FEDERAL LABOR RELATIONS AUTHORITY

PERFORMANCE AND ACCOUNTABILITY REPORT

FY 2007

Foreword

On November 7, 2002, enactment of *The Accountability of Tax Dollars Act*[1] subjected the Federal Labor Relations Authority (FLRA) to a statutory requirement to file an annual audited financial statement with the President of the United States and Congress. During December 2002, the Director of the Office of Management and Budget (OMB) issued guidance that directed agencies to combine their annual audited financial statement with their annual Government Performance and Results Act (GPRA) report. The combined report is termed the *Performance and Accountability Report* (PAR). The OMB requires agencies to file a PAR for Fiscal Year 2004 and subsequent years.

This document, the FLRA PAR, includes both the FY 2006 GPRA performance report data, as well as the FY 2006 financial report. The financial report section also includes the annual report on internal controls, required under the *Federal Managers' Financial Integrity Act* (FMFIA). To avoid unnecessary duplication of this information, in 2004, the FLRA PAR replaced the FLRA Annual Report, which is no longer published as a separate document. Upon review by OMB and transmission to the President and Congress, the FLRA PAR will be posted in electronic form on the FLRA website (www.flra.gov).

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1 Public Law 107-289.

Chairman/CFO Message . . .

This message transmits the Fiscal Year (FY) 2007 Performance and Accountability Report (PAR) for the Federal Labor Relations Authority (FLRA). The year continued transitions undertaken during the previous year, throughout the agency, as we continued follow-up activities on several studies conducted in prior years and implemented projects directed at improving the management and accountability of the agency's programs and thus, our accountability to the Taxpayers.

The FLRA has a statutory role in resolving disputes between Federal agencies and employee labor organizations, and in this way, supports effective Federal labor-management relations. The FLRA carries out its statutory responsibilities through five case types: resolving complaints of unfair labor practice cases; appropriateness of representation; adjudicating exceptions to arbitration awards; adjudicating legal issues relating to duty to bargain (negotiability); and resolving impasses during negotiations.

During FY 2007, the FLRA Authority Decisional Component operated with two of three Members during the first and second quarters. On December 20, 2006, President Bush recess appointed Wayne Cartwright Beyer, of New Hampshire, to be a Member of the Authority. Member Beyer filled the position left vacant by former Member Tony Armendariz' death on March 30, 2006. In April 2007, President Bush recess appointed Carol Waller Pope, of Washington DC, bringing the Authority to its full complement of three Members.

The FLRA did not achieve all of its FY 2007 performance goals; however, we did continue to make significant strides in aligning program management and performance. We expect efforts initiated during FY 2006 and refined during FY 2007 to result in superior future performance. For instance, FY 2006 was the first year for new performance measures reflecting agency-wide performance goals for specific program areas. Additionally, during FY 2006, we transitioned our accounting and financial reporting activities to Department of Interior's National Business Center (NBC). Throughout FY 2007, the agency worked with NBC to bring the system on-line and address transitional anomalies. Also during FY 2007, the agency worked with consultants to assess internal controls and to revise, update, or create, as appropriate, agency-wide internal controls policies and procedures for management, administrative, financial, and human resources functions. During FY 2007, all employees received internal controls training - - a first-ever for this agency.

This report provides various legally-required assurances regarding our performance, financial data, and management controls over our financial systems. In accordance with law and OMB guidance, I have determined that the performance and financial data included in this report are complete and reliable. All program data reported were obtained from the Agency's case management system. I am aware of no material inadequacies or non-conformances in either the completeness or reliability of the performance or financial data.

I am pleased to certify with reasonable assurance that the FLRA's systems of accounting and internal control are in compliance with the provisions of the *Federal Managers' Financial Integrity Act* for the periods relevant to this report.

Dale Cabaniss

Dale Cabaniss
Chairman & CFO

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MANAGEMENT DISCUSSION AND ANALYSIS

Introduction

The Federal Labor Relations Authority (FLRA) is an independent administrative federal agency created by Title VII of the Civil Service Reform Act of 1978, also known as the *Federal Service Labor-Management Relations Statute* (the Statute).[2] The Statute allows certain non-postal federal employees to organize, bargain collectively, and participate through labor organizations of their choice in decisions affecting their working lives.[3]

Congress modeled the Statute after the *National Labor Relations Act* (NLRA), applicable to the private sector. The Statute, however, differs from the NLRA in several ways, as delineated below:

Some General Differences between the Statute and the NLRA

Federal Sector (the Statute)	**Private Sector (NLRA)**
bargaining is generally limited to the way that personnel policies, practices, and procedures are implemented	bargaining generally includes wages, fringe benefits, and issues related to hiring/firing, and promotion/retention.
strikes and lockouts are prohibited	strikes and lockouts may occur
Federal sector employees generally are entitled to select a union to represent them, but cannot be compelled to join or to pay a fee for the representation that the union is required to provide.	

The Statute defines and lists the rights of employees, labor organizations, and agencies so as to reflect the public interest demand for the highest standards of employee performance and the efficient accomplishment of the operations of the Government.[4] Specifically, the Statute requires that its provisions "should be interpreted in a manner consistent with the requirement of an effective and efficient Government."[5]

FLRA Mission, Administration, and Structure

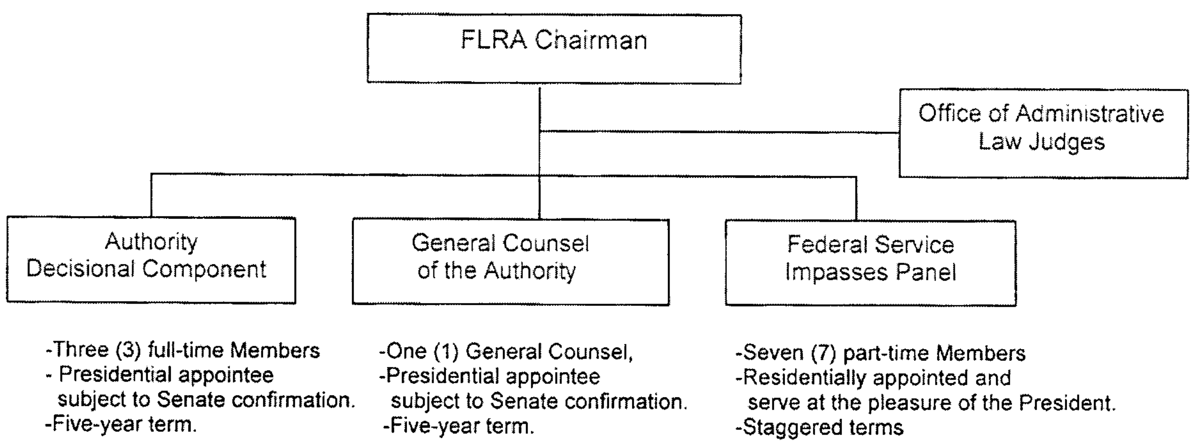
The FLRA does not initiate cases. All proceedings before the FLRA originate from filings arising through the affirmative actions of Federal employees, Federal agencies, or Federal labor organizations. The FLRA mission is to carry out five (5) primary statutory responsibilities as efficiently as possible and in a manner that gives full

2 Public Law 95-454, 5 U.S.C. § 7101 *et seq.*
3 The Postal Reorganization Act (Public Law 91-375, Aug. 12, 1970) governs labor-management relations in the Postal Service.
4 See generally, 5 U.S.C. § 7101(a)(2).
5 5 U.S.C. § 7101(b).

effect to the rights afforded employees and agencies under the Statute. These responsibilities include the following:

1. determining the appropriateness of units for Labor organization representation,
2. resolving complaints of unfair labor practices,
3. adjudicating exceptions to arbitrator's awards,
4. adjudicating legal issues relating to duty to bargain (e.g., negotiability), and
5. resolving impasses during negotiations.

The FLRA conducts its case-processing activities through four components: the *General Counsel of the Authority*, the *Office of Administrative Law Judges*, the *Authority decisional component*, and the *Federal Service Impasses Panel*. Presidential appointees head three of these four components. The three-Member Authority appoints Administrative Law Judges (ALJs) to hear and prepare decisions in cases involving alleged unfair labor practices, as well as decisions involving applications for attorney fees filed pursuant to the *Back Pay Act* or the *Equal Access to Justice Act*. The FLRA also provides full staff support to two other organizations - - the *Foreign Service Impasse Disputes Panel* and the *Foreign Service Labor Relations Board*.[6]



Each FLRA component exercises some statutorily independent responsibilities, either prosecutorial or adjudicative. The immediate staffs of Authority Members, the General Counsel of the Authority, and the Federal Service Impasses Panel are under the general, day-to-day, supervision of their respective members or component head. Although the components have different and separate roles with respect to various legal proceedings, the Statute requires the President to designate one Member of the Authority Decisional Component to serve also as the FLRA Chairman, e.g., the Agency Head.

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[6] Created by the Foreign Service Act of 1980, the FSIDP is a five-member board, chaired by the FLRA Chairman, that resolves bargaining impasses between Federal agencies and Foreign Service personnel in the U.S. Information Agency, the Agency for International Development, and the Departments of State, Agriculture, and Commerce, over conditions of employment. Also under the same Act, the three-member FSLRB administers the labor-management relations program for Foreign Service employees in the U.S. Information Agency, the Agency for International Development, and the Departments of State, Agriculture, and Commerce.

The Authority, General Counsel, and FSIP maintain their respective headquarters offices at a common site in Washington, D.C. The FLRA Office of the General Counsel also maintains a network of seven regional offices and one satellite office in the following locations:

Atlanta, GA
Boston, MA
Chicago, IL
Dallas, TX
Denver, CO
San Francisco, CA (one,two-person *satellite office* is located in Brea, CA)
Washington, D.C.

The FLRA's annual congressional appropriation is a single line item. The FLRA Chairman is statutorily responsible for the budget regarding agency-wide administrative functions, such as purchasing; human resources staffing, performance, and training; budgeting and finance; information technology; leasing of office space; and agency wide performance management. The FLRA Chairman serves as the agency's Chief Financial Officer (CFO).

To carry out the Chairman's statutory responsibilities, the FLRA Office of the Chairman oversees the following operational offices:

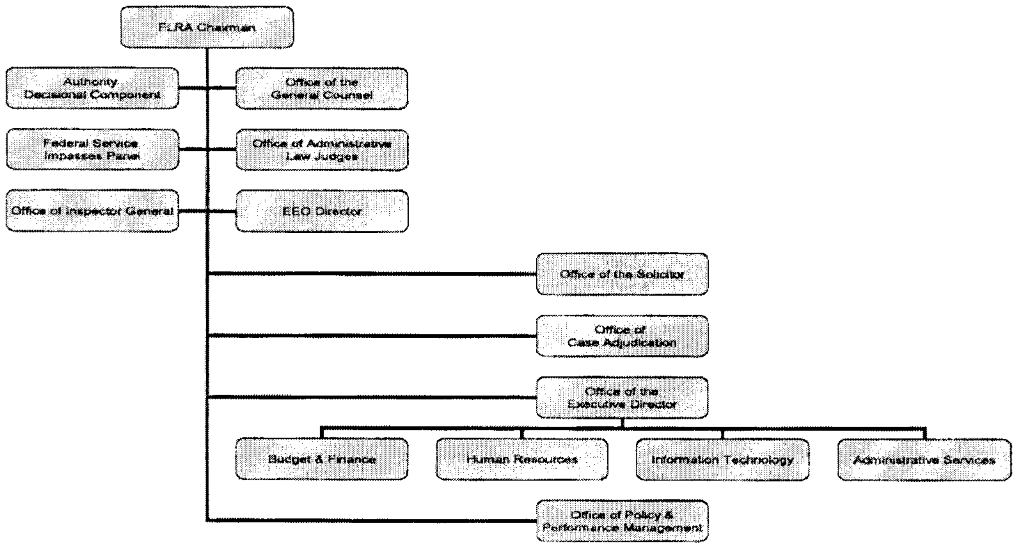
Office of the Executive Director provides agency-wide operational support through the following divisions: Budget and Finance, Administrative Services and Procurement, Human Resources, and Information Resources Management systems implementation and maintenance. At the Chairman's direction, the Office of the Executive Director jointly develops and implements agency-wide initiatives with the Office of Policy & Performance Management. A statutory position, the Executive Director represents the Chairman's policies and positions internally to the Solicitor, EEO Director, and Inspector General, and, externally to the GAO, congressional staff, OMB, and others.

