

**UNITED STATES GOVERNMENT**  
***National Labor Relations Board***  
**Office of Inspector General**



**Memorandum**

November 3, 2016

To: Mark Gaston Pearce  
Chairman

Richard F. Griffin, Jr.  
General Counsel

From: David P. Berry   
Inspector General

Subject: Audit of the National Labor Relations Board Fiscal Year 2016 Financial Statements  
(OIG-F-21-17-01)

This memorandum transmits the audit report on the National Labor Relations Board (NLRB) Fiscal Year 2016 Financial Statements with management's comments.

The Accountability of Tax Dollars Act of 2002 requires the NLRB to prepare and submit to Congress and the Director of the Office of Management and Budget (OMB) annual audited financial statements. We contracted with Castro & Company, an independent public accounting firm, to audit the financial statements. The contract required that the audit be done in accordance with generally accepted government auditing standards issued by the Comptroller General of the United States and Bulletin 15-02, *Audit Requirements for Federal Financial Statements*, issued by OMB.

In connection with the contract, we reviewed Castro & Company's report 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 NLRB's financial statements or internal control or conclusions on compliance with laws and regulations. Castro & Company is responsible for the attached auditor's report dated November 3, 2016, and the conclusions expressed in the report. However, our review disclosed no instances where Castro & Company did not comply, in all material respects, with generally accepted government auditing standards.

We appreciate the courtesies and cooperation extended to Castro & Company and our staff during the audit.

## **Independent Auditor's Report**

Inspector General  
National Labor Relations Board

We have audited the accompanying balance sheets of the National Labor Relations Board (NLRB) as of September 30, 2016 and 2015 and the related statements of net cost, changes in net position, and budgetary resources for the fiscal years then ended.

### ***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 audits. 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. 15-02, *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 financial statements referred to above present fairly, in all material respects, the financial position of the NLRB as of September 30, 2016 and 2015, and the related statements of net cost, changes in net position, and budgetary resources for the years then ended in accordance with accounting principles generally accepted in the United States of America.

***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 Messages from the Chairman, General Counsel, and Chief Financial Officer, list of Board Members, Other Accompanying Information, and Appendices is presented for purposes of additional analysis and are 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. 15-02, we have also issued our reports dated November 3, 2016, 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 15-02 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, 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 3, 2016  
Alexandria, VA

## **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, 2016, and have issued our report thereon dated November 3, 2016. 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. 15-02, *Audit Requirements for Federal Financial Statements*.

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 limited our internal control testing to those controls necessary to achieve the objectives described in the Office of Management and Budget (OMB) Bulletin No. 15-02, *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.

Our consideration of internal control over financial reporting was for the limited purposes described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies.

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. During our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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. We consider the deficiencies described below to be significant deficiencies.

The NLRB's response to the findings identified in our audit is described in the accompanying Audit Response Letter. The NLRB's response was not subject to auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

We noted less significant matters involving internal control and its operations which we have reported to NLRB management in a separate letter dated November 3, 2016.

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 3, 2016

Alexandria, VA

## SIGNIFICANT DEFICIENCIES

### **I. Insufficient Finance Resources and/or Personnel with Appropriate Skill Sets and Quality Control Procedures Caused Financial Reporting and Accounting Discrepancies**

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

During our testing of the NLRB's financial statement preparation and the supporting accounting transactions, we noted that improvement is needed to ensure that the 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 accounting system. These errors occurred because of ineffective and/or inconsistent management reviews and approvals to provide assurance that transactions and adjustments were accurate and properly supported. NLRB management made the necessary adjustments to the final issued financial statements to correct the effect of these errors.

