UNITED STATES GOVERNMENT
National Labor Relations Board
Office of Inspector General

Audit of the NLRB Fiscal Year 2004 Financial Statements

Report No. OIG-F-9-05-01

December 2004

INSPECTOR GENERAL

NATIONAL LABOR RELATIONS BOARD

WASHINGTON, DC 20570

December 22, 2004

I hereby submit the *Audit of the National Labor Relations Board's* (NLRB) *Fiscal Year* (FY) *2004 Financial Statements*, Report No. OIG-F-9-05-01. The audit was required by the Accountability of Tax Dollars Act of 2002. On November 8, 2004, we transmitted CBTC's audit opinion, which was included in the Agency's FY 2004 Performance and Accountability Report. This document is the OIG's comprehensive report on our efforts related to auditing the Agency's financial statements and includes the audit report, management letter, NLRB's financial statements and related notes, and management's response to both the audit report and management letter.

The Accountability of Tax Dollars Act requires NLRB to prepare and submit to the Congress and the Director of the Office of Management and Budget an audited financial statement. We contracted with Carmichael, Brasher, Tuvell & Co (CBTC) to perform the audit. The objectives of the audit were to issue an opinion on the fairness of the financial statements, obtain an understanding of the Agency's internal control, and test compliance with laws and regulations that could have a direct and material effect on the financial statements.

The audit was conducted by CBTC in accordance with Government Auditing Standards issued by the Comptroller General of the United States and Office of Management and Budget Bulletin No. 01-02, Audit Requirements for Federal Financial Statements. The audit results were:

- The financial statements present fairly, in all material respects, the financial condition and activity of the NLRB as of and for the year ending September 30, 2004.

- No material weaknesses in controls over financial reporting were identified.

- One reportable condition involving information technology security controls was identified. This involved nonconformance with Government-wide polices regarding intrusion detection, disaster recovery, software libraries, and the Privacy Act.

- No instances of non-compliance with laws and regulations that are required to be reported under Government Auditing Standards or OMB Bulletin 01-02 were identified.

A management letter included on page 6 of this report identified five other areas in which management could improve controls or operating effectiveness. These included monitoring backpay balances, reviewing undelivered orders, implementing the plan to migrate the Regional Office Budget System to the Agency's comprehensive financial management system, developing and implementing internal procedures for people to challenge debt owed the Agency, and implementing prior year recommendations.

CBTC's independent auditors' report included one recommendation for improving information technology security and CBTC's management letter contained four additional recommendations. The management letter also provided additional information on the status of open recommendations made in a prior report.

The Director of Administration agreed with the findings and recommendation made in the audit report and she and the Division of Operations-Management Associate General Counsel agreed with the findings and recommendations made in the management letter. Comments on the audit report and management letter are presented in their entirety as appendixes to the report.

Jane E. Altenhofen

Jane E. Altenhofen
Inspector General

TABLE OF CONTENTS

INDEPENDENT AUDITORS' REPORT

To Jane E. Altenhofen, Inspector General
National Labor Relations Board

The Accountability of Tax Dollars Act of 2002 made the National Labor Relations Board (NLRB) subject to the annual financial statement reporting requirements of the Chief Financial Officers Act of 1990 which requires agencies to report annually to Congress on their financial status and any other information needed to fairly present the agencies' financial position and results of operations.

The objectives of the audit are to express an opinion on the fair presentation of NLRB's principal financial statements, obtain an understanding of the Agency's internal control, and test compliance with laws and regulations that could have a direct and material effect on the financial statements.

We have audited the consolidated balance sheet of the NLRB as of September 30, 2004, and the related consolidated statements of net cost, changes in net position, statement of financing, and the combined statement of budgetary resources for the year then ended. These financial statements are the responsibility of NLRB's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of NLRB as of and for the year ending September 30, 2003 were prepared by NLRB's management. Management has restated the September 30, 2003 financial statements to be in conformity with accounting principles generally accepted in the United States of America. We have not audited the September 30, 2003 financial statements and, accordingly, do not express an opinion or any other form of assurance on them.

We conducted our audit in accordance with 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. 01-02, *Audit Requirements for Federal Financial Statements*. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

OPINION ON FINANCIAL STATEMENTS

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities, and net position of the NLRB, as of September 30, 2004, and the net cost, changes in net position, budgetary resources, reconciliation of net cost to budgetary resources and financing for the year then ended in conformity with accounting principles generally accepted in the United States of America.

REPORT ON INTERNAL CONTROL

In planning and performing our audit, we considered the NLRB's internal control over financial reporting by obtaining an understanding of the Agency's internal controls, determined whether internal controls had been placed in operation, assessed control risk, and performed tests of controls in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements. We limited our internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin No. 01-02. 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. The objective of our audit was not to provide assurance on internal control. Consequently, we do not provide an opinion on internal control.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be reportable conditions. Under standards issued by the American Institute of Certified Public Accountants, reportable conditions are matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect the agency's ability to record, process, summarize, and report financial data consistent with the assertions by management in the financial statements. Material weaknesses are reportable conditions in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that material misstatements in relation to the audited financial statements may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Because of inherent limitations in internal controls, misstatements, losses, or noncompliance may nevertheless occur and not be detected. We noted no matters involving the internal control and its operation that we considered to be material weaknesses as defined above. However, we noted a matter involving the internal control and its operation that we consider to be a reportable condition included as Exhibit A.

We considered the NLRB's internal control over Required Supplementary Information (RSI) by obtaining an understanding of the agency's internal control, determining whether these internal controls had been placed in operation, assessing control risk, and performing tests of controls as required by OMB Bulletin No. 01-02. The objective of our audit was not to provide assurance on these internal controls. Accordingly, we do not provide an opinion on such controls. With respect to internal control related to performance measures reported in the Management Discussion and Analysis (MD&A) section of the Performance and Accountability Report, we obtained an understanding of the design of significant internal controls relating to the existence and completeness assertions, and determined whether these internal controls had been placed in operation as required by OMB Bulletin No. 01-02. Our procedures were not designed to provide assurance on internal control over reported performance measures, and, accordingly, we do not provide an opinion on such controls.

We noted certain other matters involving internal control and its operations that came to our attention, which we will report to management of NLRB in a separate letter.

REPORT ON COMPLIANCE WITH LAWS AND REGULATIONS

The management of the NLRB is responsible for complying with laws and regulations applicable to the agency. As part of obtaining reasonable assurance about whether the agency's financial statements are free of material misstatement, 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 OMB Bulletin No. 01-02, including the requirements referred to in the Federal Financial Management Improvement Act of 1996 (FFMIA). We limited our tests of compliance to these provisions and we did not test compliance with all laws and regulations applicable to the NLRB.

The results of our tests of compliance with the laws and regulations discussed in the preceding paragraph disclosed no instances of non-compliance with laws and regulations that are required to be reported under *Government Auditing Standards* or OMB Bulletin No.01-02.

Providing an opinion on compliance with laws and regulations was not an objective of our audit and, accordingly, we do not express such an opinion.

REPORT ON COMPLIANCE WITH THE FEDERAL FINANCIAL MANAGEMENT IMPROVEMENT ACT OF 1996 (FFMIA)

We have examined the NLRB's compliance with the requirements of FFMIA as of September 30, 2004. These requirements include implementing and maintaining financial management systems that substantially comply with the Federal financial management systems requirements, applicable Federal accounting standards, and the United States Government Standard General Ledger at the transaction level. Management is responsible for the NLRB's compliance with these requirements. Our responsibility is to report whether the Agency's financial management systems substantially comply with these requirements.