Office of Policy & Performance Management provides agency-wide strategic policy and planning support and counsel, including agency-wide instructions and policies, overseeing the Chairman's and the Administration's initiatives, and special projects, as assigned.

Office of the Solicitor represents the FLRA in court proceedings before all United States Courts, including the U.S. Supreme Court, U.S. Courts of Appeals, and Federal District Courts. The Solicitor's Office provides the Chairman legal advice on various legal issues, particularly those with potential agency-wide impact.

Office of Case Adjudication, through the Case Intake & Publication Unit, serves as the central intake point for Authority cases, oversees the FLRA Headquarters Library services, and is responsible for publication of agency decisions and reports and related correspondence. Through the Case Production Unit, employs staff attorneys who prepare draft issues memos and decisions for Authority Member review and votes.

Federal Labor Relations Authority
FY 2007



FY 2007 Performance Highlights

The FLRA's FY 2007 *Annual Performance Plan* consisted of 18 performance goals under the single strategic goal of the agency's FY 2004-2009 Strategic Plan. The FLRA met or demonstrated progress in meeting most goals, with lapses explainable by the loss of key personnel and challenges experienced as the agency shifts to identifying performance drivers and accountabilities on an agency wide basis for cases, such as unfair labor practice (ULP) or representation (REP) cases, that are addressed by more than one of the agency components. Because all FLRA programs performed under new performance goals, comparison with prior year goals does not necessarily provide meaningful data upon which to review each program. Program performance data are presented, however, as required, in the program performance section.

Strategic Plan Goal **To resolve disputes impartially and promptly.**

The FLRA addresses this goal through six performance goal categories that incorporate the objectives of each individual component involved in agency-wide achievement of the performance goal. These six performance goals are as follows:

1. Provide timely adjudication of cases through E-Filing and case tracking.
2. Provide timely review and disposition of Unfair Labor Practice (ULP) cases.
3. Provide timely review and disposition of Representation (REP) cases.
4. Provide timely review and disposition of Arbitration (ARB) cases.
5. Provide timely review and disposition of Negotiability (NEG) cases.
6. Provide timely review and disposition of Bargaining Impasse cases.

FY 2007 Performance Goals

Strategic Plan Goal 1 – Timely Adjudication through E-Filing and Case Tracking
The FLRA did not meet this goal. Unforeseen personnel issues, including the sudden retirement of the agency CIO resulted in this project's timeline being extended.

Strategic Plan Goal 2 – Timely review and Disposition of Unfair Labor Practice (ULP) Cases
Three FLRA components are involved with processing ULP cases. The FLRA partially met the stated performance goal(s) for FY 2007.

Office of General Counsel (OGC)
It is the goal of the OGC to establish realistic production goals while also increasing the level of quality of the work product. The OGC made significant progress in meeting the newly established goals for FY2007. The improved quality may be considered the reason for a reduction in the number of ULP appeals - - which dropped from 349 in FY2006 to 306 in FY2007 - - representing a reduction of more than 10 percent.

Office of Administrative Law Judges (OALJ)
The OALJ substantially met its goals for FY2007. The average number of days from the time the General Counsel issued a complaint to the time an ALJ issued a decision was 153 days while the goal was 180 days. The average number of days from the date the complaint was issued until a hearing was held was 58 days while the goal was 90 days. The average number of days from the time post-hearing briefs were submitted by the parties until an ALJ issued a final recommended decision to the Authority was 52 days while the goal was 60 days. The one goal the OALJ missed was the goal of issuing a decision within 90 days from the time the hearing was completed, with the actual average being 95 days. However, that 90 day goal reflects 30 days allotted to the parties for the submission of post-hearing briefs required by FLRA regulation and 60 days for the judge to prepare a decision. In meeting the 60 day goal by averaging 52 days for the issuance of their decisions, the judges have demonstrated that exceeding the overall 90 day goal by 5 days resulted from the parties seeking additional time for the submission of their post-hearing briefs and those requests give rise to due process concerns that cannot be dismissed solely on the basis of meeting a performance goal.

Authority Decisional Component (Authority)
The Authority did not meet its FY 2007 performance goals. After the OALJ renders a ULP decision, the parties may file exceptions to the Authority Decisional Component for review of that decision. During FY 2007, the Authority **received 26** ULP cases, which, in addition to the **21 pending** cases produced a **caseload of 47** ULP cases. The Authority **closed 13 ULP cases**. Various reasons accounted for this performance. During the second quarter of FY 2006, one of the three Presidential-appointed, Senate-confirmed Authority Members passed away. A nomination was forwarded to the Senate during the third quarter of FY 2006 (June 6, 2006); however, the Authority continued with the Chairman and one Member through the remainder of the fiscal year. In December 2006, Member Pope retired. On December 20, 2006, the President recess-appointed Wayne Beyer. In April 2007, the President recess-appointed Carol Pope. During FY 2006, two career, chief-counsels to Members retired. Recruitment efforts were delayed by the absence of one or more Members. Also, during March 2007, the Agency realigned the Authority career staff attorneys into a Case Production Unit within the Office of Case Adjudication, in order to improve the alignment of program performance management with the agency's performance goals and to begin aligning programs with budget.

Strategic Plan Goal 3 – Timely review and Disposition of Representation (REP) Cases
Two FLRA components are involved with processing REP cases. The FLRA partially met the stated performance goal(s) for FY 2007.

Office of General Counsel
Although not meeting each of the three performance goals for processing REP cases, the OGC made progress on ensuring all regional offices focus on processing REP cases and create a more timely and efficient process.

Authority Decisional Component
The Authority substantially met its stated performance goals for processing REP cases during FY 2007. Unlike other cases worked, there is a statutory time requirement to complete a REP case. Such cases are given priority in order to meet the statutory requirement.

Strategic Plan Goal 4 – Timely review and Disposition of Arbitration (ARB) Cases

After the OALJ renders a ULP decision, the parties may file exceptions to the *Authority Decisional Component* for review of that decision. The FLRA did not meet either performance goal under this strategic goal. During FY 2007, the Authority **received 26** ULP cases, which, in addition to the **21 pending** cases produced a **caseload of 47** ULP cases. The Authority **closed 13 ULP cases**. Various reasons accounted for this performance. During the second quarter of FY 2006, one of the three Presidential-appointed, Senate-confirmed Authority Members passed away. A nomination was forwarded to the Senate during the third quarter of FY 2006 (June 6, 2006); however, the Authority continued with the Chairman and one Member through the remainder of the fiscal year. In December 2006, Member Pope retired. On December 20, 2006, the President recess-appointed Wayne Beyer. In April 2007, the President recess-appointed Carol Pope. During FY 2006, two career, chief-counsels to Members retired. Recruitment efforts were delayed by the absence of one or more Members. Also, during March 2007, the Agency realigned the Authority career staff attorneys into a Case Production Unit within the Office of Case Adjudication, to begin the alignment of the agency's performance goals with the budget.

Strategic Plan Goal 5 – Timely review and Disposition of Negotiability (NEG) Cases

The FLRA did not meet either performance goal under this strategic goal. During FY 2007, the *Authority Decisional Component* **received 52** Negotiability (NEG) cases, which, in addition to the **24** cases **pending** at the beginning of the year, produced a **caseload of 76** NEG cases. The Authority closed **36** cases. During the second quarter of FY 2006, one of the three Presidential-appointed, Senate-confirmed Authority Members passed away. A nomination was forwarded to the Senate during the third quarter of FY 2006 (June 6, 2006); however, the Authority continued with the Chairman and one Member through the remainder of the fiscal year. In December 2006, Member Pope retired. On December 20, 2006, the President recess-appointed Wayne Beyer. In April 2007, the President recess-appointed Carol Pope. During FY 2006, two career, chief-counsels to Members retired. Recruitment efforts were delayed by the absence of one or more Members. Also, during March 2007, the Agency realigned the Authority career staff attorneys into a Case Production Unit within the Office of Case Adjudication, in order to improve the alignment of program performance management with the agency's performance goals and to begin aligning programs with budget.

Strategic Plan Goal 6 – Timely review and Disposition of Bargaining Impasse Cases

The FLRA met one of three performance goals under this strategic goal. The *Federal Service Impasses Panel* (FSIP) resolves impasses between Federal agencies and unions representing Federal employees arising from negotiations over conditions of employment under the Federal Service Labor-Management Relations Statute and the Federal Employees Flexible and Compressed Work Schedules Act. If bargaining between the parties, followed by mediation assistance, proves unsuccessful, the FSIP recommends procedures and takes whatever action it deems necessary to resolve the impasse. In FY 2007, the FSIP **received 115** requests for assistance. This, added to the **pending** caseload of **34**, resulted in a total FY 2007 **caseload of 149**, a decline for the fifth consecutive year. The FSIP **closed 126** cases, including declining jurisdiction, withdrawal, voluntary settlement, decision and order, or other means.

FY 2007 Workload Highlights

The FY 2007 workload, as compared to previous year workloads, is presented below, listing type of case and each component that handles/may handle the case.

Unfair Labor Practice Caseload

Office of the General Counsel (OGC)
Unfair Labor Practice (ULP) cases enter the FLRA through the *Office of the General Counsel of the Authority (OGC)* as a charge. Regional Office GC staff investigates the charge(s) filed. If there is a potential violation of the Statute, the Regional Director will issue a complaint. The OGC will then prosecute the complaint before an Administrative Law Judge (ALJ). During FY 2007, there were **4677 charges** filed in the OGC. Approximately 3.7% of the charges filed resulted in the issuance of a complaint (**175 complaints**).

	FY2003	FY2004	FY2005	FY2006	FY2007
Charges pending, start of year	1,362	641	55	163	1,705
Charges Filed	5,129	4,551	4,036	4,788	4,677
Total Charges	6,491	5,192	4,091	4,951	6,382
Charges Closed:					
Charges Withdrawn/ Settled	3,883	3,145	2,634	2,806	2,869
Charges Dismissed	1,265	1,250	952	1,008	1,038
Complaints Issued	286	407	200	426	175
Total Charges Closed	5,434	4,802	3,786	4,240	4,082
Charges Pending, end of year	1,147	914	1,159	1,712	2,300**

** The figures in this chart were revised to reflect the actual status/disposition of the case. The significant difference is in the number of cases pending at the end of each fiscal year. The OGC actually had 2992 cases listed as "open" for FY 2007.Of those, 692 cases were/are pending in another Agency component (e.g., Authority Decisional Component or the OALJ). Nonetheless, the cases are retained in an "open" status in the OGC until the case is returned to the OGC for managing the compliance issues where the case is finally "closed." Pending cases reflected on this chart reflects cases actively pending in the OGC.