During our review of the NLRB's financial statement preparation process, we identified certain issues that impact the NLRB's ability to effectively accumulate, assemble, and analyze information presented in its financial statements in accordance with applicable guidance. The Finance Branch did not have sufficient adequate resources and personnel with appropriate skill sets and expertise to perform financial management accounting and reporting. During the course of our audit, it was not apparent that the NLRB had a process in place to cross-train personnel to perform day-to-day financial accounting, reporting, and analysis tasks, and to ensure adequate backup existed. Additionally, the Finance Branch did not have sufficient quality control procedures in place to detect certain financial reporting and accounting errors until brought to their attention by the auditors. Examples of the financial reporting and accounting errors noted include the following:

#### **Financial Reporting**

NLRB does not have sufficient 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 and Federal Accounting Standards requirements, including the following:

- The Finance Branch recorded an approximately \$400,000 journal voucher in October 2016 related to deobligating Fiscal Year (FY) 2016 obligations that: had a voucher processed for the expense, but the entire travel obligation was not liquidated; the travel obligation was approved prior to June 30, 2016, but no disbursements related to the travel obligation were processed; and funds for that were obligated for expenses related to the NLRB's fleet

vehicles that had not been expensed. If NLRB had been performing on-going monitoring and quarterly deobligation reviews throughout the fiscal year, those funds could have been made available earlier in the fiscal year for other critical agency needs prior to their expiration.

- Incorrect amounts were reported in the financial statements. For example, on the June 30th Statement of Changes in Net Position, the total for Net Cost of Operations for FY 2015 should have been (\$207,650,952) and not positive \$207,650,952.
- Amounts on the financial statements did not match amounts in the notes to the financial statements.
- Beginning balance amounts on the financial statements did not match ending balances from the prior year.
- Incorrect names were used for line items on the financial statements, including not incorporating changes from the October 7, 2016 update of OMB Circular A-136.

### **Property, Plant & Equipment**

During our interim testing of the Property, Plant, and Equipment (PP&E) balances as of June 30, 2016, we noted issues related to incorrectly recorded capitalized equipment and improper review and authorization of equipment disposals, including the following:

- The NLRB incorrectly overstated furniture assets by approximately \$430,000. These assets were previously capitalized as part of the GSA Headquarters building construction contract in FY 2015. The Finance Branch recorded the assets in the accounting records a second time with a Journal Voucher, rather than simply adding the individual asset items to Oracle Fixed Asset Module. Recording the assets a second time overstated the equipment, depreciation, and accumulated depreciation balances as of June 30, 2016.
- The NLRB incorrectly retired an asset with a book value of approximately \$22,000. The Facilities and Property Branch conducted an inventory in April 2016 and determined that the asset, with an original cost of approximately \$108,000, could not be found. The lost asset was reported to the Finance Branch, which then retired the asset in May 2016. The loss of the asset was not reported to the Office of Inspector General or senior level management officials. After receiving follow-up questions from the auditor, the asset was located at an off-site warehouse.

The NLRB does not have a properly implemented process for recording the acquisition and retirement of capitalized assets, or documented procedures over its process for reporting "lost" or "not found" capitalized equipment. Finance Branch personnel are approving and recording PP&E transactions in the financial system without properly reviewing or analyzing the provided supporting documentation.

By not performing detailed management reviews to ensure that PP&E assets are properly recorded, capitalized and disposed of, the NLRB increases the risk that the PP&E balance on the financial statements can present inaccurate, misleading and/or inconsistent information. Additionally, because

the NLRB does not have documented procedures for the proper disposal and reporting of lost capitalized assets, NLRB management is unable to properly safeguard its assets to prevent, detect, and correct unauthorized acquisitions and disposals of the NLRB's assets. All the PP&E errors that we brought to management's attention were subsequently corrected; however, appropriate supporting procedures still need to be developed and disseminated.

### **Backpay**

During our interim testing of the Backpay balance as of June 30, 2016, we performed a review of the Other Liabilities General Ledger account used to record fiduciary funds collected by the NLRB and held in escrow accounts with the Treasury. Backpay funds administered by the NLRB are used to provide a remedy to a discriminatee(s) when a violation of the National Labor Relations Act results in a monetary loss to a discriminatee(s) due to an unfair labor practice. The Backpay funds that are held by the NLRB are received from a charged party/respondent. The Finance Branch disburses the Backpay funds when directed to do so by a Regional Office.