Our examination was conducted in accordance with the attestation standards established by the American Institute of Certified Public Accountants; Government Auditing Standards, issued by the Comptroller General of the United States; and the *Audit Requirements for Federal Financial Statements* contained in OMB Bulletin No. 01-02. These standards include examining on a test basis, evidence about the NLRB's compliance with those requirements, including FFMIA Section 803(a) requirements, and performing such other procedures as we considered necessary in the circumstances. Our examination does not provide a legal determination on the NLRB's compliance with specified requirements. The results of our tests of compliance with FFMIA disclosed no instances in which NLRB's financial management systems did not substantially comply with Federal financial management system requirements, applicable Federal accounting standards, or the United States Government Standard General Ledger at the transaction level.

OTHER ACCOMPANYING INFORMATION

Our audit was conducted for the purpose of forming an opinion on the financial statements of NLRB taken as a whole. The accompanying financial information is not a required part of the financial statements.

The other accompanying information included in the MD&A and RSI sections of the Performance and Accountability Report are required by the Federal Accounting Standards Advisory Board and OMB Bulletin No. 01-09, *Form and Content of Agency Financial Statements*. We have applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the information. We did not audit the other accompanying information and, accordingly, do not express an opinion or any other form of assurance on it.

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

CARMICHAEL, BRASHER, TUVELL & COMPANY, P.C.

Carmichael, Brasher, Tuvell + Co., P.C.

Atlanta, Georgia
November 1, 2004

Exhibit A

CURRENT YEAR REPORTABLE CONDITION

Information Technology

Federal information systems are required to conform to standards set forth by both the Office of Management and Budget and the National Institutes of Science and Technology (NIST). NIST Special Publication 800 establishes many of the minimum information systems requirements for Federal agencies. Certain conditions related to NLRB's information technology function were identified that could adversely impact the agency's ability to accumulate, process and report information critical to NLRB's mission and programs. The following general conditions were noted:

1. Lack of a completed intrusion-detection and response program
2. Disaster recovery plan has not yet been implemented
3. Library for internally-developed software related to Backpay is not maintained
4. A systematic policy has not been implemented relating to the storage, retrievability, retention, and disposal of Privacy Act information

The specifics of the findings have been presented to management. NLRB is actively working to remediate these conditions.

Recommendation

We recommend that the Acting Chief Information Officer implement the following controls to assure compliance with NIST standards:

1. An intrusion-detection and response program
2. A disaster recovery plan
3. A library for internally-developed software related to Backpay
4. A systematic policy for the storage, retrievability, retention, and disposal of Privacy Act information

Management's Response

We are in agreement with these recommendations. The NLRB's Office of Information Technology has submitted to the Office of Management and Budget (OMB) reports which reflect the Agency's plan to complete in Fiscal Year 2005 the installation of an intrusion-detection and response program; implementation of a disaster recovery plan for the Agency's local area networks and wide area network (LAN/WAN); development of a documentation library for the NLRB's internally-developed software that handles the processing of backpay funds; and development of the appropriate policies to store, retrieve, retain, and dispose of Privacy Act information. The Agency's progress in implementing these items will be tracked and reported on a quarterly basis to OMB as required by the Federal Information Security Management Act. The Inspector General will be provided reports as well.

Carmichael
Brasher, Tuvell
CERTIFIED PUBLIC ACCOUNTANTS & Company

MANAGEMENT LETTER

To Jane Altenhofen, Inspector General
National Labor Relations Board

We have audited the financial statements (consolidated balance sheet, and the related statements of net cost, changes in net position, financing and combined statement of budgetary resources, hereinafter referred to as "financial statements") of the National Labor Relations Board (NLRB) as of and for the year ended September 30, 2004, and have issued an unqualified opinion thereon dated November 1, 2004. In planning and performing our audit of the financial statements of the NLRB, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure. We have not considered the internal control structure since the date of our report.

During our audit, we noted certain matters involving the internal control structure and other operational matters that are presented in this report for your consideration. These issues and recommendations, all of which have been discussed with the appropriate members of NLRB's management, are intended to improve the internal control structure or result in other operating efficiencies. Management agreed with our findings and recommendations and has already initiated corrective action on most items.

This report is intended for the information and use of the management of the National Labor Relations Board (NLRB), the Office of Inspector General of the NLRB, the Office of Management and Budget (OMB), the General Accountability Office (GAO), and Congress, and is not intended to be and should not be used by anyone other than those specified parties.

CARMICHAEL BRASHER TUVELL & COMPANY

Carmichael, Brasher, Tuvell + Co., P.C.

November 1, 2004

National Labor Relations Board
Management Letter
Fiscal Year 2004 Financial Audit

#1 – Backpay Controls

Condition
Balances remain on deposit with NLRB for Backpay cases with original disbursement dates as far back as 1986. Some previously disbursed cases had little or no activity in Fiscal Year (FY) 2004. For example, two cases were observed during Regional Office testing with balances outstanding of $36,332 and $58,554, respectively, showing no activity during the fiscal year.

Cause
Written policies and procedures are not in place within the Finance Branch to notify the Division of Operations-Management (Operations-Management) when amounts remain on deposit without activity.

Effect
Backpay collected from employers may not be timely disbursed to discriminatees, respondents, or transferred to the Treasury Miscellaneous Receipts account in accordance with the requirements of case law.

Criteria
GAO's *Standards for Internal Control in the Federal Government*, AIMD-00-21.3.1 (11/99), states that "Internal control should provide reasonable assurance that the objectives of the agency are being achieved ... internal control ... should appear in management directives, administrative policies, or operating manuals..." The standards also require agencies to provide "ongoing monitoring" during the normal course of operations and call for "reconciliations" as a regular control activity.

The NLRB Casehandling Manual, Part III, Compliance Proceedings, Section 10646, Extinguishment of Backpay Entitlement for discriminatees Missing After a 1-Year Period requires that "[a]bsent compelling circumstances, if a discriminatee is not located within 1 year of the date that backpay is deposited in escrow or within 1 year from the date a Board order becomes final, whichever is later, the escrow amount shall be returned to the respondent and the discriminatees backpay entitlement shall expire." The manual and case law also allow for, under certain circumstances, such amounts to be redistributed to other discriminatees or transferred to the U.S. Treasury.

Recommendation
The Finance Branch Chief, in coordination with the Operations-Management Associate General Counsel, should establish written policies and procedures for the review of Backpay case balances and notification to Operations-Management of amounts held on deposit for more than 1 year.

Management Response
We agree with this recommendation. Currently, the Finance Branch is drafting standard operating procedures to cover the review of backpay cases and has already developed and sent a report to those Field offices that have backpay funds on deposit for more than one year.

#2 – Undelivered Orders

Condition
Twenty-three of the 40 unexpended obligations tested that were older than 1 year were no longer valid. The planned purchases for which these obligations were made had been cancelled and the amounts should have been reclassified from general ledger account 4801, Undelivered Orders, to account 4871, Downward Adjustments of Prior Year Unpaid Undelivered Orders.

Cause
Unexpended obligations are not routinely reviewed by allowance-holders to identify obligations that are no longer valid. The Finance Branch does not have policies or procedures that provide for regular review of unexpended obligations.