The ULP charges filed during FY 2007, by Regional Office, were as follows:

Region (FY 2007)	ULP CHARGES filed
Atlanta	577
Boston	574
Chicago	931
Dallas	594
Denver	625
San Francisco	713
Washington	663
TOTAL	4677

Office of Administrative Law Judges

When a ULP complaint issues, the case moves to the *Office of the Administrative Law Judges (OALJ)*. The case may settle prior to hearing, at hearing, or be closed by issuance of an Administrative Law Judge (ALJ) decision. During FY 2007, there were **134** cases filed with the OALJ. There were **21** trials before an ALJ.

	FY2003	FY2004	FY2005	FY2006	FY2007
Cases Pending, start of year	244	143	106	18	26
Case Intake	321	310	100	265	134
Total Caseload	565	453	206	283	160
Case Closings:					
Cases closed before hearing	361	281	134	216	114
Cases closed at hearing	0	1	0	2	0
Cases closed by decision	61	65	54	39	27
Total Case Closings	422	347	188	257	141
Cases Pending, End of Year					
Awaiting Hearing	95	71	3	19	13
Awaiting Decision	48	35	15	7	6
Total Cases Pending, end of year	143	106	18	26	19

Authority Decisional Component

After the OALJ renders a ULP decision, the parties may file exceptions to the *Authority Decisional Component* for review of that decision. During FY 2007, the Authority **received 26** ULP cases, which, in addition to the **21 pending** cases produced a **caseload of 47** ULP cases. The Authority **closed 13 ULP cases.**

	FY2003	FY2004	FY2005	FY2006	FY2007
Cases Pending, start of year		24	19	16	21
Case Intake	53	49	52	38	26
Total ULP Caseload		73	71	54	47
Case Closings					
Procedural	34	36	32	8	13
Merits	34	18	23	25	0
Total ULP Closings	68	54	55	33	13
ULPs pending, end of year	24	19	16	21	34

Representation (REP) Caseload

Office of the General Counsel

While the Representation (REP) caseload has remained fairly constant in the *Office of General Counsel* during the past several fiscal years, FY2007 saw a significant increase in the number of REP cases closed. In FY2006, 230 cases were closed, whereas in FY2007, 303 cases were closed, reflecting an increase in productivity of more than 30%. This is directly related to the emphasis placed on REP cases in this Fiscal Year. This increased productivity was accomplished with eight (8) fewer staff on-board. Additionally, overage REP cases were reduced by more than 60% during FY2007, from 164 overage REP cases in FY2006, to 114 such cases in FY2007.

	FY2003	FY2004	FY2005	FY2006	FY2007
Petitions Pending, start of year	145	153	119	123	160
Petitions Filed	309	347	285	276	297
Total Petitions	454	500	404	399	457
Petitions Closed					
Petitions Withdrawn	120	130	121	99	136
Merit Determinations	181	251	160	140	165
Total Petitions Closed	301	381	281	230	301
Petitions Pending, end of year	153	109	113	159	156

Authority Decisional Component

Within the *Authority Decisional Component*, unlike other cases worked, there is a statutory time requirement to complete a REP case. Such cases are given priority in order to meet the statutory requirement. During FY2007, the Authority **received 13** REP cases, which in addition to the **1** case pending at the beginning of the year, produced a caseload of **14** REP cases. The Authority **closed 10 REP cases** during FY2007.

	FY2003	FY2004	FY2005	FY2006	FY2007
Cases Pending, start of year		1	1	1	1
Case Intake	3	7	11	12	13
Total REP Caseload		8	12	13	14
Case Closings					
Procedural	2	0	1	1	0
Merits	9	7	10	11	10
Total REP Closings	11	7	11	12	10
REPs pending, end of year	1	1	1	1	4

Arbitration (ARB) Caseload

During FY 2007, the Authority **received 162** Arbitration (ARB) cases, which, in addition to the **106** cases **pending** at the beginning of the year, produced a **caseload of 268** ARB cases. The Authority closed **54** cases.

	FY2003	FY2004	FY2005	FY2006	FY2007
Cases Pending, start of year		77	60	56	106
Case Intake	147	159	138	136	162
Total ARB Caseload		236	198	192	268
Case Closings					
Procedural	24	33	18	13	17
Merits	144	143	124	73	37
Total ARB Closings	168	176	142	86	54
ARBs pending, end of year	77	60	56	106	214

Negotiability (NEG) Caseload

During FY 2007, the Authority **received 52** Negotiability (NEG) cases, which, in addition to the **24** cases **pending** at the beginning of the year, produced a **caseload of 76** NEG cases. The Authority closed **36** cases.

	FY2003	FY2004	FY2005	FY2006	FY 2007
Cases Pending, start of year		26	14	22	24
Case Intake	56	49	66	68	52
Total NEG Caseload		75	80	90	76
Case Closings					
Procedural	36	40	38	53	30
Merits	27	21	20	13	6
Total Closings	64	61	58	66	36
Cases pending, end of year	26	14	22	24	40

Bargaining Impasse Caseload

The *Federal Service Impasses Panel* (FSIP) resolves impasses between Federal agencies and unions representing Federal employees arising from negotiations over conditions of employment under the Federal Service Labor-Management Relations Statute and the Federal Employees Flexible and Compressed Work Schedules Act. If bargaining between the parties, followed by mediation assistance, proves unsuccessful, the FSIP recommends procedures and takes whatever action it deems necessary to resolve the impasse.

In FY 2007, the FSIP **received 115** requests for assistance. This, added to the **pending** caseload of 34, resulted in a total FY 2007 **caseload of 149**, a decline for the fifth consecutive year. The FSIP **closed** 126 cases, including declining jurisdiction, withdrawal, voluntary settlement, decision and order, or other means.

	FY2003	FY2004	FY2005	FY2006	FY 2007
Cases Pending, start of year	71	61	48	45	34
Impasses Received	184	154	146	134	115
Total Caseload	245	215	194	179	149
Impasses Resolved	194	167	149	145	126
Cases pending, end of year	61	48	45	34	23

Financial Statements

As of September 30, 2007, the financial condition of the FLRA was sound with respect to having sufficient funds to meet program needs and adequate controls of these funds in place to ensure that obligations did not exceed budget authority. The FLRA prepared its financial statements in accordance with accounting standards codified in *Statements of Federal Accounting Standards* and OMB Circular A-136, *Financial Reporting Requirements.*

The FLRA's principle financial statements have been prepared to report FLRA's financial position and results of operations pursuant to requirements of 31 U.S.C. 3515. While the statements were prepared from FLRA's books and records in accordance with generally accepted accounting principles for Federal entities and the formats prescribed by OMB, the statements are in addition to the financial reports used to monitor and control budgetary resources. The statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity.

Systems, Controls, and Legal Compliance

In accordance with the *Federal Managers' Financial Integrity Act* (FMFIA), the FLRA has an internal management control system, which helps provide assurance that (1) obligations and costs comply with applicable law; (2) assets are safeguarded against waste, loss, unauthorized use or misappropriation; and (3) revenues and expenditures are properly recorded and accounted for. The FMFIA also requires assurance that funds are being used in accordance with the agency's mission and that they are achieving their intended results; that resources are protected from waste, fraud, and mismanagement, and that laws and regulations are followed. The FMFIA encompasses program, operational, and administrative areas, as well as accounting and financial management. The FMFIA requires the FLRA Chairman to provide an assurance statement on the adequacy of management controls and conformance of financial systems with Government wide standards. The Chairman's assurance statement is contained in her transmittal letter (*Chairman's Message*) at the beginning of this report.

During FY 2007, the FLRA obtained automated financial management support, including automated accounting system and payroll processing services, from the Department of the Interior (DOI). During FY 2007, the FLRA Chairman, who is also the FLRA Chief Financial Officer (CFO), closely monitored the financial management of the agency, given a vacant Director of Budget & Finance Division position. The FLRA transitioned the accounting and financial reporting functions to the Department of the Interior's *National Business Center* (NBC). Specifically, DOI-NBC implemented and maintained Oracle Financial application for the FLRA. Implementation and maintenance included the following applications: General Ledger, Accounts Payable, Accounts Receivable, Fixed Assets, Purchasing, Federal Administrator and Discoverer (reports system). This transition was undertaken as a response to prior year auditor's management report recommendations.

Management Controls and Assessment Activities

During FY 2007, the FLRA undertook an agency-wide assessment of internal controls through contractor Grant-Thornton, Inc. Following the assessment, consultants assisted with revision or creation of draft instructions, as appropriate. Grant-Thornton consultants also presented several all-employee and all-manager/supervisor training sessions on the topic of internal controls, focusing on the responsibilities and obligations of employees, depending upon their organizational role, in promoting and ensuring reasonable assurance of proper controls and subsequent actions should such controls be determined not to be in place or adhered to by agency personnel.

The Chairman's reasonable assurance recognizes that (1) the cost of management controls should not exceed the projected derived benefits; and (2) the benefits consist of reductions in the risks of failing to achieve the stated objectives. The expected benefits and related costs of control procedures should be addressed using estimates and managerial judgment. Moreover, errors and irregularities may occur and not be detected because of inherent limitations in any system of internal accounting and administrative control, including those limitations resulting from resource constraints, restrictions, and other factors. Finally, projection of any evaluation of the system to future periods is subject to risk that procedures may be inadequate because of changes in conditions or that the degree of compliance with the procedures may change.

Trends and Issues

The most significant external trends affecting the FLRA in carrying out its mission of resolving Federal labor-management disputes are the increasing trend to institute flexible human resources management systems government-wide; the impact of the Base Realignment and Closure (BRAC) process on distribution of cases within the current FLRA regional office structure, the increasing trend towards electronic filing, and a continuing government-wide challenge to reduce Federal spending.

Trend to Institute Flexible Human Resources Management Systems Government-wide

Legislative and legal action in connection with Department of Defense (DoD) and Department of Homeland Security (DHS) personnel system reforms and their anticipated effect on the already existing (e.g., historical) downward trend of agency wide workload, may have an impact on how the FLRA carries out its mission. A continuing emphasis on alternative human resources management systems government-wide, may also impact the FLRA, depending upon the extent to which Title 5, Chapter 71 provisions of such systems are waived, modified, or retained. As a neutral agency, the FLRA takes no position on the matter. The FLRA will strive to implement successfully whatever legislative or legal requirements may result from government-wide changes in human resources management systems.

Base Realignment and Closure (BRAC) Process

As the BRAC process proceeds, the FLRA may be impacted by changes in customer concentration within the various FLRA regions. Bases in some regions are expected to close. Populations of bases in other regions may increase as employees are relocated. The FLRA will need to remain vigilant to the costs of operations within its regional offices. As base populations change, the FLRA may be impacted by a short-term increase in Representation petitions, should labor organizations seek to consolidate membership or employees seek to change their representative organization(s).

Electronic Filing

The government-wide trend to E-Government continues. For the FLRA, this means continuing its efforts to transition to electronic filing. With such transition, the FLRA will also need to address changes in case-processing and agency operations to ensure effectiveness and efficiency.

Government-wide Challenge to Reduce Federal Spending

As agencies continue to reduce spending, there may be a corresponding decrease in the size of the workforce or the make-up of the workforce. Such actions may lead to isolated increased filings before the FLRA, depending upon the organization(s) involved. The FLRA will continue to monitor Congressional and Administration government-wide budget actions to ensure its ability to deploy resources accordingly to meet customers' needs.