As part of the Backpay interim testing, we obtained the detail listing of Backpay disbursements and selected a sample of 45 payments made during the period of October 1, 2015 through June 30, 2016. The purpose of our testing was to assess management controls and compliance with NLRB policies and procedures as well as applicable laws and regulations relative to Backpay disbursement transactions. We noted the following conditions:

- NLRB did not consistently follow its policies and procedures to evidence proper review and approval of Backpay disbursement requests: Specifically, we noted that:
  - For five (5) sample disbursements, the signed Case Settlement Agreement was not maintained on file and the Finance Branch, instead, processed the payments using the published Board Order as evidence of approval.
  - For four (4) sample disbursements, the Disbursement Request Forms were missing the appropriate approval signatures and the Finance Branch, instead, processed payment using an email as evidence of review.
  - For one (1) sample disbursement, the Recipient Information Form was missing the approval signature from the Compliance Officer.
- For each of the ten (10) Backpay cases tested, we observed that the final settlement documents were not executed in a manner that would prevent alterations.

The NLRB did not consistently follow its policies and procedures to maintain files for Backpay disbursement requests and settlement agreement documentation that were complete and properly approved. Additionally, the NLRB did not have policies and procedures to ensure the integrity and authenticity of final case settlement documents. The establishment of written, formal policies and procedures are critical to provide assurance 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 processing Backpay transactions.



The Government Accountability Office'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.

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

Internal control comprises the plans, methods, policies, and procedures used to fulfill the mission, strategic plan, goals, and objectives of the entity. Internal control serves as the first line of defense in safeguarding assets. In short, internal control helps managers achieve desired results through effective stewardship of public resources.

Management establishes physical control to secure and safeguard vulnerable assets. Examples include security for and limited access to assets such as cash, securities, inventories, and equipment that might be vulnerable to risk of loss or unauthorized use. Management periodically counts and compares such assets to control records.

Section I.A. of Office of Management and Budget Circular No. A-123, *Management's Responsibility for Internal Control*, states:

The control environment is the organizational structure and culture created by management and employees to sustain organizational support for effective internal control. When designing, evaluating or modifying the organizational structure, management must clearly demonstrate its commitment to competence in the workplace. Within the organizational structure, management must clearly: define areas of authority and responsibility; appropriately delegate the authority and responsibility throughout the agency; establish a suitable hierarchy for reporting; support appropriate human capital policies for hiring, training, evaluating, counseling, advancing, compensating and disciplining personnel; and uphold the need for personnel to possess and maintain the proper knowledge and skills to perform their assigned duties as well as understand the importance of maintaining effective internal control within the organization.

NLRB's *Casehandling Manual, Part Three, Compliance Proceedings*, Sections 10582.1 and 10582.2, states:

The Region should request disbursement of money held in an escrow account by submitting a Finance Branch Request to Disbursement Form with appropriate confirmations, a completed OCFO Recipient Information Form (or documentation with the same information) for each discriminatee and an Excel spreadsheet.

No backpay disbursements will be processed unless the requirements in Section 10582.1 are met.

Without adequate staffing levels, the proper skill sets, and cross-training, 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, and oversight, discrepancies may exist but go undetected and uncorrected, thereby causing the financial information to be misstated. Effective management oversight greatly increases the NLRB's ability to proactively identify and resolve issues that could result in misstatements in financial accounting and reporting records.

**Recommendations:**

We recommend that NLRB management:

1. Perform an assessment of its organizational structure to ensure that the Office of the Chief Financial Officer is adequately staffed with individuals that possess adequate experience compiling Federal financial statements and recording Federal accounting transactions, to enhance the NLRB's ability to comply with accounting and financial reporting standards. Once the assessment is completed, corrective action should be taken to address any deficiencies identified in current staffing levels or competencies.
2. Develop and provide on-going training and cross-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.

