review, we noted the following issues:

Access Control and Security Management

Access control and audit logging are a fundamental component of information security for Federal information systems. Access control helps limit or detect inappropriate access and minimizes the risk of unauthorized access to information systems, which in turn protects systems from unauthorized modification, loss, and disclosure of financial data.

Audit logging ensures that auditable events are regularly collected, reviewed, and analyzed for indications of inappropriate or unusual activity. Maintaining audit logs for a specified amount of time ensures that potential incidents can be further researched and followed-up on for resolution.

Security management is the foundation of an entity's overall information security program, which also reflects senior management's commitment to addressing information security risks. Security management provides a framework and the means for a continuing cycle for managing risk, developing security policies, assigning information security responsibilities, and monitoring the adequacy of the NLRB's computer-related controls.

Continuous monitoring of service organizations and complementary user entity controls (CUECs) not covered in the System and Organizational Controls (SOC1) report is important since these controls have not been tested in the SOC1 report. The user entity must and should evaluate those controls to ensure they are designed and operating effectively to ensure that financial data is not compromised and is accurate.

During our audit procedures, we noted the following:

- For selected terminated employees, it was not possible to ascertain whether the terminated employees had their system access removed within a timely manner.
- Based on documentation provided, it was not possible to ascertain whether audit storage logs were set to overwrite or if there was sufficient audit space to accommodate the audit logs.
- Continuous monitoring and/or controls analysis was not conducted for those controls not covered by the SOC1 report for OFF and the Federal Personnel and Payroll System (FPPS) issued by the Department of the Interior.

The Office of the Chief Information Officer did not provide adequate documentation related to system access termination, audit storage logs and storage space for us to complete our audit procedures.

NLRB did not have adequate controls in place to perform periodic assessments for controls not covered by the SOC1 report for OFF and FPPS. Additionally, NLRB had not documented policies and procedures to review the SOC1 reports and test CUEC from the SOC1 reports annually.

The following criteria relates to the conditions identified above:

- National Institute of Standards and Technology (NIST) Special Publication 800-53, Revision 4, *Security and Privacy Controls for Federal Information Systems and Organizations*
- *NLRB's Information Security Access Control Policy, No. AC-1*
- *NLRB's Information Security Audit and Accountability Policy, No. AU-1*
- *NLRB Information Security Personnel Security Policy, No. PS-1*

Failure to ensure that separated employees are removed from system access increases the risk of compromise with regard to confidentiality, integrity or availability of the organization's financial data or network systems.

If audit logs are overwritten once the logs fill up, this could prevent subsequent investigations, as the audit log will have been deleted.

By not performing periodic assessments for controls not covered by the SOC1, there is an increased risk of exploitation because specific controls are not being assessed and/or monitored by NLRB or a third-party provider, which could in turn lead to a lack of financial data integrity for NLRB.

Recommendations:

3. Refine and strengthen policies, procedures, and processes over the timely removal of separated and transferred users' access. Industry best practices are to remove separated users within five (5) business days and update transferred users within five (5) business days.
4. Ensure that the timely removal of separated and transferred users' access is documented.

Our testing confirmed a lack of remediation of previous years' findings related to audit log storage and assessment of controls not covered by the SOC1 report; therefore, additional recommendations are not deemed necessary at this time for those areas.

Management's Response:

The Office of the Chief Information Officer (OCIO) concurs with the recommendations. The OCIO will develop procedures to remove, within five business days, access to the information technology systems of Agency employees who have been separated from the Agency or transferred to another government agency. Additionally, the Department of the Interior (DOI) financial systems are only accessible from the Agency network, so employees who are separated from the Agency cannot access the financial system since their Agency network account is disabled on their last day of employment.

The OCIO will develop procedures to review and ensure that the removal of separated or transferred employees' access to the Agency's financial system is documented in timely manner.

Auditor's Response:

The auditors concur with management's response.