FLRA Staff and Leadership

Over time, work performed agency-wide has changed such that the overall complexity level has decreased. Such a finding is not necessarily surprising. The FLRA has applied the Statute, virtually unchanged, for more than 25 years. During this time, the FLRA has progressively developed a body of case law rooted in a Statute that has remained virtually unchanged. With parties' access to a growing body of precedent, fewer issues are presented to the FLRA *de novo.* Also, staff turnover at the FLRA has historically been very low. Similar to other agencies, the FLRA has a need to engage in succession planning in order to ensure the proper mix of skill sets and leaders for positions vacated by retiring and departing employees. During FY 2007, consultants assisted the FLRA with succession planning development activities and revision of Human Resources policies and internal instructions. These activities were undertaken to ensure the FLRA can continue to attract and retain employees and leaders with the right skills to accomplish its mission.

PROGRAM PERFORMANCE REPORT

Strategic Plan
Performance Goal 1 **Timely adjudication of cases through E-Filing and case tracking.**

2007 Performance Goals	FY 2007 Actual Performance
Complete procurement action to build electronic case-filing system and integrate with existing web-based applications by end-of-fourth quarter and implement on-line filing.	The FLRA did not meet this goal. Unforeseen personnel issues, including the sudden retirement of the agency CIO resulted in this project's timeline being extended.
Previous Goal	**Previous Performance**
FY 2006 Goal Complete procurement action to build electronic case-filing system and integrate with existing web-based applications by end-of-fourth quarter and implement on-line filing.	**FY2006 Actual** This goal was not met due to unforeseen issues with the contractor. A new contract was awarded at the end-of-the-fiscal year to complete the transition of the operating system to XP. The 2006 performance goal target will remain for FY 2007 **FY 2005 Actual** Completed a network migration from Windows NT 4.0 to Windows 2003 using Active Directory services. FLRA made effective use of the government's SmartBuy program to procure hardware and software at reduced cost and to determine hardware and software purchases necessary to support the Enterprise Architecture and are consistent with the FLRA upgrade sequence plan for FY 2004 and OMB's Government-wide Business Reference Model. **FY 2004 Actual** Streamlined the FLRA's case information database, reduced redundancy, and improved the quality and performance of agency-wide application systems.

Strategic Plan
Performance Goal 2 — Timely review and disposition of Unfair Labor Practice (ULP) cases.

<u>**Office of the General Counsel**</u>	
2007 Performance Goals A. All ULP charges will be resolved (issuance of a complaint, withdrawal, dismissal, or settlement of the charge) within 120 days from the date filed.	**FY 2007 Actual Performance** Total charges = 4,082 Goal reached = 2,560 charges (63%)
B. Issue 80% of decisions on appeals within 60 days of receipt of the appeal of the Regional Director's dismissal of the charge.	Total cases =287 Goal reached = 250 (87%)
C. All ULP complaints will receive a hearing within 90 days or be otherwise settled.	Total cases = 20 Goal reached = 20 (100%)
Previous Goals	**Previous Performance**
2006 Performance Goals (New Goals) D. All ULP charges will be resolved (issuance of a complaint, withdrawal, dismissal, or settlement of the charge) within 90 days from the date filed.	**FY 2006 Actual Performance** Total charges = 4,240 Goal reached = 1,915 charges (45%)
E. Issue 80% of decisions on appeals within 60 days of receipt of the appeal of the Regional Director's dismissal of the charge.	Total cases = 581 Goal reached = 85 (15%)
F. All ULP complaints will receive a hearing within 90 days or be otherwise settled.	Total cases = 26 Goal reached = 17 (65%)
FY 2005 Goal: Ensure that no more than **5%** of the ULP cases pending are over 90 days old without the issuance of a complaint, or without the dismissal, withdrawal, or settlement of the charge.	**FY 2005 Actual** **24%** of pending ULP charges were over 90 days old without the issuance of a complaint, or without the dismissal, withdrawal, or settlement of the charge.
FY 2004 Goal: Ensure that no more than **15%** of the ULP cases pending are over 90 days old without the issuance of a complaint, or without the dismissal, withdrawal, or settlement of the charge.	**FY 2004 Actual** **5%** of pending ULP charges were over 90 days old without the issuance of a complaint, or without the dismissal, withdrawal, or settlement of the charge.
<u>**Office of the Administrative Law Judges**</u>	
FY 2007 Performance Goals Within 60 days of close of hearing, the Office of Administrative Law Judges will issue a decision.	**FY 2007 Actual Performance** Total cases = 160 Goal reached = 10 (26%)

Previous Goals	Previous Performance
FY 2006 Performance Goals Within 60 days of close of hearing, the Office of Administrative Law Judges will issue a decision. Unfair Labor Practice Hearing Ensure median age of no more than **70 days** from date unfair labor practice complaint issued to hearing; no more than 10% of cases pending decision will reach hearing in more than 110 days.	**FY 2006 Actual** Median age of **93 days** of cases pending from date complaint issued to hearing; **60%** of cases pending decision reached hearing in more than 110 days. **FY 2005 Actual** Median age of **93 days** of cases pending from date complaint issued to hearing; **60%** of cases pending decision reached hearing in more than 110 days.
FY 2004 Goal: Ensure median age of no more than **70 days** from date complaint issued to hearing; no more than **10 %** of cases pending decision will reach hearing in more than 110 days.	**FY 2004 Actual** Median age of **99 days** of cases pending from date complaint issued to hearing; **49%** of cases pending decision reached hearing in more than 110 days.
Authority Decisional Component	
FY 2007 Performance Goals (New Goals)	**FY 2007 Actual Performance**
• Upon completion of filing requirements pursuant to FLRA regulations, all ULP cases will be assigned to an Authority Member staff within 5 working days or be otherwise disposed.	Total cases = 17 Goal reached = 1 (6%)
• Within 90 days of assignment to an Authority Member staff, a final ULP decision will issue.	Total cases = 0 Goal reached = 0
Previous Goals	**Previous Performance**
FY 2006 Performance Goals (New Goals)	**FY 2006 Actual**
• Upon completion of filing requirements pursuant to FLRA regulations, all ULP cases will be assigned to an Authority Member staff within 5 working days or be otherwise disposed. • Within 90 days of assignment to an Authority Member staff, a final ULP decision will issue.	Total cases = 8 Goal reached = 0
FY 2005 Goal: Arbitration (Arb), Negotiability (Neg), Unfair Labor Practice (ULP), Representation (Rep) Cases Ensure median age of **180 days** from the date the parties have satisfied all filing requirements with the Authority to the issuance of a final merits decision; and as of the end of the fiscal year, that **no active cases pending decision are over one year old** from the date the parties satisfied all	**FY 2005 Actual** Median age of cases was **142 days** from the date all filing requirements were satisfied. **No cases** pending decision were over 1 year old from the date all filing requirements were satisfied.

filing requirements.	**FY 2004 Actual** Median age of cases issued was **135 days** from the date all filing requirements were satisfied. 1 case pending decision was over 1 year old from the date all filing requirements were satisfied.

<u>Office of the General Counsel (OGC)</u>

New ULP goals were established for FY2007 and substantial progress was made in meeting these new goals. The new standard calls for all ULP charges to be resolved within 120 days from the date filed. Last year, the standard was 90 days. This standard was deliberately relaxed in an effort to allow more REP cases to be timely resolved, after the GC determined that too many REP cases were pending with no action. The appeals goal was met 87% of the time. With respect to the third goal, the GC cannot take complete credit. The ALJ schedules the hearing date; however, the GC has instituted a policy not to request continuances unless necessary, but in any event, no continuance request from the OGC would extend the hearing beyond the 90 day goal.

<u>Office of Administrative Law Judges (OALJ)</u>

The OALJ substantially met its goals for FY2007. The average number of days from the time the General Counsel issued a complaint to the time an ALJ issued a decision was 153 days while the goal was 180 days. The average number of days from the date the complaint was issued until a hearing was held was 58 days while the goal was 90 days. The average number of days from the time post-hearing briefs were submitted by the parties until an ALJ issued a final recommended decision to the Authority was 52 days when the goal was 60 days. The one goal the OALJ missed upon was the goal of issuing a decision within 90 days from the time the hearing was completed, with the actual average being 95 days. However, that 90 day goal reflects 30 days allotted to the parties for the submission of post-hearing briefs required by FLRA regulation and 60 days for the judge to prepare a decision. In meeting the 60 day goal by averaging 52 days for the issuance of their decisions, the judges have demonstrated that exceeding the overall 90 day goal by 5 days resulted from the parties seeking additional time for the submission of their post-hearing briefs and those requests give rise to due process concerns that cannot be dismissed solely on the basis of meeting a performance goal.

<u>Authority Decisional Component (Authority)</u>

The *Authority Decisional Component* did not meet its FY 2007 performance goals. For a portion of the year, one of the three Authority Member positions was vacant, and for a period, two of those positions were vacant. Additionally, one Chief Counsel and a number of experienced attorneys departed the agency. Further, in mid-year, the Authority realigned its case intake and publication, and its case production functions in response to a FY2006 performance issue in which one Authority Member directed her Chief Counsel to process cases according to prior year performance goals, rather than managing her office caseload according to agency-wide performance goals.

Strategic Plan
Performance Goal 3 Provide timely review and disposition of Representation (REP) cases.

Office of General Counsel	
2007 Performance Goal:	**FY 2007 Actual Performance**
• **Issue Decision & Order (D&O) or approve withdrawal of petition within 90 days of filing of petition with the OGC, where no election or hearing is necessary.**	Total cases = 147 Goal reached = 90 (61%)
• **Conduct election within 90 days from the date of filing of petition with the OGC, where no hearing is necessary.**	Total cases = 51 Goal reached = 28 (55%)
• **Issue D&O in all REP cases in 180 days, where a hearing is necessary.**	Total cases = 35 Goal reached = 5 (14%)
	Previous Performance
2006 Performance Goal:	**FY2006 Actual**
A. Issue certifications in Representation cases within 110 days of filing of petition with the OGC.	Total cases = 242 Goal reached = 147 (61%)
B. 90% of all Representation elections will occur within 60 days of filing of a petition with the OGC.	Total cases = 66 Goal reached = 62 (94%)
FY 2005 Goal: Ensure that no more than **5 %** of the Representation cases pending are over 90 days old without notice of hearing issued.	**FY 2005 Actual** **9%** of petitions pending over 90 days old without notice of hearing issued.
FY 2004 Goal: Ensure that no more than**15%** of the cases pending are over 90 days without notice of hearing issued.	**FY 2004 Actual** There were **no petitions** pending over 90 days old without notice of hearing issued.
Authority Decisional Component	
2007 Performance Goal	**FY 2007 Actual Performance**
• **Upon completion of filing requirements pursuant to FLRA regulations, all REP cases will be assigned to an Authority Member staff within 2 work days or be otherwise disposed.**	Total cases = 12 Goal reached = 7 (58%)
• **Within 90 days of assignment of a REP case to an Authority Member staff, a decision whether to grant review AND a final decision will issue.**	Total cases = 10 Goal reached = 8 (80%)

2006 Performance Goals	Previous Performance
Upon completion of filing requirements pursuant to FLRA regulations, all REP cases will be assigned to an Authority Member staff within 2 work days or be otherwise disposed.	**FY 2006 Actual Performance** Total cases = 12 Goal reached = 6 (50%)
Within 90 days of assignment of a REP case to an Authority Member staff, a decision whether to grant review AND a final decision will issue.	Total cases = 12 Goal reached = 10 (83%)
FY 2004/2005 Goal: <u>Arbitration (Arb), Negotiability (Neg), Unfair Labor Practice (ULP), Representation (Rep) Cases</u> Ensure median age of **180 days** from the date the parties have satisfied all filing requirements with the Authority to the issuance of a final merits decision; and as of the end of the fiscal year, that **no active cases pending decision are over one year old** from the date the parties satisfied all filing requirements.	**FY 2005 Actual** Median age of cases was **142 days** from the date all filing requirements were satisfied. **No cases** pending decision were over 1 year old from the date all filing requirements were satisfied. **FY 2004 Actual** Median age of cases issued was **135 days** from the date all filing requirements were satisfied. 1 case pending decision was over 1 year old from the date all filing requirements were satisfied.