3. Develop a process for in-depth and detailed management quality control reviews of the financial statements and notes, journal vouchers, and accounting transactions to ensure they are properly and timely reported and recorded.
4. Ensure deobligation reviews are performed and documented throughout the fiscal year for all classes of transactions, including those related to travel obligations.
5. Ensure that all assets are properly recorded in the subsidiary ledger and related accounting records and depreciated in a manner that properly reflects asset, contra-asset, and expense balances.
6. Develop and implement a process to enter and track all property equipment in the Oracle Fixed Asset Module.
7. Develop and implement standardized policies and procedures to ensure accountability, monitoring, and oversight of the PP&E disposals and lost capitalized equipment, including notification to the Office of Inspector General for lost equipment.
8. Define authorities and responsible parties for managing all capitalized assets to maintain physical control in securing and safeguarding NLRB assets.
9. Review, implement, and monitor control activities related to processing Backpay transactions to ensure that policies and procedures are consistently followed.
10. Review the Casehandling Manual and establish and implement procedures to ensure accuracy and authenticity of case agreement documents.

## II. Inadequate Controls over Undelivered Orders, Accounts Payable, and Expenditures

We continued to note issues related to the validity of Undelivered Orders (UDO) balances, primarily due to the recording of incorrect accruals. During our testing, we noted several issues surrounding the accounting for UDOs, Accounts Payable (AP), and expenditures, as summarized below:

- The results of our interim testing identified exceptions in 8 of the 26 transactions tested. We noted the following conditions:
  - Five (5) under-accruals were recorded, which understated the AP balance and overstated the UDO balance as of June 30, 2016 by approximately \$578,000. For three (3) transactions, the NLRB did not properly recognize an accrual for the entire period for which services were received. For one (1) other transaction, an incorrect formula was used to calculate the accrual amount. For one (1) additional transaction, the NLRB did not recognize an accrual for relocation services received for the Chicago Regional Office even though relocation was 100 percent complete as of June 30, 2016.
  - Three (3) over-accruals were recorded, which overstated the AP balance and understated the UDO balance as of June 30, 2016 by approximately \$337,000. For two (2) transactions, the NLRB recorded an accrual for services where invoices were received subsequent to the accrual calculation and recognized in the general ledger but were not adjusted. For one (1) other transactions, the NLRB recorded an accrual for estimated travel expenses not yet incurred when travel dates were estimated for July 2016.
- We noted instances where improvements are needed in contract administration. During FY 2016, the NLRB operated under a series of Continuing Resolutions until an Omnibus Appropriations Act was approved to provide funding from December 22, 2015, through the end of the fiscal year. We noted two instances where FY 2016 obligations incurred during the period covered by a Continuing Resolution were recorded in increments, rather than being recorded for the full amount of the obligation that was incurred. We also observed that the NLRB contracting officers created obligations of the appropriated funds without full budgetary authority and then recorded the obligations as funds were apportioned. As a result, the NLRB did not record obligations in a timely manner, and the NLRB's accounts did not accurately state the amount of available funds, nor did the accounts accurately record the amount of UDOs. Without an accurate record of the funds that have been obligated, the NLRB is at risk of exceeding the funds that have been appropriated and apportioned.

The Government Accountability Office's *Standards for Internal Control in the Federal Government* states,

Internal control comprises the plans, methods, policies, and procedures used to fulfill the mission, strategic plan, goals, and objectives of the entity. Internal control serves as the first line of defense in safeguarding assets. In short, internal control helps managers achieve desired results through effective stewardship of public resources.

Management performs ongoing monitoring of the design and operating effectiveness of the internal control system as part of the normal course of operations. Ongoing monitoring includes regular management and supervisory activities, comparisons, reconciliations, and other routine actions. Ongoing monitoring may include automated tools, which can increase objectivity and efficiency by electronically compiling evaluations of controls and transactions.