Effect
The unexpended obligations, which totaled $36,275, could have been funds available for offset of upward adjustments to prior year obligations. Had these balances been reviewed prior to year-end, some amounts may have been available for reobligation in the current year.

Criteria
The Standards for Internal Control in the Federal Government state that "transactions should be 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 the initiation and authorization through its final classification in summary records. In addition, control activities help to ensure that all transactions are completely and accurately recorded."

Recommendation
The Finance Branch Chief should establish and implement written procedures for review of undelivered orders.

Management Response
We agree with this recommendation. The Finance Branch Chief currently meets with the allowance holders on a quarterly basis and verbally reminds them to look at their reports and deobligate any undelivered orders. This reminder will now be provided in writing rather than verbally at the quarterly meetings.

#3 – Integration of Regional Office Budget System and Momentum

Condition
Differences frequently occur between the Regional Office transactions recorded in the Regional Office Budgetary System (ROBS) and the corresponding transactions recorded in NLRB's primary financial system, Momentum.

Cause
ROBS is not completely integrated with Momentum. The specific account differences occur for several reasons. Some Regional Office invoices are first recorded by Finance and then, later, by the Regional Office, resulting a timing difference. Posting differences can occur at either the Regional Offices or in Momentum. If a Regional Office incorrectly codes an entry, it will not post correctly to Momentum. Also, Momentum cannot update the ROBS data. Thus, if an invoice for a Regional Office is received first in the Finance Branch, it will be recorded as an expenditure in Momentum, but not in ROBS. The Finance Branch has plans to integrate ROBS into Momentum by the end of FY 2005.

Effect
A considerable amount of Finance Branch staff time is spent verifying, correcting and reconciling ROBS data to Momentum. The monthly reconciliation process is cumbersome and unnecessary given the capabilities of the new Momentum financial system.

Criteria
OMB Circular A-127 prescribes minimum financial system requirements for federal agencies. The Circular states, "[f]inancial management systems shall be designed to provide for effective and efficient interrelationships between software, hardware, personnel, procedures, controls, and data contained within the systems." In doing so, they shall "...eliminate unnecessary duplication of transaction entry...."

Recommendation
The Finance Branch should implement its plan to migrate ROBS to Momentum by the end of FY 2005.

Management Response
We agree with the recommendation. The Finance Branch will continue with its current plan to migrate ROBS to Momentum by the end of FY 2005.

#4 – Debt Collection

Condition

The Finance Branch has pursued debt collection although internal procedures have not been established for debtors to challenge debt. The Finance Branch Chief and Director of Administration have resolved debt although NLRB does not have regulations or delegations of authority providing them authorization to compromise or write-off debt.

Cause

The Finance Branch Chief and Director of Administration were notified by Office of Inspector General reports OIG-INS-17-02-01 and OIG-IA-04-03 that procedures and regulations are needed to provide for an appropriate debtor appeals and resolution process. Although regulations were drafted in July 2004, the draft was not referred to the NLRB Rules Committee for review, published in the Federal Register, or issued. The Finance Branch Chief has not drafted internal guidance for challenging debt.

Effect

The lack of internal operating instructions for processing debtor challenges to Agency claims for payment could result in improper or unfair treatment of debtors under the Debt Collection Improvement Act. The lack of regulations or delegations of authority for debt compromise could result in inefficient operations, with the Agency Chairman or General Counsel having to dedicate time to approve the write-off.

Criteria

The Debt Collection Improvement Act, P.L. 104-134, requires agencies to aggressively pursue debt collection, but also "[t]o ensure that debtors have all appropriate due process rights, including the ability to verify, challenge, and compromise claims, and access to administrative appeals procedures...." NLRB has procedures codified at 29 CFR 102.156 through 102.167 for administrative offset to accomplish debt collection. Section 102.160 prescribes that "[t]he Agency shall provide appropriate written or other guidance to Agency officials in carrying out this subpart, including the issuance of guidelines and instructions..."

Title 31 U.S.C. §3711, Collection and Compromise, provides that the head of an executive agency may compromise a claim of the U.S. Government of not more than $100,000. Under the Federal Claims Collection Act, P.L. 89-508, the head of the agency is authorized to delegate this authority to NLRB personnel.

Recommendation
The Finance Branch Chief, in coordination with the Director of Administration, should develop and implement internal procedures for debtors to challenge debt, including designating a hearing officer. The Director of Administration, in coordination with the

Chairman and General Counsel, should establish regulations and delegations of authority for compromising or terminating actions for the collection of debt.

Management Response
We agree with this recommendation. We have drafted regulations covering debt collection for publication in the Federal Register and will develop internal procedures that will allow debtors to challenge debt, including designating a hearing officer. Also, the delegation of authority to the Director of Administration to waive, compromise, discharge, suspend or terminate collection action on claims and debts owed the NLRB has been updated. This authority cannot be re-delegated by the Finance Officer or the Director of Human Resources.

#5 – Prior Year Recommendations

Condition
NLRB has not completed actions on 6 of the 11 prior year recommendations in report OIG-AMR-40-03-03, Information Security Review of New Automated Systems, dated September 22, 2003. Two of these open recommendations were discussed as reportable conditions in the FY 2004 Independent Auditors Report on Internal Controls, dated November 1, 2004. Actions are also needed on the remaining 4 recommendations for NLRB to meet Office of Management and Budget Circular A-123, Management accountability and Control, and A-127, Financial Management Systems, internal control requirements. The recommendations, with their original report number, follow:

3a. Review and reassign the security functions for the NBC Systems among the users in the Branches that utilize the NBC Systems to ensure that users do not have incompatible duties. These security functions include changes to user profiles and review of audit trails or log reports relating to user profile changes.

3b. Develop procedures that NBC will be notified, by someone other than Finance Branch personnel, as to the persons designated to make changes to the systems. The changes to user profiles should be performed based on a written, documented procedure.

5. Establish policies and procedures to document the Regional Office's review and authorization of invoices or other documents for payment to include verification of validity of amounts charged, mathematical accuracy, comparison of amounts presented to contract amounts and receipt of services.

11. Provide and track Information Technology systems security education and training to Systems Administrators and/or SPOCs, as appropriate, within each Branch using the NBC Systems.

Management Response
When the audit report was issued in connection with this audit, we agreed to implement all of the recommendations listed above and have provided the Inspector General with quarterly updates on our progress in implementing these recommendations. The next quarterly update is due on December 16.

With respect to recommendation 3a., IT Security, in coordination with the Finance Officer, reviewed and reassigned the security functions to ensure appropriate assignment of functions. This task has been completed. However, IT Security and the Finance Officer are still working to find a solution so that changes to user profiles, etc., are reviewed by IT Security.

Regarding recommendation 3b, IT Security will develop procedures that NBC be notified by someone other than Finance Branch personnel as to the individuals designated to make changes to the NBC systems.

In relation to recommendation #5, the Finance Officer has drafted instructions for the office managers to assist them in reviewing and verifying those invoices that are received in the Field Offices. They will be included in an article for the December issue of the Office Managers' Alert, which is distributed to all office managers. The instructions drafted by the Finance Officer will cover those occasional invoices that are received by a Field Office in connection with other services.