<u>Office of the General Counsel (OGC)</u>

In an attempt to apply more focus on languishing REP cases and improve timeliness and efficiency, the GC radically altered the REP goals for FY2007. In the past, there had been very few hard deadlines/goals for REP cases. As the granting of exclusive recognition is a prerequisite to establishing a labor management relationship between agencies and unions, it is critical that this area receive higher focus. These new goals actually measure when a case reaches closure rather than when a case moves from stage-to-stage within the OGC. These new goals will ultimately result in more completed cases and a more efficient overall case handling process. The OGC made a very good showing on most of these goals, although more work is necessary and better results are anticipated in the upcoming fiscal year.

<u>Authority Decisional Component (Authority)</u>

This goal was substantially met. This was attributed to a statutory requirement that a decision whether to grant review occur within 60 days of receipt of a REP case. With REP cases, the Office of Case Adjudication/Case Intake & Publication Unit assigned cases without waiting for cure of procedural deficiencies or for the opposition, and without review by the agency Screening Team. This enabled work to begin immediately to ensure the statutory deadline was met. The mid-year realignment of the case-processing function slowed the process a bit, as did various staff changes; however, it is expected that during FY2008, these goals will be met.

Strategic Plan

Performance Goal 4 **Provide timely review and disposition of Arbitration (ARB) cases.**

Authority Decisional Component	
2007 Performance Goal:	**FY2007 Actual**
• **Upon completion of filing requirements pursuant to FLRA regulations, all ARB cases will be assigned to an Authority Member staff within 5 working days or be otherwise disposed.**	Total cases = 130 Goal reached = 3 (2%)
• **Within 90 days of assignment to an Authority Member staff, a final ARB decision will issue.**	Total cases = 36 Goal reached = 6 (17%)
Previous Goals	**Previous Performance**
2006 Performance Goal:	**FY2006 Actual**
• **Upon completion of filing requirements pursuant to FLRA regulations, all ARB cases will be assigned to an Authority Member staff within 5 working days or be otherwise disposed.**	Total cases = 120 Goal reached = 4 (3%)
• **Within 90 days of assignment to an Authority Member staff, a final ARB decision will issue.**	Total cases = 66 Goal reached = 2 (3%)
FY 2004/2005 Goal: Arbitration (Arb), Negotiability (Neg), Unfair Labor Practice (ULP), Representation (Rep) Cases Ensure median age of **180 days** from the date the parties have satisfied all filing requirements with the Authority to the issuance of a final merits decision; and as of the end of the fiscal year, that **no active cases pending decision are over one year old** from the date the parties satisfied all filing requirements.	**FY 2005 Actual** Median age of cases was **142 days** from the date all filing requirements were satisfied. **No cases** pending decision were over 1 year old from the date all filing requirements were satisfied. **FY 2004 Actual** Median age of cases issued was **135 days** from the date all filing requirements were satisfied. 1 case pending decision was over 1 year old from the date all filing requirements were satisfied.

Authority Decisional Component (Authority)

The *Authority Decisional Component* did not meet its FY 2007 performance goals. For a portion of the year, one of the three Authority Member positions was vacant, and for a period, two of those positions were vacant. Additionally, one Chief Counsel and a number of experienced attorneys departed the agency. Further, in mid-year, the Authority realigned its case intake and publication, and its case production functions in response to a FY2006 performance issue in which one Authority Member directed her Chief Counsel to process cases according to prior year performance goals, rather than managing her office caseload according to agency-wide performance goals.

Strategic Plan

Performance Goal 5 **Provide timely review and disposition of Negotiability (NEG) cases.**

Authority Decisional Component	
2007 Performance Goal:	**FY2007 Actual Performance**
• Upon completion of filing requirements pursuant to FLRA regulations, all NEG cases will be assigned to an Authority Member staff within 5 working days or be otherwise disposed.	Total cases = 12 Goal reached = 7 (58%)
• Within 100 days of assignment (reflecting reasonable time period for a post-petition conference) to an Authority Member staff, a final NEG decision will issue.	Total cases = 10 Goal reached = 8 (80%)
Previous Goals	**Previous Performance**
2006 Performance Goal: • Upon completion of filing requirements pursuant to FLRA regulations, all NEG cases will be assigned to an Authority Member staff within 5 working days or be otherwise disposed.	Total cases = 19 Goal reached = 1 (5%)
• Within 100 days of assignment (reflecting reasonable time period for a post-petition conference) to an Authority Member staff, a final NEG decision will issue.	Total cases = 14 Goal reached = 1 (7%)
FY 2004/2005 Goal: Arbitration (Arb), Negotiability (Neg), Unfair Labor Practice (ULP), Representation (Rep) Cases Ensure median age of **180 days** from the date the parties have satisfied all filing requirements with the Authority to the issuance of a final merits decision; and as of the end of the fiscal year, that **no active cases pending decision are over one year old** from the date the parties satisfied all filing requirements.	**FY 2005 Actual** Median age of cases was **142 days** from the date all filing requirements were satisfied. **No cases** pending decision were over 1 year old from the date all filing requirements were satisfied. **FY 2004 Actual** Median age of cases issued was **135 days** from the date all filing requirements were satisfied. 1 case pending decision was over 1 year old from the date all filing requirements were satisfied.

Authority Decisional Component (Authority)

The *Authority Decisional Component* did not meet its FY 2007 performance goals. For a portion of the year, one of the three Authority Member positions was vacant, and for a period, two of those positions were vacant. Additionally, one Chief Counsel and a number of experienced attorneys departed the agency. Further, in mid-year, the Authority realigned its case intake and publication, and its case production functions in response to a FY2006 performance issue in which one Authority Member directed her Chief Counsel to process cases according to prior year performance goals, rather than managing her office caseload according to agency-wide performance goals.

Strategic Plan

Performance Goal 6 **Provide timely review and disposition of Bargaining Impasse cases.**

<u>Federal Service Impasses Panel</u>	
2007 Performance Goals:	**FY2007 Actual Performance**
• Cases in which the Panel declines jurisdiction will close within 20 days of such decision.	Total cases = 115 received + 34 pending =149 cases Goal reached = 82 cases considered; in 29 cases, the Panel declined jurisdiction. In each declination, the filing parties were notified within 20 days of the Panel's determination and the cases simultaneously closed. (100%)
• Cases that are withdrawn prior to a jurisdictional determination by the Panel will close within 60 days.	Fifty-seven percent of the applicable cases were withdrawn within 60 days. Forty-nine cases were withdrawn prior to a jurisdictional determination by the Panel. Of those, 28 (57%) were withdrawn in less than 60 days of the parties' filing a request for assistance. In the remaining 21 cases, the parties reached voluntary settlement in 4 cases. In 6 cases, parties agreed to resume negotiations. There were 11 cases left which did not meet the goal and closed within an average of 82 days.
• In cases in which the Panel issues a Decision & Order (D&O), the record will close within 150 days.	Total D&O issued = 33 Average days to closing of record = 172 days
Previous Goals	**Previous Performance**
2006 Performance Goal:	
• Procedural review and jurisdictional screening process will be completed on all new cases within 30 days of filing with the FSIP. Cases in which FSIP declines jurisdiction will close within 30 days of such decision.	Total cases = 134 Goal reached = 134 (100%)
• 90% of FSIP Decisions and Orders will issue within a median age of 100 days.	Total cases = 32 Goal reached = 32 (100%)
FY 2005 Goal: Ensure median age of no more than 90 days for cases where jurisdictional issues are raised and where jurisdiction is declined.	**FY 2005 Actual** Median age of **102.5 days** for cases where jurisdictional issues were raised and jurisdiction was declined.
FY 2004 Goal: Ensure median age of no more than **100 days** for cases where jurisdictional issues are raised and jurisdiction is declined.	**FY 2004 Actual** Median age of **112 days** for cases where jurisdictional issues were raised and jurisdiction was declined.

Federal Service Impasses Panel

Cases in which the Panel declines jurisdiction will close within 20 days of such decision.
FSIP received 115 requests for assistance during FY 2007. There were 34 pending cases from FY 2006. During the reporting period, the Panel considered 82 cases for jurisdictional determination. The Panel declined to assert jurisdiction on 29 cases during the FY. In each declination, the filing parties were notified within 20 days of the Panel's determination and the cases simultaneously closed.

Cases that are withdrawn prior to a jurisdictional determination by the Panel will close within 60 days.
Fifty-seven percent of the applicable cases were withdrawn within 60 days. Forty-nine cases were withdrawn prior to a jurisdictional determination by the Panel. Of those 49 cases, 28 (57%) were withdrawn in less than 60 days of the parties' filing a request for assistance. In the remaining 21 cases, the parties in 4 cases reached voluntary settlement – an outcome considered satisfactory by the parties. These cases are technically considered withdrawn vs. voluntarily settled because these cases had not been considered by the Panel for jurisdictional determination. In the remaining 17 cases, the parties in 6 cases agreed to resume negotiations – again "technically" considered withdrawn but a satisfactory outcome for the parties who have filed but are statutorily not at impasse.

Consequently, 11 cases did not meet the goal and closed within an average of 82 days. Following the initial investigations in these cases, the overwhelming majority were deemed to be in the wrong forum (involved unfair labor practice charges, negotiability issues or grievances). Only the filing party can technically withdraw a case. Should the filing party refuse to withdraw – even when the FSIP forum is clearly inappropriate to address the parties' woes – only a procedural determination by the Panel to decline to assert jurisdiction can remedy a "parked" case. Further, very logically, the parties often do not reveal their "strategy" up front, and at any time during the investigation one of the parties may deem issues to be non-negotiable – which is often a strategy in itself. Negotiability issues must be resolved elsewhere before the Panel can determine that the parties are at impasse. In the management of caseload, voluntary settlement remains the main objective and often a fine line lies between a potential settlement and clever delay tactics. Such a stance on the part of the customer results in significant delays and increases the age of a case.

Withdrawn cases account for the majority of cases filed each year. Often, cases that result in a withdrawal are the result of frustrated parties looking for solutions or an opportunity to more quickly move issues to resolution within the FLRA. Regardless, the FSIP fully reviews submissions and conducts conferences with the parties in each case to assist the parties in reaching resolution of the issues, yet during that investigative process a more appropriate avenue for the parties may be revealed.

FSIP adopted a revised measurement standard in FY 2007 to include the "withdrawn" category due to the significant amount of resources consumed in assisting these parties. The investigative processes conducted by FSIP uncover the details and complexities of the parties' issues at impasse, and often the underlying complications involved in the bargaining breakdown. Regardless of a case's end result – withdrawal, declination, voluntary settlement or a Panel decision – the FSIP initial investigations process is identical. The distinctions between all requests for assistance are only revealed following an investigation.