Status of Prior Year Management Letter Comments

The Fiscal Year (FY) 2018, 2017 and 2014 Management Letter Reports issued by Castro & Company identified the following control deficiencies:

Fiscal Year	Finding Identified	Status in FY 2019
FY 2014	Improvements in the Internal Controls over the Management of Government Charge Cards are Needed	Partially Resolved
FY 2017	Inadequate Controls over Undelivered Orders and Accounts Payable	Partially Resolved; Issues related to Accounts Payable and Quality Reviews of Related Accrued Expenses were reported on the FY 2019 Internal Control Report
FY 2018	Improvement in the General Information Technology Controls and Monitoring over Security Management, Configuration Management, and Contingency Planning Are Needed.	Partially Resolved



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

December 12, 2019

TO: David P. Berry, Inspector General

FROM: Isabel Luengo McConnell, Chief Financial Officer
Prem Aburvasamy, Chief Information Officer

SUBJECT: Response to the Fiscal Year 2019 Financial Statement Audit, Management Letter Report

- 1. Purpose:** The purpose of this document is to provide a response to the National Labor Relations Board (NLRB or the Agency), Office of the Inspector (OIG), to the Fiscal Year 2019 Financial Statement Audit, Management Letter Report. The Office of the Chief Financial Officer (OCFO) has reviewed the recommendations and provides responses to each recommendation.
- 2. Recommendation Number 1:** *Ensure approved reconciliation statements including request forms, invoices and receipts are maintained on file.*
- 3. Response to Recommendation Number 1:** The OCFO concurs with the recommendation. The Agency migrated to SmartPay 3, the General Services Administration's (GSA) new purchase and travel card programs, in December 2018. As part of the post-SmartPay 3 implementation activities, all SmartPay 3 travel card holders' certificates were baselined and final procedures for recertification are being developed.

In addition, the new SmartPay 3 purchase cardholders and program officials were impacted by the transition, creating a backlog of reconciliation statements. Now that the program has been in place for almost year, OCFO plans to implement retroactive reviews of cardholders' statements. Cardholders with certificates older than three years will take the GSA's purchase card training course by the second quarter of FY 2020. All cardholders will take the NLRB purchase card training by the fourth quarter of FY 2020 to help ensure packages are completed timely with the appropriate documentation.

- 4. Recommendation Number 2:** *Refine and strengthen policies, procedures, and processes to ensure that reconciling differences identified are corrected in a timely manner.*
- 5. Response to Recommendation Number 2:** The OCFO concurs with the recommendation. To refine and strengthen policies, procedures, and processes that ensure reconciling differences identified are corrected in a timely manner; OCFO is:

- Actively working to ensure all assets are properly recorded and depreciated by increasing the level of the PP&E review process and working closely with the Program Areas to ensure accurate reporting.
- Currently reconciling the Backpay Management System (BMS) with Oracle and reconciling Oracle with the Fund Balance with Treasury (FBwT). OCFO is also reconciling the U.S. Treasury Deposit Account with the Treasury's Central Accounting Reporting System (CARS).

- 6. Recommendation Number 3:** *Refine and strengthen policies, procedures, and processes over the timely removal of separated and transferred users' access. Industry best practices are to remove separated users within five (5) business days and updated transferred users within five (5) business days.*
- 7. Response to Recommendation Number 3:** The Office of the Chief Information Officer (OCIO) concurs with this recommendation. The OCIO will develop procedures to remove, within five business days, access to the information technology systems of Agency employees who have been separated from the Agency or transferred to another government agency. Additionally, the Department of the Interior (DOI) financial systems are only accessible from the Agency network, so employees who are separated from the Agency cannot access the financial system since their Agency network account is disabled on their last day of employment.
- 8. Recommendation Number 4:** *Ensure that the timely removal of separated and transferred users' access is documented.*
- 9. Response to Recommendation Number 4:** The OCIO concurs with the recommendation. The OCIO will develop procedures to review and ensure that the removal of separated or transferred employees' access to the Agency's financial system is documented in timely manner.

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Isabel Luengo McConnell, Chief Financial Officer

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Prem Aburvasamy, Chief Information Officer