For recommendation #11, IT Security, in the original action plan, had agreed to review the current list of SPOCs (Security Points of Contact) to determine who should be considered for IT security administration training. This has been completed and four SPOCs have been identified – two for the Federal Payroll and Personnel System (FPPS) and two for Momentum. This is a significant reduction from the number of SPOCs originally identified for the NBC systems. In our comments to the draft audit report, we did inform the Inspector General that the SPOCs for the Federal Payroll Personnel System (FPPS) were never delegated SPOC duties because it was determined after the conversion that the three FPPS System Administrators (one who has since retired) would continue to perform these functions as they had during the conversion. No current or future IT Security training will be required for those individuals initially designated as SPOCs for the FPPS system. However, the four identified SPOCs will receive IT security administration training.

National Labor Relations Board

Consolidated Balance Sheet

As of September 30, 2004 and September 30, 2003 *(In Dollars)*

	2004	2003 (Unaudited)
Assets		
Intragovernmental		
Fund Balance with Treasury (Note 2)	$ 22,835,385	$ 23,635,413
Investments, Net (Note 4)	4,987,094	15,390,038
Advances To Others (Note 5)	2,952	—
Total Intragovernmental	**27,825,431**	**39,025,451**
Accounts Receivable, Net (Note 3)	46,508	79,118
Advances To Others (Note 5)	4,773	—
General Property, Plant and Equipment, Net (Note 6,11)	77,519	95,135
Total Assets	**$ 27,954,231**	**$ 39,199,704**
Liabilities		
Intragovernmental		
Accounts Payable	$ —	$ 15,615
Employee Contributions and Payroll Taxes	1,007,545	618,631
FECA Liability—Unfunded (Note 8,11)	1,016,372	1,107,926
Custodial Liability	489	394
Total Intragovernmental	**2,024,406**	**1,742,566**
Accounts Payable	6,237,086	4,147,328
Estimated Future FECA Liability (Note 8,11)	1,889,307	2,116,632
Accrued Payroll and Benefits—Funded	5,418,496	4,189,688
Accrued Annual Leave (Note 8,11)	12,425,309	11,972,840
Back Pay Settlement Due to Others (Note 7,8)	7,027,695	17,767,427
Custodial Liability	163,164	294,101
Total Liabilities	**35,185,463**	**42,230,582**
Net Position		
Unexpended Appropriations	7,855,359	11,764,532
Cumulative Results of Operations (Note 11)	(15,086,591)	(14,795,410)
Total Net Position	$ (7,231,232)	$ (3,030,878)
Total Liabilities and Net Position	**$ 27,954,231**	**$ 39,199,704**

The accompanying notes are an integral part of these statements.

National Labor Relations Board

Consolidated Statement of Net Cost

For the Years Ended September 30, 2004 and September 30, 2003 *(In Dollars)*

	2004	2003 (Unaudited)
Resolve Representation Cases		
Intragovernmental Costs	$ 13,303,374	$ 10,954,554
Costs with the Public	26,559,064	27,622,268
Total Net Cost—Resolve Representation Cases	**$ 39,862,438**	**$ 38,576,822**
Resolve Unfair Labor Practices		
Intragovernmental Costs	$ 73,842,907	$ 55,530,501
Costs with the Public	148,037,264	154,738,923
Total Net Cost—Resolve Unfair Labor Practices	**$ 221,880,171**	**$ 210,269,424**
Other		
Intragovernmental Costs	$ 123,860	$ 238,483
Less: Intragovernmental Earned Revenue	123,860	238,483
Net Intragovernmental Cost	—	—
Total Net Cost—Other	—	—
Net Cost of Operations	**$ 261,742,609**	**$ 248,846,246**

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

National Labor Relations Board

Consolidated Statement of Changes in Net Position

For the Years Ended September 30, 2004 and September 30, 2003 *(In Dollars)*

	2004 Cumulative Results of Operations	2004 Unexpended Appropriations	2003 (Unaudited) Cumulative Results of Operations	2003 (Unaudited) Unexpended Appropriations
Beginning Balances	**$ (14,795,410)**	**$ 11,764,532**	**$ (14,602,100)**	**$ 10,473,389**
Budgetary Financing Sources:				
Appropriations—Received	—	244,073,000	—	238,982,000
Appropriations—Used	245,787,989	(245,787,989)	235,556,112	(235,556,112)
Other Adjustments	—	(2,194,184)	—	(2,134,745)
Other Financing Sources:				
Imputed Financing Costs	15,663,439	—	13,162,476	—
Transfers Out without Reimbursement	—	—	(65,652)	—
Total Financing Sources	**261,451,428**	**(3,909,173)**	**248,652,936**	**1,291,143**
Net Cost of Operations	**261,742,609**	—	**248,846,246**	—
Ending Balances	**$ (15,086,591)**	**$ 7,855,359**	**$ (14,795,410)**	**$ 11,764,532**

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

National Labor Relations Board

Combined Statement of Budgetary Resources

For the Years Ended September 30, 2004 and September 30, 2003 *(In Dollars)*

	2004	2003 (Unaudited)
Budgetary Resources:		
Budget Authority:		
Appropriations Received	$ 244,073,000	$ 238,982,000
Unobligated Balance:		
Beginning of Fiscal Year	3,861,883	3,468,496
Spending Authority from Offsetting Collections:		
Earned		
Collected	123,860	263,142
Recoveries of Prior Year Obligations	1,953,564	935,927
Permanently Not Available	(2,194,184)	(2,134,745)
Total Budgetary Resources	**$ 247,818,123**	**$ 241,514,820**
Status of Budgetary Resources:		
Obligations Incurred:		
Direct	$ 242,853,105	$ 237,414,454
Reimbursable	123,860	238,483
Total Obligations Incurred	242,976,965	237,652,937
Unobligated Balance:		
Apportioned	392,805	435,844
Exempt From Apportionment	9,503	8,626
Unobligated Balance not Available	4,438,850	3,417,413
Total Status of Budgetary Resources	**$ 247,818,123**	**$ 241,514,820**
Relationship of Obligations to Outlays:		
Obligated Balance, Net, Beginning of Fiscal Year	$ 17,094,345	$ 11,363,867
Obligated Balance, Net, End of Fiscal Year:		
Undelivered Orders	3,130,337	8,141,132
Accounts Payable	12,663,126	8,953,213
Outlays:		
Disbursements	242,324,282	230,986,533
Collections	(123,860)	(263,142)
Net Outlays	**$ 242,200,422**	**$ 230,723,391**