In cases in which the Panel issues a Decision & Order, the record will close within 150 days.
The record closed on Decisions and Orders cases within 150 days in 79% of the cases. The Panel issued 33 Decisions and Orders during FY 2007. In the performance period, FSIP received 115 requests for assistance. An additional 34 cases were pending from FY 2006. The Panel considered 82 Initial Inquiry Reports (IIRs are the result of FSIP staff investigations) for procedural determination during FY 2007 – 17 pending from FY 2006 and 65 filed in FY 2007. The average days to record close is 122 days. D&Os were issued within an average of 172 days.

Though the number of cases filed continues to decline in FY 2007, the complexities of the cases continue to increase. Bargaining over wages and salaries are not typically negotiable subjects. However, FSIP has received several cases where Congress and/or the courts have determined that compensation is an appropriate subject of bargaining for specific federal agencies. Impasses over more minor topics such as the wearing of cargo shorts and flip flops have significantly decreased as have the number of smoking cases brought before the Panel. The majority of D&Os issued in FY 2007 were the result of impasses that arose during bargaining (and subsequent mediation with FMCS) over major issues over the parties' successor collective-bargaining agreements (CBA) and initial master CBAs as well as complicated issues during Mid-Term bargaining. Additionally, the relationship between the parties – and their history – has a significant impact on their progress, and in turn, the process.

During the fiscal year, the Panel operated with a vacancy among attorney staff. The Executive Director worked cases, as has been the practice in prior years. Additionally, one Labor Relations Specialist accepted a position elsewhere in the Agency, although a Labor Relations Specialist detailee from another component was able to backfill this position. By the end of the fiscal year, the Panel was actively recruiting to fill the vacant attorney position.

There were five cases filed as a result of an employer's termination of a compressed work schedule under the Federal Employees Flexible and Compressed Work Schedules Act of 1982 (Act), 5 U.S.C. § 6120, *et seq.* Once a case filed under the Act is appropriately perfected, the Panel must issue a Decision and Order within 60 days. This requires an immediate shift of priorities in the management of the FSIP caseload. Each of these cases was decided within the legally required time frame. Moreover, D&Os are often issued after intensive efforts by a Panel Member to work with the parties to achieve a voluntary settlement have not been completely successful. The number of issues at of impasse within a case may be significantly reduced during mediation efforts by a Panel Member; however, terms must be imposed for any unresolved issues – even one. Regardless, the case continues to be classified under the D&O category vs. voluntary settlement even though the majority of the issues may have been resolved voluntarily.

FSIP considers its process to be the federal government's substitute for a union's right to strike. Therefore, an important objective is to assist the parties in reaching a voluntary resolution to their impasses. There are no statutory time requirements within the FSIP process (with the exception of CWS termination cases filed under the Act). Even though the Panel issues a final and binding Decision and Order, the parties retain the option to adopt an alternative if the parties should so agree.

FINANCIAL REPORT

Overview of Financial Performance

The FLRA Chairman is also the FLRA's Chief Financial Officer. As such, the Chairman is responsible for overseeing all financial management activities relating to the components and operation of the agency, and is accountable for ensuring that financial management legislation such as the *Accountability of Tax Dollars Act of 2002*, the *Federal Managers Financial Integrity Act (FMFIA) of 1992*, and the *Government Management and Reform Act (GMRA) of 1994*, are implemented.

The FLRA Division of Budget and Finance provides services and guidance in connection with Agency financial management, including budget formulation and execution; funds control; invoice processing and payments; intra-governmental payments; Treasury reporting; quarterly and end-of-year financial statements; and liaison with the Department of Interior's National Business Center (NBC) for the Federal Financial System (FFS). During FY 2007, FLRA purchased the following services from NBC:

- Operations and maintenance including Hosting, Licensing, Functional Technical Support, Help Desk and Customer Support for Oracle Federal Financials.
- Accounting operations functions that include general accounting, payment processing and assistance with accounting questions. Processes for all forms of payments includes processing, auditing, scheduling, and certifying vouchers for payments; and establishing obligations, payables and disbursements. Prepares Treasury's monthly, quarterly and annual reports and inputs to Treasury systems. Prepares Quarterly and Annual Financial Statements.
- Payroll services using the Federal Payroll and Personnel System (FPPS).

Budgetary Resources
FLRA receives its funding through an annual discretionary appropriation that includes Federal funds and miscellaneous reimbursements. The reimbursements, which are considered exchange revenue, come from Federal agencies for training that FLRA has provided on federal labor relations. The reimbursements are usually in the form of expenditure transfers (payments made from one account to another).

Analysis of Financial Statements
FLRA's FY 2007 financial statements report the Agency's financial position and result of operations on an accrual basis – where transactions are recorded when they occur, regardless of when cash is received or disbursed. This method of accounting allows an accurate evaluation of operations during a given fiscal period, and takes into account future operations.

The annual financial statements consist of a Balance Sheet; Statement of Net Cost; Statement of Changes in Net Position; Statement of Budgetary Resources and related Notes that provide a clear description of the Agency and its mission, as well as the significant accounting policies used to develop the statements.

Balance Sheet
The Balance Sheet presents amounts of future economic benefits owned or managed by the reporting entity exclusive of items subject to stewardship reporting (assets), amounts owed by the entity (liabilities), and amounts that comprise the difference (net position).

Assets
Assets represent Agency resources that have future economic benefits. FLRA's assets totaled $11,585,330 in FY 2007. The fund balances with the U.S. Department of Treasury – mostly undisbursed cash balances from appropriated funds – comprised 93.05% of the total assets. Fund balances represent dollars maintained at the U.S. Department of Treasury Department to pay current liabilities, accounts payable, and undelivered orders.

FLRA does not maintain any cash balances outside of the U.S. Treasury and does not have any revolving or trust funds.

Liabilities

Liabilities represent funded and unfunded activities that require future budgetary resources. Relative to assets, FLRA has few liabilities. In FY 2007, the Agency's liabilities totaled $3,939,744. Accounts payable reflect funds owed primarily for contracts and other services. Accrued leave liabilities reflect both unfunded liabilities for estimated annual leave earned but not as yet paid as well as worker's compensation benefits.

Net Position

FLRA's net position, which reflects the difference between assets and liabilities and signifies the Agency's financial condition, totaled $7,645,586. Net position consists of two categories: *unexpended appropriations* – the amount of authority granted by Congress that had been obligated but not expended– and *cumulative results of operations* – the net results of operations since inception plus the cumulative amount of prior period adjustments.

Statement of Net Cost

The Statement of Net Cost represents the gross cost incurred less any exchange revenue earned from activities. Net costs recognize costs when incurred, regardless of the year the funds were appropriated. The line item on this statement reflects salaries and expenses as appropriated. In FY 2007, the FLRA's net cost of operations was $24,031,744.

Statement of Changes in Net Position

The Statement of Changes in Net Position reports how the Agency financed its operations as well as the amount of costs covered by imputed financing – costs paid for by others. At the end of FY 2007, the FLRA's consolidated net position was $(1,977,387).

Statement of Budgetary Resources

The Statement of Budgetary Resources focuses on: budgetary resources available to FLRA (appropriated and reimbursable); the status of those resources (obligated or unobligated); and the relationship between the budgetary resources and outlays (collections and disbursements). In FY 2007, the FLRA's budgetary resources totaled $31,535,367, with nearly all of these resources from spending authority. This statement reflects that approximately 73% ($23,171,207) of the resources available in FY 2007 were obligated. FLRA's net outlays totaled $22,670,814: specifically, $22,672,524 in disbursements less $1,710 in collections.

Statement of Financing (Note 10)

The Statement of Financing links proprietary and budgetary accounting information and reconciles obligations incurred with the net cost of operations. While the budgetary accounting system tracks resources and the status of those resources, the financial accounting system facilitates the translation of budgetary resources into the financial statements on an accrual basis. For FY 2007, the resources used to finance FLRA totaled $23,171,207, which represents obligations incurred and any other resources used to finance activities.

Limitations to Financial Statements

The financial statements were prepared to report the financial position and results of the entity, pursuant to the requirements of Office of Management and Budget Bulletin 01-09 and the Accountability of Tax Dollars Act of 2002. Although these statements were prepared from the books and records of the entity in accordance with the formats prescribed by the Office of Management and Budget, these statements are in addition to the financial reports used to monitor and control budgetary resources, which are prepared from the same books and records.

These statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity. One key implication of this fact is that liabilities cannot be liquidated without legislation that provides the resources to do so.

DJHPM

Dembo, Jones, Healy, Pennington & Marshall, P.C.

Certified Public Accountants and Consultants

Independent Auditors' Opinion on the Financial Statements

Ms. Dale Cabaniss
Chairman
Federal Labor Relations Authority

We have audited the accompanying balance sheet of the Federal Labor Relations Authority (FLRA) as of September 30, 2007, and the related statement of net cost, changes in net position and budgetary resources for the fiscal year then ended. These financial statements are the responsibility of FLRA's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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. 07-04, "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 misstatement. 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the of the Federal Labor Relations Authority Federal as of September 30, 2007, and its net costs; changes in net position and budgetary resources for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management Discussion and Analysis (MD&A) section is not a required part of the basic financial statements of the Federal Labor Relations Authority but is supplementary information required by the Federal Accounting Standards Advisory Board and OMB Circular A-136, "Financial Reporting Requirements". We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the MD&A. However, we did not audit the information and, accordingly, express no opinion on it.

In accordance with *Governmental Auditing Standards*, we have also issued a report dated February 8, 2008, on our consideration of the Federal Labor Relations Authority's internal control over financial reporting and a report dated February 8, 2008 on its compliance with certain provisions of laws and regulations. These reports are an integral part of an audit performed in accordance with *Government Auditing Standards,* and, in considering the results of the audits, these reports should be read in conjunction with this report.

While this report is intended solely for the information and use of the management of the Federal Labor Relations Authority, OMB and Congress, it is also a matter of public record, and its distribution is, therefore, not restricted.

Dembo, Jones, Healy, Pennington & Marshall, P.C.

February 8, 2008

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Report of Independent Auditors
on Internal Control

Ms. Dale Cabaniss
Chairman
Federal Labor Relations Authority

We have audited the accompanying balance sheet of the Federal Labor Relations Authority (FLRA) as of September 30, 2007, and the related statements of net cost, changes in net position and budgetary resources for the fiscal year then ended, and have issued our report thereon dated February 8, 2008. 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. 07-04, "Audit Requirements for Federal Financial Statements."

In planning and performing our audits, we considered the Federal Labor Relations Authority's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements. We obtained an understanding of the design effectiveness of internal controls, determined whether they have been placed in operation, assessed control risk, and performed tests of FLRA's internal controls. We limited our internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin No. 07-04. We did not test all internal controls relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act of 1982, such as those controls relevant to ensuring efficient operations. Our audits were not for the purpose of expressing an opinion on the effectiveness of FLRA's internal control. Accordingly, we do not express an opinion on the effectiveness of FLRA's internal control.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

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Our consideration of internal control was for the limited purpose described in the preceding paragraphs and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses.