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

Transactions are promptly recorded to maintain their relevance and value to management in controlling operations and making decisions. This applies to the entire process or life cycle of a transaction or event from its initiation and authorization through its final classification in summary records. In addition, management designs control activities so that all transactions are completely and accurately recorded.

Management clearly documents internal control and all transactions and other significant events in a manner that allows the documentation to be readily available for examination. The documentation may appear in management directives, administrative policies, or operating manuals, in either paper or electronic form. Documentation and records are properly managed and maintained.

Statement of Federal Financial Accounting Standards (SFFAS) No. 1, *Accounting for Selected Assets and Liabilities*, states,

Accounts payable are amounts owed by a Federal entity for goods and services received from, progress in contract performance made by, and rents due to other entities...When an entity accepts title to goods, whether the goods are delivered or in transit, the entity should recognize a liability for the unpaid amount of the goods. If invoices for those goods are not available when financial statements are prepared, the amounts owed should be estimated.

31 U.S.C. § 1341 states, in part, that employee of the United States Government may not make or authorize an obligation exceeding an amount available in an appropriation for the obligation.

31 U.S.C. § 1507 states, in part, that an employee of the United States Government may not make or authorize an obligation exceeding an apportionment.

31 U.S.C. § 1501 (a)(1) states, in part, that an amount shall be recorded as an obligation of the United States Government only when supported by documentary evidence of a binding agreement between the agency and another person, including an agency, that is in writing and executed before the end of the period of availability of the funds.

The NLRB did not perform a detailed review of open obligations throughout the majority of the fiscal year to ensure accrual estimates were accurate and complete, including going back after initial accruals were calculated to verify if the amount was still correct. Not performing an accurate review

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

**Recommendations:**

11. Our testing results confirmed that not all of our FY 2014 audit recommendations have been properly implemented; therefore, new recommendations are not deemed necessary at this time for those matters included in the prior reports.
12. Additionally, for the issue involving recording obligations incrementally, instead of as they are incurred, we recommend that the Chief Financial Officer develop a process and guidelines to ensure that:
  - The procurement documents accurately state the obligation that is created; and
  - The entire amount of an obligation is recorded in the financial system when it is incurred.

**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, 2016, and have issued our report thereon dated November 3, 2016. 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. 15-02, *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. 15-02, *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, 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 3, 2016  
Alexandria, VA

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



November 2, 2016

**TO:** David P. Berry, Inspector General

**FROM:** Mehul Parekh, Chief Financial Officer

**SUBJECT:** Response to the Audit of the National Labor Relations Board Fiscal Year 2016 Financial Statements

We have reviewed the subject report and concur with the factual findings and recommendations. We 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, 2016.

The Office of the Chief Financial Officer (OCFO) continues to document processes and is implementing strategies to measure, manage, and mitigate risk by improving internal controls. Below is our response to the auditor's specific recommendations. A management action plan will be developed to track the progress on these recommendations.

- The OCFO will conduct an assessment of its organizational structure to ensure we have adequate resources and training to record accurate financial transactions and prepare and review financial reports, in order to enhance the NLRB's ability to comply with financial accounting and reporting standards.
- The OCFO has established a quarterly accrual methodology, and will continue to document processes and improve accuracy and timeliness of reporting obligation and accounts payable balances.
- The OCFO will collaborate with Agency stakeholders and identify responsible parties to develop, document, implement and monitor procedures for tracking, recording in the system of record, and disposing of property and equipment.
- The OCFO will review and clarify existing procedures for the Backpay disbursement process to ensure monitoring and control protocols are effective, and documentation is accurate and secured.
- The OCFO will develop a policy to ensure that contracts contain adequate terms related to funding amounts and will obligate contracts accordingly.

A handwritten signature in black ink that reads "Mehul Parekh".

Mehul Parekh, Chief Financial Officer