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

National Labor Relations Board

Consolidated Statement of Financing

For the Years Ended September 30, 2004 and September 30, 2003 *(In Dollars)*

	2004	2003 (Unaudited)
Resources Used to Finance Activities:		
Budgetary Resources Obligated:		
Obligations Incurred	$ 242,976,965	$ 237,652,937
Less: Spending Authority from Offsetting Collections/Adjustments	2,077,424	1,199,069
Net Obligations	$ 240,899,541	$ 236,453,868
Other Resources:		
Transfers Out without Reimbursement (+/-)	—	(65,652)
Imputed Financing From Costs Absorbed by Others	15,663,439	13,162,476
Net Other Resources Used to Finance Activities	15,663,439	13,096,824
Total Resources Used to Finance Activities	**$ 256,562,980**	**$ 249,550,692**
Resources Used to Finance Items Not Part of the Net Cost of Operations		
Change in Budgetary Resources Obligated for Goods, Services, and Benefits Ordered but Not Yet Provided	$ 5,003,070	$ (1,138,016)
Resources That Finance the Acquisition of Assets	(58,369)	105,722
Total Resources Used to Finance Items Not Part of the Net Cost of Operations	4,944,701	(1,032,294)
Total Resources Used to Finance the Net Cost of Operations	**$ 261,507,681**	**$ 248,518,398**
Components of Net Cost of Operations That Will Not Require or Generate Resources in the Current Period		
Components Requiring or Generating Resources in Future Periods:		
Increase in Annual Leave Liability	$ 452,465	$ (97,690)
Increase in Exchange Revenue Receivable from the Public	25,355	(16,498)
Other (+/-)	**(318,878)**	**210,406**
Total Components of Net Cost of Operations That Will Require or Generate Resources in Future Periods	**158,942**	**96,218**
Components Not Requiring or Generating Resources:		
Depreciation and Amortization	75,986	231,630
Total Components of Net Cost of Operations That Will Not Require or Generate Resources	**75,986**	**231,630**
Total Components of Net Cost of Operations That Will Not Require or Generate Resources in the Current Period	234,928	327,848
Net Cost of Operations	**$ 261,742,609**	**$ 248,846,246**

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

Notes to Principal Statements

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

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

B. Basis of Accounting and Presentation

These financial statements have been prepared to report the financial position, net cost, changes in net position, budgetary resources and reconciliation of net cost to budgetary obligations of the NLRB as required by the Accountability of Tax Dollars Act of 2002. These financial statements have been prepared from the books and records of NLRB in accordance with accounting principles generally accepted in the United States of America (GAAP), and the form and content requirements of the Office of Management and Budget (OMB) Bulletin No. 01-09. GAAP for Federal entities are the standards prescribed by the Federal Accounting Standards Advisory Board (FASAB), which is the official standard-setting body for the Federal government. These financial statements present proprietary and budgetary information.

OMB financial statement reporting guidelines for FY 2004 require the presentation of comparative financial statements for all of the principal financial statements. NLRB is presenting comparative FY 2004 financial statements for the Consolidated Balance Sheet, Consolidated Statement of Net Cost, Consolidated Statement of Changes in Net Position, the Combined Statement of Budgetary Resources, and Consolidated Statement of Financing.

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

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

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

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

> **Representation Cases** are initiated by the filing of a petition—by an employee, a group of employees, an individual or labor organization acting on their behalf, or in some cases by an employer. The petitioner requests an election to determine whether a union represents, or in some cases continues to represent, a majority of the employees in an appropriate bargaining unit and therefore should be certified as the employees' bargaining representative. The role of the agency is to investigate the petition and, if necessary, conduct a hearing to determine whether the employees constitute an appropriate bargaining unit under the Act. The NLRB must also determine which employees are properly included in the bargaining unit, conduct the election if an election is determined to be warranted, hear and decide any post-election objections to the conduct of the election and, if the election is determined to have been fairly conducted, to certify its results.
>
> **Unfair Labor Practice Cases** are initiated by individuals or organizations through the filing of a charge with the NLRB. If the NLRB Regional Office believes that a charge has merit, it issues and prosecutes a complaint against the charged party, unless settlement is reached. A complaint that is not settled or withdrawn is tried before an administrative law judge, who issues a decision, which may be appealed by any party to the Board. The Board acts in such matters as a quasi-judicial body, deciding cases on the basis of the formal trial record according to the law and the body of case law that has been developed by the Board and the federal courts.

C. Budgets and Budgetary Accounting

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

D. Financing Sources

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

E. Fund with the U.S. Treasury

The NLRB's cash receipts and disbursements are processed by the U.S. Treasury (Treasury). The fund balances with the Treasury are primarily appropriated funds that are available to pay current liabilities and to finance authorized purchases. Funds with Treasury represent NLRB's right to draw on the Treasury for allowable expenditures. In addition, funds held with Treasury also include escrow funds that are not appropriated but are backpay funds that are the standard Board remedy whenever a violation of the Act has resulted in a loss of employment or earnings.

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

F. Accounts Receivable, Net of Allowance for Doubtful Accounts

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

See Note 3 for additional information on Accounts Receivable.

G. Investments, Net

NLRB invests funds in Federal government securities for backpay that are held in the escrow account at Treasury. These funds held in Treasury are not appropriated funds. Backpay is the standard Board remedy whenever a violation of the Act has resulted in a loss of employment or earnings.

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

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

The market value is estimated as the sales price of the security multiplied by the bid price as of September 30, 2004.

There is currently a draft Memorandum of Understanding (MOU) between the NLRB and the Treasury establishing the policies and procedures that the NLRB and the Treasury agree to follow for investing moneys in, and redeeming investments held by, the deposit fund account in Treasury. This MOU has been reviewed by both the NLRB and the Treasury and will become effective when signed.

See Note 4 for additional information on Investments, Net.

H. Advances

Advances consist of amounts advanced by NLRB for the transit subsidy program and for commercial payment system for postage.

See Note 5 for additional information on the Advances.

I. Non-Entity Assets

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

See Note 7 for additional information on Non-Entity Assets

J. General Property, Plant and Equipment

General property, plant and equipment consist primarily of copy machines, telephone systems, and computer hardware and software. The agency has no real property.

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

Internal Use Software. Internal use software includes purchased commercial off-the-shelf software (COTS), contractor-developed software, and software that was internally developed by agency employees. Internal use software is capitalized at cost if the acquisition cost is $100,000 or more. For COTS software, the capitalized costs include the amount paid to the vendor for the software; for contractor-developed software it includes the amount paid to a contractor to design, program, install, and implement the software. Capitalized costs for internally developed software include the full cost (direct and indirect) incurred during the software development stage. The estimated useful life is two to five years for calculating amortization of software using the straight-line method.

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

K. Liabilities Not Covered by Budgetary Resources

Liabilities represent the amount of monies or other resources that are likely to be paid by NLRB as the result of a transaction or event that has already occurred. No liability can be paid by NLRB absent an appropriation. Liabilities for which an appropriation has not been enacted and for which there is no certainty that an appropriation will be enacted are classified as Liabilities Not Covered by Budgetary Resources.

Intragovernmental

The U.S. Department of Labor (DOL) paid Federal Employees Compensation Act (FECA) benefits on behalf of NLRB which had not been billed or paid by NLRB as of September 30, 2004 and 2003, respectively.

Federal Employees Workers' Compensation Program.

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

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

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

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

See Note 8 for additional information on the FECA liability.

Other

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

L. Contingencies

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

M. Unexpended Appropriations

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

N. Annual, Sick, and Other Leave

Annual and Sick Leave Program.

Annual leave is accrued as it is earned by employees and is included in personnel compensation and benefit costs. An unfunded liability is recognized for earned but unused annual leave.

O. Life Insurance and Retirement Plans

Federal Employees Group Life Insurance (FEGLI) Program.

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

Retirement Programs. NLRB employees participate in one of two retirement programs, either the Civil Service Retirement System (CSRS) or the Federal Employees Retirement System (FERS), which became effective on January 1, 1987. Most NLRB employees hired after December 31, 1983, are automatically covered by FERS and Social Security. Employees hired prior to January 1, 1984, could elect to either join FERS and Social Security or remain in CSRS. Employees covered by CSRS are not subject to Social Security taxes, nor are they entitled to accrue Social Security benefits for wages subject to CSRS.