Finally, with respect to internal control related to performance measures reported in the annual performance plan, we obtained an understanding of the design of significant internal controls relating to the existence and completeness assertions, as required by OMB Bulletin No. 07-04. 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 matters involving the internal control and its operation that we continue to consider to be control deficiencies in 2007. These matters are discussed below along with the status of matters from 2006. We did not render an opinion in our report from our engagement concerning the 2006 financial statements and noted material weaknesses in our reports on internal control and compliance to laws and regulations. We are providing the current status of reportable conditions and material weaknesses under standards established by the American Institute of Certified Public Accountants that were reported by us during fiscal year 2006. The status of these matters is as follows:

Prior Year Comment/Follow up of Fiscal Year 2006 Matter:

1) Lack of Control Activities, Communication, and Monitoring

Noted in 2006 - FLRA procedures are inadequate for the oversight of financial accounting and reporting. Since the dismissal of the sub-contracted Budget and Finance supervisor in the fiscal second quarter, there was no evidence presented that showed management performed any oversight procedures for the accounting of operations or financial reporting of the operations. Accountants were preparing and recording journal entries and reporting the financial operations without management review and feedback.

Appropriate control activities, communication, and monitoring of the accounting and financial reporting operations are required by management in order to establish internal control. Without adequate internal control of the accounting and financial reporting operations, accounting and financial reporting may be unfairly stated without detection.

Management needs to establish appropriate control activities, communication, and monitoring of the accounting and financial reporting operations in effect for **FLRA**.

MANAGEMENT'S 2006 RESPONSE

Response from FLRA Chairman Cabaniss:

"The CFO worked closely with the previous contract vendor to oversee establishment of an advanced acquisition plan for individual programs upon which the agency budget for FY 2006 was based and against which execution was monitored. The CFO met

MANAGEMENT'S 2006 RESPONSE (continued)

regularly with the Component Heads or their designees on specific matters of budget execution as relates to actual expenditures. The CFO has had access to the same financial data that the operating accountant produces and reviewed and met with the contract vendor personnel, the operating accountants, and the executive director, on a regular basis. The executive director met with staff to discuss and approve FACTS data prior to submission; discussed, approved, or resolved routine budget issues; and provided/arranged updates to the CFO, quarterly, or more frequently, as the CFO requested.

During FY 2006, the FLRA entered into a Service Level Agreement (SLA) with the U.S. Department of the Interior, National Business Center, Denver, Colorado (NBC). **See Attachment (Management Response - 2004/2005 Financial Statement Recommendations, dated October 25, 2006)** *FLRA management used the Management Letter findings of FY 2004 and FY 2005 as the basis for the needs assessment to NBC.* FLRA management entered into the FLRA-NBC SLA in order to address existing staff and system weaknesses and in order to leverage and integrate other systems/services already provided by NBC. In so doing, FLRA has affirmatively taken the necessary steps to address the lack of current accounting staff knowledge, skills, and abilities within the Budget & Finance Division (as previously assessed and documented in the Clifton-Gunderson consultant report); to recognize and build upon the existing relationship with NBC for services relating to payroll and other human resources activities; and to respond to the instant report's recommendation that the FLRA establish best practices by engaging in services with an organization that, at the time of the SLA, is the only OMB approved Center of Excellence with proven capability and past experience to provide FLRA with a secure and stable hosting environment for its financial management systems."

AUDITOR'S 2006 RESPONSE

The Chairman asserts in writing for the first time, after numerous attempts by us to obtain information from management on its' control activities, that the CFO "reviewed and met with ...the operating accountant...on a regular basis". There was no other evidence of such meetings, either through inquiry of the known FLRA accountant or through any documentation known to us.

When draft financial statements were first provided to us, we needed to propose numerous adjusting entries for fair presentation of the financial statements. This was considered additional evidence of the lack of appropriate control activities.

The Chairman also refers to another Management Response made to the 2004/2005 Financial Statement Recommendations. This other Management Response was listed as being dated October 25, 2006. However, neither we, nor the Inspector General, obtained this document prior to the e-mail received by the Inspector General on June 7,

2007. In addition, this response was requested for months by us well into 2007 and we were not made aware that such a response was completed prior to that date. We consider the backdate of this document to be misleading as to the timeliness of that response.

The Chairman stated that the FLRA has entered into a Service Level Agreement with the U.S. Department of Interior, National Business Center, Denver, Colorado in order to address existing staff and system weaknesses. We consider these efforts as attempts to provide corrective action to agency staff and system weaknesses and we support these attempts. However, our comments made on fiscal year 2006's lack of control activities, communication, and monitoring, along with our recommendations, are still applicable and will remain as stated.

2007 CURRENT STATUS:

The Service Level Agreement with the U.S. Department of Interior was in effect during fiscal year 2007. Processes and controls improved during the fiscal year. FLRA needs to continue to monitor the reports produced by the National Business Center, and FLRA is responsible for the information produced by the Center. We detected certain errors made by the National Business Center. Management of FLRA addressed and corrected these errors when we informed them of the errors. We therefore consider these matters diminished from a material weakness, however there is still a need to continue strong oversight of information processed and produced by the National Business Center.

Prior Year Comment/Follow up of Fiscal Year 2006 Matter:

2) Assessment of Unliquidated Obligations

Noted in 2006 - Our audit disclosed that procedures are inadequate to review and analyze unliquidated obligations for determination of deobligation and liability accrual. There was no evidence of a management oversight or review process in place to ensure that unliquidated obligations are examined to determine both proper liability accrual and proper obligated funds balance. As a result, records of obligations and liabilities were improperly stated prior to audit adjustment.

Our testing of unliquidated obligations disclosed unliquidated obligations either in need of deobligation or in need of a having a liability accrued on the proprietary general ledger. Correcting journal entries of $131,733 were needed to both fairly state the balances of unliquidated obligations and cancelled authority in the budgetary general ledger accounts and journal entries of $159,355 were needed to both fairly state the balances of program expenses and accrued expenses payable in the proprietary general ledger accounts.

Noted in 2006 (continued)

The standards for proper recording of obligations are found in Title 31, Section 1501 of the United States Code [31 U.S.C. § 1501(a)]. In accordance with the General Accountability Office's "Policy and Procedures Manual for Guidance of Federal Agencies", title 7 § 3.4.D., as more precise data becomes available, the record of the obligation must be periodically adjusted. These adjustments are especially important for the obligations that are recorded on an estimated basis.

We recommend that adequate procedures be established for management review of unliquidated obligations for determination of proper liability accrual and proper obligated funds balance.

MANAGEMENT'S 2006 RESPONSE

Response from FLRA Chairman Cabaniss:

"During FY 2006, the FLRA entered into a Service Level Agreement (SLA) with the U.S. Department of the Interior, National Business Center, Denver, Colorado (NBC). **See Attachment (Management Response - 2004/2005 Financial Statement Recommendations, dated October 25, 2006)** FLRA management used the Management Letter findings of FY 2004 and FY 2005 as the basis for the solicitation. FLRA entered into the SLA with NBC in order to address existing staff and system weaknesses and in order to leverage and integrate other systems/services already provided by NBC. In so doing, FLRA has affirmatively taken necessary steps to address the lack of current accounting staff knowledge, skills, and abilities within the Budget & Finance Division (as previously assessed and documented in the Clifton-Gunderson consultant report); has provided evidence of FLRA recognition of the existing relationship with NBC for services relating to payroll and other human resources activities; and has responded to the instant report's recommendation that the FLRA establish best practices by engaging in services with an organization that, at the time of the SLA, is the only Office of Management and Budget's (OMB) approved Center of Excellence with proven capability and past experience to provide FLRA with a secure and stable hosting environment for its financial management systems. This system will be implemented for FY 2007."

AUDITOR'S 2006 RESPONSE

The Management Response addresses broad changes planned and being executed in fiscal year 2007. The plans described discuss changes on a general level and do not address the specific comments and recommendations made in our comment. Although we consider the efforts described as attempts to provide corrective action to agency staff and system weaknesses and we support these attempts, they do not address the specific weaknesses described. They also do not state an admission of the weakness or the willingness to correct it specifically. Our numerous proposed and accepted journal entries support our comments made for fiscal year 2006. Our recommendations are still applicable and will remain as stated.

AUDITOR'S 2006 RESPONSE (continued)

The Chairman again mentions the other Management Response made to the 2004/2005 Financial Statement Recommendations as being dated October 25, 2006. As mentioned previously, we consider the back date of this document (received in June 2007) to be misleading as to the timeliness of that response.

2007 CURRENT STATUS:

The assessment of unliquidated obligations still needs to be addressed more closely. We noted several unliquidated obligations that were not assessed properly until we inquired about them during our audit. We consider this item open, and will follow up in next year's audit.

Prior Year Comment/Follow up of Fiscal Year 2006 Matter:

3) Failure to follow up and correct previously identified weaknesses in internal control

Noted in 2006 -Lack of management review of general ledger reconciliations and supporting documentation of general ledger balances

The subsidiary supporting item detail for general ledger balances of assets and liabilities and the reconciliation of that detail to the general ledger balance were not independently reviewed for propriety. During the audit period, one accountant maintained records supporting general ledger balances of assets and liabilities and there was no evidence that either the detail or reconciliations of this detail to general ledger were reviewed by others or by management. As a result, balances for Funds with U.S. Treasury, Accounts Receivable, Fixed Assets, Accounts Payable, and other accrued liabilities were inadequately controlled.

In addition, as in the prior year, we noted that:

1) There was inadequate subsidiary detail maintained of the general ledger balances for fixed assets;
2) Accounts payable were recorded manually outside of the accounting system and not on the general ledger;
3) General ledger balances for accrued leave, unfunded FECA (Federal Employee Compensation Act, actuarial FECA, accounts payable, and the allowance for doubtful accounts were not updated at least quarterly;
4) Not all obligations were recorded in a timely manner onto the general ledger;
5) Accounts receivable were not independently monitored for proper resolution

Internal control activities help ensure that management's directives are carried out. The control activities should be effective and efficient in accomplishing the agency's control objectives. The lack of management review of general ledger reconciliations and supporting documentation of general

Noted in 2006 (continued)

ledger balances is a weakness in the design of internal control that does not allow management to prevent or detect misstatements in the financial reports in a timely basis.

We recommend that management establish adequate internal control over general ledger reconciliations and the supporting documentation for general ledger balances. Adequate subsidiary detail should be maintained for the fixed asset general ledger balances. Accounts payable should be properly accounted for in the accounting system and its general ledger balance, along with balances for accrued leave, unfunded FECA, actuarial FECA, and the allowance for doubtful accounts should be updated to account for activity. Obligations should be recorded in a timely manner onto the general ledger. Accounts receivable should be independently monitored to ensure proper resolution.

MANAGEMENT'S 2006 RESPONSE

Response from FLRA Chairman Cabaniss:
"During FY 2006, the FLRA entered into a Service Level Agreement (SLA) with the U.S. Department of the Interior, National Business Center, Denver, Colorado (NBC). **See Attachment (Management Response - 2004/2005 Financial Statement Recommendations, dated October 25, 2006)** *FLRA management used the Management Letter findings of FY 2004 and FY 2005 as the basis for the needs assessment to NBC.* FLRA entered into the SLA with NBC in order to address existing staff and system weaknesses and in order to leverage and integrate other systems/services already provided by NBC, In so doing, FLRA has affirmatively taken necessary steps to address the lack of current accounting staff knowledge, skills, and abilities within the Budget & Finance Division (as previously assessed and documented in the Clifton-Gunderson consultant report); has provided evidence of FLRA recognition of the existing relationship with NBC for services relating to payroll and other human resources activities; and has responded to the instant report's recommendation that the FLRA establish best practices by engaging in services with an organization that, at the time of the SLA, is the only Office of Management and Budget's (OMB) approved Center of Excellence with proven capability and past experience to provide FLRA with a secure and stable hosting environment for its financial management systems. This system will be implemented for FY 2007.