For FERS employees, NLRB contributes an amount equal to one percent of the employee's basic pay to the tax deferred Thrift Savings Plan and matches employee contributions up to an additional four percent of pay. FERS employees can contribute 14 percent of their gross earnings to the plan. CSRS employees are limited to a contribution of 9 percent of their gross earnings and receive no matching contribution from NLRB.

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

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

Liabilities for future pension payments and other future payments for retired employees who participate in the Federal Employees Health Benefits Program (FEHBP) and the Federal Employees Group Life Insurance Program (FEGLI) are reported by OPM rather than NLRB.

P. Operating Leases

The NLRB has no capital lease liability or capital leases. Operating leases consist of real property leases with GSA. The leases are for NLRB's headquarters and regional offices. The GSA charges NLRB lease rates that approximate commercial rates for comparable space.

See Note 9 for additional information on Operating Leases.

Q. Net Position

The NLRB's net position consists of unexpended appropriations and cumulative results of operations. Unexpended appropriations represent appropriated spending authority that is unobligated and has not been withdrawn by Treasury, and obligations that have not been paid. Cumulative results of operations represent the excess of financing sources over expenses since inception.

R. Use of Management Estimates

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

Note 2. Fund Balance With Treasury

Treasury performs cash management activities for all Federal agencies. The net activity represents Fund Balance with Treasury. The Fund Balance with Treasury represents the right of the NLRB to draw down funds from Treasury for expenses and liabilities. Fund Balance with Treasury by fund type as of September 30, 2004 and September 30, 2003 consists of the following:

Fund Balance with Treasury by Fund Type:

(Dollars in thousands)	FY 2004 Entity Assets	Non-Entity Assets	Total	(Unaudited) FY 2003— Entity Assets	Non-Entity Assets	Total
General Funds	$20,794	—	$20,794	$21,240	—	$21,240
Escrow Funds	2,041	2,041	—		2,377	2,377
Other Fund Types	—	—	—	0	18	18
Total Fund Balance with Treasury	$20,794	$2,041	$22,835	$21,240	$2,395	$23,635

The status of the fund balance may be classified as unobligated available, unobligated unavailable, and obligated. Unobligated funds, depending on budget authority, are generally available for new obligations in current operations. The unavailable balance includes amounts appropriated in prior fiscal years, which are not available to fund new obligations. The obligated but not yet disbursed balance represents amounts designated for payment of goods and services ordered but not yet received or goods and services received but for which payment has not yet been made.

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

Status of Fund Balance with Treasury as of September 30, 2004 and September 30, 2003 consists of the following:

Fund Balance with Treasury by Availability:

(Dollars in thousands)	FY 2004	(Unaudited) FY 2003
Unobligated Balance:		
Available	$ 403	$ 445
Unavailable	6,639	6,096
Obligated balance not yet disbursed	15,793	17,094
Totals	**$ 22,835**	**$ 23,635**

Note 3. Accounts Receivable, Net

Accounts receivable at each fiscal year end consisted of the following

(Dollars in thousands)	FY 2004	(Unaudited) FY 2003
With the Public:		
Accounts receivable	$ 48	$ 89
Allowance for doubtful accounts	(1)	(10)
Accounts receivable—net	$ 47	$ 79

Note 4. Investments, Net

Investments in Treasury Securities:

The NLRB invests backpay funds that are authorized by the Regional Compliance Officers and other management officials in market-based Treasury securities issued by the Federal Investment Branch of the Bureau of Public Debt.

In FY 2003, the maturity value of the investment was $15 million as compared to FY 2004 of $5 million. In FY 2003, the Alaska Pulp investment amounted to $14 million, of which about $10 million was disbursed in FY 2004.

There is currently a draft Memorandum of Understanding (MOU) between the NLRB and the U.S. Treasury (Treasury) establishing the policies and procedures that the NLRB and the Treasury agree to follow for investing moneys in, and redeeming investments held by, the deposit fund account in Treasury. This MOU has been reviewed by both the NLRB and the Treasury and will become effective when signed.

Investments as of September 30, 2004 and September 30, 2003 consist of the following:

(Dollars in thousands)	Investment Type	Value at Maturity	Investment Net	Market Value Disclosure
FY 2004				
U.S. Treasury Securities	Marketable	$ 4,995	$ 4,987	$ 4,987
FY 2003 (Unaudited)				
U.S. Treasury Securities	Marketable	$ 15,424	$ 15,390	$ 15,390

For FY 2004 and 2003, the discount on the marketable securities amounted to $8 and $34, respectively (Dollars in thousands).

Note 5. Advances to Others

Intragovernmental

Intragovernmental Advances of $2,952, represent advances to the Department of Transportation for the transit subsidy as of September 30, 2004 and $0 for September 30, 2003.

Commercial

Advances to Others of $4,773 as of September 30, 2004 and $0 for September 30, 2003, represent advances to a commercial vendor for postage.

Note 6. General Property, Plant and Equipment, Net

General property, plant and equipment consist of that property which is used in operations and consumed over time. The following tables summarize cost and accumulated depreciation of general property, plant and equipment.

Depreciation expenses for September 30, 2004 were $75,986 and $231,630 for September 30, 2003.

(Dollars in thousands)	FY 2004 General Property Plant & Equipment	FY 2003 General Property Plant & Equipment (Unaudited)
Cost	$ 1,694	$ 1,703
Accumulated Depreciation	1,616	1,608
Net Book Value	$ 78	$ 95

Note 7. Non-entity Assets

Non-entity assets, restricted by nature, consist of miscellaneous receipt accounts. These amounts represent cash collected and accounts receivable (net of allowance for doubtful accounts) that are due to the U.S. Treasury. The amounts are of September 30, 2004 and September 30, 2003, respectively.

Intragovernmental (Dollars in thousands)	FY 2004	(Unaudited) FY 2003
Fund Balance with Treasury	$ 160	$ 284
Accounts Receivable—Net	0	11
Total intragovernmental	0	295
Total non-entity assets—Intragovernmental	$ 160	$ 295
Backpay Settlement Due to Others	7,028	17,767
Total entity assets	20,766	21,138
Total Assets	$ 27,954	$ 39,200

Note 8. Liabilities Not Covered by Budgetary Resources

Liabilities not covered by budgetary resources represent amounts owed in excess of available congressionally appropriated funds or other amounts. Liabilities not covered by budgetary resources as of September 30, 2004 and September 30, 2003, are shown in the following table:

Intragovernmental (Dollars in thousands)	FY 2004	(Unaudited) FY 2003
FECA–Unfunded	$ 1,016	$ 1,108
Total intragovernmental	1,016	1,108
Estimated Future—FECA	1,889	2,117
Accrued Annual Leave	12,425	11,973
Back Pay Settlement Due to Others	7,028	17,767
Other	163	294
Total Liabilities not covered by budgetary resources	$ 22,521	$ 33,259
Total Liabilities covered by budgetary resources	12,664	8,972
Total Liabilities	$ 35,185	$ 42,231

Note 9. Operating Leases

GSA Real Property. Most of the NLRB's facilities are rented from the General Services Administration (GSA), which charges rent that is intended to approximate commercial rental rates. The terms of the NLRB's rental agreements with GSA will vary according to whether the underlying assets are owned by GSA (or another Federal agency) or rented by GSA from the private sector. For federally owned property, the NLRB generally does not execute an agreement with GSA nor is there a formal lease expiration date. Although the NLRB may normally vacate these properties after giving 120 to 180 days notice of its intent to vacate, in actuality, NLRB normally occupies these properties for an extended period of time with little variation from year to year. For purposes of disclosing future operating lease payments in the table below, federally owned leases are included in years 2005 through 2009.

Rental expenses for operating leases as of September 30, 2004 and 2003 were $28,287,726 and $25,382,702, respectively.

Personal Property. The NLRB leases personal property from GSA. The terms for GSA leases frequently exceed one year, although a definite lease period is not always specified. For purposes of disclosing future operating lease payments in the table below, GSA personal property leases are included in years 2005 through 2009. The estimated future operating lease payments for GSA and private personal property leases are based on a 3 percent increase over the 2004 actual personal property rental expense.

Rental expenses for operating leases as of September 30, 2004 and 2003 were $111,948 and $134,664, respectively.

The aggregate of the NLRB's estimated real and personal property future lease payments to GSA are presented in the table below. The NLRB does not have any commitment for future lease payments after five years.

(Dollars in thousands) Fiscal Year	GSA Real Property	Personal Property	Total
2005	$ 30,060	$ 115	$ 30,175
2006	31,380	118	31,498
2007	32,478	122	32,600
2008	33,615	126	33,741
2009	34,791	130	34,921
After 5 Years	—	—	—
Total Future Lease Costs	$ 162,324	$ 611	$ 162,935

Note 10. Appropriations Received

The NLRB received $242,632,969 and $237,428,617 in warrants for the fiscal years ended September 30, 2004 and 2003, respectively.

Note 11. Cumulative Results of Operations

(Dollars in thousands)	FY 2004	(Unaudited) FY 2003
FECA paid by DOL	$ (495)	$ (606)
FECA—Unfunded	(1,016)	(1,108)
Estimated Future–FECA	(1,889)	(2,117)
Accrued Annual Leave	(12,425)	(11,973)
General Property Plant & Equipment, Net	78	95
Other	660	914
Cumulative Results of Operations	$ (15,087)	$ (14,795)

Note 12. Statement of Budgetary Resources

The Combined Statement of Budgetary Resources provides information about how budgetary resources were made available as well as their status at the end of the period. It is the only financial statement exclusively derived from the entity's budgetary general ledger in accordance with budgetary accounting rules that are incorporated into generally accepted accounting principles for the Federal government. The total Budgetary Resources of $247,818,123 as of September 30, 2004 and $241,514,820 as of September 30, 2003, includes new budget authority, unobligated balances at the beginning of the year, spending authority from offsetting collections, recoveries of prior year obligations and permanently not available. NLRB's unobligated balance available at September 30, 2004, was $392,805 and at September 30, 2003 was $435,844.

Apportionment Categories of Obligations Incurred. The NLRB's obligations incurred as of September 30, 2004 and September 30, 2003 by apportionment Category A and B is shown in the following table. Category A apportionments distribute budgetary resources by fiscal quarters and Category B apportionments typically distribute budgetary resources by activities, projects, objects or a combination of these categories.

(Dollars in thousands) FY 2004	Category A	Apportioned Category B	Not Subject to Apportionment	Total
Obligations Incurred:				
Direct	$ 231,773	$ 11,090	$ (10)	$ 242,853
Reimbursable	124	0		124
Total Obligations Incurred	$ 231,897	$ 11,090	$ (10)	$ 242,977

(Dollars in thousands) FY 2003 (Unaudited)	Apportioned Category A	Category B	Not Subject to Apportionment	Total
Obligations Incurred:				
Direct	$ 223,459	$ 13,534	$ 422	$ 237,415
Reimbursable	238	0		238
Total Obligations Incurred	$ 223,697	$ 13,534	$ 422	$ 237,653

Note 13. Imputed Financing

OPM pays pension and other future retirement benefits on behalf of Federal agencies for Federal employees. OPM provides rates for recording the estimated cost of pension and other future retirement benefits paid by OPM on behalf of Federal agencies. The costs of these benefits are reflected as imputed financing in the consolidated financial statements. Expenses of the NLRB paid or to be paid by other Federal agencies at September 30, 2004 and 2003 consisted of:

(Dollars in thousands)	FY 2004	(Unaudited) FY 2003
Office of Personnel Management:		
Pension expenses	$ 7,786	$ 6,867
Federal employees health benefits	7,849	6,268
Federal employees group life insurance program	28	27
Total Imputed Financing	$ 15,663	$ 13,162

Note 14. Backpay Checks Held in NLRB Regional Offices

The NLRB may use Backpay as a remedy to settle an unfair labor practice. The Backpay may be disbursed by three different methods: (1) the respondent prepares the Backpay and disburses it directly to the discriminatee(s); (2) the respondent prepares the Backpay and gives the check(s) to a NLRB Regional Office to deliver to the discriminatee(s); and (3) the respondent makes the Backpay payable to the NLRB, who deposits the check and then issues U.S. Treasury checks to the discriminatee(s).

This footnote identifies the number and dollar value of checks that are received in the Regional Offices that are made payable to discriminatees. The NLRB has a fiduciary type of responsibility to safeguard these checks until they are delivered to the discriminatee(s). It should be noted that it might take months to successfully deliver the Backpay, due to the length of time it may take to settle a case and then obtain a current address for the discriminatee.

	FY 2003		FY 2004	
(Dollars in thousands—unaudited)	**Number**	**Amount**	**Number**	**Amount**
Checks on Hand, Beginning of Period	**	**	102	$ 323
Checks Received	**	**	7,560	17,374
Checks Distributed	**	**	6,741	16,942
Net Change in Checks on Hand	**	**	819	432
Checks on Hand at End of Period	102	$ 323	921	$ 755

*** Data not available prior to start of FY 2004*

Note 15. Contingent Liability

The NLRB is a party to several threatened or pending litigation claims. NLRB management has estimated that between $400 to $600 thousand of claims have a reasonable possibility of loss (the chance of loss is less than probable, but more than remote). The agency has and will continue to vigorously contest these claims. In the opinion of NLRB's management, the ultimate resolution of pending litigation will not have a material effect on the NLRB's financial statements.

UNITED STATES GOVERNMENT
National Labor Relations Board
Division of Administration
Memorandum

TO: Jane E. Altenhofen
Inspector General

FROM: Gloria Joseph
Director of Administration

DATE: October 29, 2004

SUBJECT: Response to Draft Audit Report – NLRB Fiscal Year 2004 Financial Statements

We have reviewed the Audit Report submitted by Carmichael Brasher Tuvell & Company and are pleased that this audit of the NLRB's financial statements has resulted in an unqualified opinion. We are in agreement with the findings of the report.

In Appendix A, the auditors identified four reportable conditions related to the Agency's information technology function that could adversely impact the Agency's ability to accumulate, process, and report information critical to the NLRB's mission and programs. The four conditions were:

1. Lack of a completed intrusion-detection and response program.
2. A disaster recovery plan that had not been implemented.
3. A library for internally-developed software related to Backpay is not maintained.
4. A systemic policy has not been implemented relating to the storage, retrievability, retention, and disposal of Privacy Act information.

With respect to the four above-identified conditions, the auditors recommended that the Acting Chief Information Officer implement the following controls that would comply with standards issued by the National Institutes of Science and Technology (NIST):

1. An intrusion-detection system.
2. A disaster recovery plan.
3. A library for internally-developed software related to Backpay.
4. A systemic policy for the storage, retrievability, retention, and disposal of Privacy Action information.

We are in agreement with these recommendations. The NLRB's Office of Information Technology has submitted to the Office of Management and Budget (OMB) reports which reflect the Agency's plan to complete in Fiscal Year 2005 the installation of an intrusion-detection and response program; implementation of a disaster recovery plan for the Agency's local area networks and wide area network (LAN/WAN); development of a documentation library for the NLRB's internally-developed software that handles the processing of backpay funds; and development of the appropriate policies to store, retrieve, retain, and dispose of Privacy Act information. The Agency's progress in implementing these items will be tracked and reported on a quarterly basis to OMB as required by the Federal Information Security Management Act. The Inspector General will be provided reports as well.

cc: The Board
General Counsel

UNITED STATES GOVERNMENT
National Labor Relations Board
Division of Administration
Memorandum

November 30, 2004

TO: Jane Altenhofen
Inspector General

FROM: Richard A. Siegel, Associate General Counsel
Gloria Joseph, Director of Administration

SUBJECT: Comments on Draft Management Letter on Audit of NLRB's FY 2004 Financial Statements

This is in response to your memorandum dated November 18, 2004, in which you requested comments on the draft Management Letter covering the audit of the Agency's FY 2004 financial statements. In your memo, you requested that we also indicate our agreement or disagreement with each of the report's findings and recommendations.

We have no comments with respect to the findings of the report.

Our comments regarding the report's recommendations are as follows:

#1 – Backpay Controls

The Finance Branch Chief, in coordination with the Operations-Management Associate General Counsel, should establish written policies and procedures for the review of Backpay case balances and notification to Operations-Management of amounts held on deposit for more than 1 year.

We agree with this recommendation. Currently, the Finance Branch is drafting standard operating procedures to cover the review of backpay cases and has already developed and sent a report to those Field offices that have backpay funds on deposit for more than one year.

#2 – Undelivered Orders

The Finance Branch Chief should establish and implement written procedures for review of undelivered orders.

We agree with this recommendation. The Finance Branch Chief currently meets with the allowance holders on a quarterly basis and verbally reminds them to look at their reports

Page Two
Jane Altenhofen

and deobligate any undelivered orders. This reminder will now be provided in writing rather than verbally at the quarterly meetings.

#3 – Integration of Regional Office Budgeting System (ROBS) and Momentum

The Finance Branch should implement its plan to migrate ROBS to Momentum by the end of FY 2005.

We agree with the recommendation. The Finance Branch will continue with its current plan to migrate ROBS to Momentum by the end of FY 2005.

#4 – Debt Collection

The Finance Branch Chief, in coordination with the Director of Administration, should develop and implement internal procedures for debtors to challenge debt, including designating a hearing officer. The Director of Administration, in coordination with the Chairman and General Counsel, should establish regulations and delegations of authority for compromising or terminating actions for the collection of debt.

We agree with this recommendation. We have drafted regulations covering debt collection for publication in the Federal Register and will develop internal procedures that will allow debtors to challenge debt, including designating a hearing officer.

Also, the delegation of authority to the Director of Administration to waive, compromise, discharge, suspend or terminate collection action on claims and debts owed the NLRB has been updated. The Director of Administration now has the authority to waive, compromise, discharge, suspend or terminate collection action on payroll debts of $10,000 or less and the same for miscellaneous debts of $5,000 or less. Furthermore, with the updating of that delegation, the Director of Administration delegated to the Finance Officer the authority to waive, compromise, discharge, suspend or terminate collection action on debts of $2,000 or less and delegated to the Director of Human Resources the authority to waive, compromise, discharge, suspend or terminate collection action on payroll debts of $1,000 or less. The Finance Officer's authority covers such debts as court costs, FOIA fees, vendor overpayments, travel-related expenses, and other miscellaneous debt. This authority cannot be re-delegated by the Finance Officer or the Director of Human Resources.

#5 – Prior Year Recommendations

The NLRB has not completed actions on 6 of the 11 prior year recommendations contained in the audit report, "Information Security Review of New Automated Systems," dated September 22, 2003. Two of these open recommendations were discussed as reportable conditions in the FY 2004 Independent Auditors Report on Internal Controls, dated November 1, 2004. Action is needed on the remaining four recommendations for the NLRB to meet OMB requirements related to internal controls and financial management systems. The recommendations, with their original report number, are as follows:

3a. Review and reassign the security functions for the NBC systems among the users in the Branches that utilize the NBC Systems to ensure that users do not have incompatible duties. These security functions include changes to user profiles and review of audit trails or log reports relating to user profile changes.

3b. Develop procedures that NBC be notified by someone other than Finance Branch personnel as to the persons designated to make changes to the systems. The changes to user profiles should be performed based on a written, documented procedure.

5. Establish policies and procedures to document the Regional Offices' review and authorization of invoices to include verification of validity of invoice, mathematical accuracy, comparison of amounts presented to contract amounts and receipt of services.

11. Provide and track IT systems security education and training to System Administrators and/or SPOCs, as appropriate, within each Branch using the NBC Systems.

When the audit report was issued in connection with this audit, we agreed to implement all of the recommendations listed above and have provided the Inspector General with quarterly updates on our progress in implementing these recommendations. The next quarterly update is due on December 16.

With respect to recommendation 3a., IT Security, in coordination with the Finance Officer, reviewed and reassigned the security functions to ensure appropriate assignment of functions. This task has been completed. However, IT Security and the Finance Officer are still working to find a solution so that changes to user profiles, etc., are reviewed by IT Security.

Regarding recommendation 3b, IT Security will develop procedures that NBC be notified by someone other than Finance Branch personnel as to the individuals designated to make changes to the NBC systems.

In relation to recommendation #5, the Finance Officer has drafted instructions for the office managers to assist them in reviewing and verifying those invoices that are received in the Field Offices. They will be included in an article for the December issue of the Office Managers' Alert, which is distributed to all office managers. However, we would like to reiterate that this recommendation involves only a small number of invoices as all other invoices are sent directly to the Finance Branch so that they can be clocked in and properly tracked under the requirements of the Prompt Payment Act. The only original invoices received at a Regional Office level would be for court reporting costs and interpreter fees, and the Procurement and Facilities Branch issued to the office managers in July 2001 a training guide outlining the procedures for processing court-reporting invoices. This manual has been posted on the NLRB Intranet. The instructions drafted by the Finance Officer will cover those occasional invoices that are received by a Field Office in connection with other services.

For recommendation #11, IT Security, in the original action plan, had agreed to review the current list of SPOCs (Security Points of Contact) to determine who should be considered for IT security administration training. This has been completed and four SPOCs have been identified – two for the Federal Payroll and Personnel System (FPPS) and two for Momentum. This is a significant reduction from the number of SPOCs originally identified for the NBC systems. In our comments to the draft audit report, we did inform the Inspector General that the SPOCs for the Federal Payroll Personnel System (FPPS) were never delegated SPOC duties because it was determined after the conversion that the three FPPS System Administrators (one who has since retired) would continue to perform these functions as they had during the conversion. No current or future IT Security training will be required for those individuals initially designated as SPOCs for the FPPS system. However, the four identified SPOCs will receive IT security administration training.

cc: The Board
General Counsel