Additionally, the FLRA is working with NBC for the NBC to expand the existing SLA to include procurement services, once the Oracle financial systems program is implemented. Finally, as noted previously, since the appointment of a permanent executive director, FLRA management has taken steps to ensure all agency policies and procedures are current, including retiring obsolete instructions and creating new instructions, where appropriate. To that end, in September 2006, the FLRA awarded a contract to *Grant Thornton* for the purpose of reviewing, updating, and creating, as needed, all agency instructions to policies excluding human resources (addressed by a different contract), including management controls, internal controls, procurement, financial systems, budgeting, travel, and records management. FLRA management

MANAGEMENT'S 2006 RESPONSE (continued)

advised the OIG of this initiative and requested the OIG put her internal "review" of agency instructions in abeyance until the completion of the contract. This comprehensive activity will be completed during FY 2007."

AUDITOR'S 2006 RESPONSE

Again, the Management Response addresses broad changes planned and being executed in fiscal year 2007. As previously stated, we consider these efforts as attempts to provide corrective action to agency staff and system weaknesses and we support these attempts. However, our comments made for fiscal year 2006 are specific and there is no admission of the specific weaknesses or the willingness to correct them specifically. It should be noted that an understanding of the specific weaknesses might not have been reached since attempts at verbal communication with the CFO during the audit were denied.

Our recommendations are still applicable and will remain as stated.

The management response again mentions the other Management Response made to the 2004/2005 Financial Statement Recommendations as being dated October 25, 2006. As mentioned previously, we consider the back date of this document (received in June 2007) to be misleading as to the timeliness of that response.

2007 CURRENT STATUS:

Improvement was noted in some areas of this weakness and, altogether, the conditions noted were not considered a material weakness for fiscal year 2007. The transfer of substantial accounting services to the National Business Center in Denver increased the level of resources devoted to accounting and thus improvements were noted in review of general ledger reconciliations. We noted also that subsidiary detail of fixed assets was being corrected and balances for accrued leave, unfunded FECA, actuarial FECA were materially accurate on a quarterly basis.

However, we noted that improvement is still needed in recording accounts payable in the accounting system. Obligations were not being recorded in a timely manner on the accounting system. Accounts receivable did not have a report to indicate the balance of the individual receivable, thus impeding any attempts at receivable monitoring or collection activity. <u>We consider these items open, and will follow up on them in next year's audit.</u>

Prior Year Comment/Follow up of Fiscal Year 2006 Matter:

4) Weakness in Control Environment

Noted in 2006 - We noted that previously identified weaknesses in internal control as reported in the 2005 financial audit "Management Letter" (a separate written communication noting other matters involving the internal control over financial reporting) were not responded to by management. This non-response conjoined with the lack of response to other Inspector General evaluations and reports (the 36th semi-annual Inspector General report to Congress dated October 5, 2006 states many reported findings were not responded to) denote a lack of a positive and supportive attitude toward the functions of monitoring and Inspector General independent evaluations.

OMB Circular A-50, "Audit Follow-up", states "Audit follow-up is an integral part of good management, and is a shared responsibility of agency management officials and auditors. Corrective action taken by management on resolved findings and recommendations is essential to improving the effectiveness and efficiency of Government operations. Each agency shall establish systems to assure the prompt and proper resolution and implementation of audit recommendations."

Good internal control has management placing a high degree of importance on the work of the Inspector General, external audits, and other evaluations and is responsive to information developed through such products.

Without corrective actions and a positive and supportive attitude toward the functions of monitoring and audit evaluations, weaknesses in internal control and potential improvements to internal control have gone unaddressed.

We recommend management evaluate audit report findings and recommendations and provide response and resolution to all issues addressed in those reports.

MANAGEMENT'S 2006 RESPONSE

Response from FLRA Chairman Cabaniss:

"FLRA Management provided a hard-copy response memorandum to the FLRA IG on or about October 25, 2006, addressing the issues raised in the 2004 and 2005 Management Letters. < (The Chairman attached an electronic copy of this memorandum to this June 7th 2007 e-mailed response.) > The Executive Director, at my request, verbally briefed the auditors on the NBC-SLA during the audit in-briefing. FLRA Management forwarded semi-annual IG reports to Congress in a timely manner following the IG's providing FLRA Management correct committee, name, and address information."

AUDITOR'S 2006 RESPONSE

Management stated that a hard-copy response memorandum was provided to the FLRA Inspector General on or about October 25, 2006. Neither the Inspector General, nor us as auditors, nor the Executive Director in a discussion held with us during the audit, were aware of such a document being provided nor were we given such a document. We had, in fact, requested such a document in communications to management in e-mails to the Executive Director in January and March 2007. We consider the backdate of this "hard-copy response memorandum" to be misleading as to the timeliness of that response. The June 2007 receipt of this response to the 2005 Audit Management Letter was also not considered timely.

We noted that the semi-annual Inspector General reports issued October 24, 2005 and June 1, 2006 and due to Congress within thirty (30) days of their issuance were sent to Congress in May 2007. We do not consider the May 2007 submission of these semi-annual Inspector General reports to be timely since the October 24th report was submitted approximately a year and a half late and the June 1st report was nearly one year late.

In addition, the Management Response does not address correcting the lack of positive and supportive attitude toward the functions of monitoring and Inspector General evaluations.

2007 CURRENT STATUS:

Management is working with the Inspector General to address all open prior findings. We will continue to monitor this in our next audit.

While this report is intended solely for the information and use of the management of the **Federal Labor Relations Authority**, OMB and Congress, it is also a matter of public record, and its distribution is, therefore, not restricted.

Dembo, Jones, Healy, Pennington & Marshall, P.C.

February 8, 2008

DJHPM
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Report of Independent Auditors on Compliance with Laws and Regulations

Ms. Dale Cabaniss
Chairman
Federal Labor Relations Authority

We have audited the accompanying balance sheet of the Federal Labor Relations Authority (FLRA) as of September 30, 2007, and the related statement of net cost, changes in net position and budgetary resources, for the fiscal year then ended, and have issued our report thereon dated February 8, 2008. 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. 07-04, "Audit Requirements for Federal Financial Statements."

The management of the Federal Labor Relations Authority is responsible for complying with laws and regulations applicable to the FLRA. As part of obtaining reasonable assurance about whether the FLRA'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. 07-04. We limited our tests of compliance to these provisions and we did not test compliance with all laws and regulations applicable to the Federal Labor Relations Authority.

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

The results of our tests of compliance with the laws and regulations as described in the previous paragraph disclosed instances of noncompliance that are required to be reported under Government Auditing Standards or OMB Bulletin No. 07-04. Also, although we did not render an opinion in our report from our engagement concerning the fiscal year 2006 financial statements, we noted instances of noncompliance that were required to be reported under Government Auditing Standards or OMB Bulletin No. 07-04 in that engagement. We are providing the current status of the matters that were reported by us for fiscal year 2006. The status of these matters is as follows:

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Prior Year Comment/Follow up of Fiscal Year 2006 Matter:

1) OMB Circular A-50, "Audit Follow-up" & INSPECTOR GENERAL ACT OF 1978 (as amended)

Noted in 2006 - The two fiscal year 2006 Inspector General Semi-Annual reports to Congress were not timely reported by the Agency Chairman to the appropriate committees or subcommittees of the Congress (nor were the reports made available timely to the public) by the Chairman of the **FLRA**. Although due to the appropriate authorities many months ago, both reports were delivered to the appropriate authorities in May of 2007.

Included in the latest of these two reports are open items from the management letter for the fiscal year 2005 audit of the **FLRA**'s financial statements. Management did not respond to this Management Letter as required by OMB Circular A-50.

We also noted the additional non-compliance to OMB Circular A-50:

(1) There was no known Chairman-designated top management official to oversee audit follow-up, including resolution and corrective action as required under the Circular and ensuring that: (a) systems of audit follow-up, resolution, and corrective action are documented and in place, (b) timely responses are made to all audit reports, (c) disagreements are resolved, and (d) corrective actions are actually taken.

(2) There is evidence that high priority has not been assigned to the resolution of audit recommendations and to corrective action;

(3) There is evidence that prompt resolution and corrective actions have not been taken on either audit recommendations or Inspector General evaluations and recommendations.

According to the Inspector General Act of 1978, as amended (the IG Act), "each Inspector General shall, not later than April 30 and October 31 of each year, prepare semiannual reports summarizing the activities of the Office during the immediately preceding six-month periods ending March 31 and September 30." In addition, "Semiannual reports of each Inspector General shall be furnished to the head of the establishment involved not later than April 30 and October 31 of each year and shall be transmitted by such head to the appropriate committees or subcommittees of the Congress within thirty days after receipt of the report..."

OMB Circular A-50, "Audit Follow-up", states "Audit follow-up is an integral part of good management, and is a shared responsibility of agency management officials and auditors. Corrective action taken by management on resolved findings and recommendations is essential to improving the effectiveness and efficiency of Government operations. Each agency shall establish systems to assure the prompt and proper resolution and implementation of audit recommendations." It further states that responses to audit reports consist of "written comments by agency officials indicating agreement or disagreement on reported findings and recommendations".

Noted in 2006 (continued)

As a result of the Inspector General reports not being adequately addressed and reported, the approximately one hundred and thirty five (135) corrective action recommendations considered open by the Inspector General from numerous Inspector General audits, reviews, and investigations, were not properly reported to oversight authorities and those oversight authorities had inadequate information concerning the Inspector General's activities. A few of the corrective action recommendations include internal control recommendations over **FLRA** policies and procedures that have a direct effect on the determination of financial statement amounts.

We recommend that the **FLRA** Chairman or designated management official oversee audit follow-up, including resolution and corrective action, ensuring that (a) high priority has been assigned to the resolution of audit recommendations and to corrective action (b) systems of audit follow-up, resolution, and corrective action are documented and in place, (c) timely responses are made to all audit reports, (d) disagreements are resolved, and (e) corrective actions are actually taken.

MANAGEMENT'S 2006 RESPONSE

Response from FLRA Chairman Cabaniss:

"FLRA Management provided a hard-copy response memorandum to the FLRA IG on or about October 25, 2006, addressing the issues raised in the 2004 and 2005 Management Letters. < (The Chairman attached an electronic copy of this memorandum to this June 7th 2007 e-mailed response.) >The Executive Director, at my request, verbally briefed the auditors on the NBC-SLA during the audit in-briefing. FLRA Management forwarded semi-annual IG reports to Congress in a timely manner following the IG's providing FLRA Management correct committee, name, and address information. FLRA has and continues to respond to corrective actions, dating back nearly 10 years or more, based on current organizational relevance, as a number of the open items have been superseded by subsequent events, internal or external to the agency. In addition, some items identified as open have been addressed by responses from previous management. We will be working with the IG to clarify which items actually remain open."

AUDITOR'S 2006 RESPONSE

Management stated that a hard-copy response memorandum was provided to the FLRA Inspector General on or about October 25, 2006. Neither the Inspector General, nor us as auditors, nor the Executive Director in a discussion held with us during the audit, were aware of such a document being provided nor were we given such a document. We had, in fact, requested such a document in communications to management in e-mails to the Executive Director in January and March 2007. We consider the backdate of this "hard-copy response memorandum" to be misleading as to the timeliness of that response.

AUDITOR'S 2006 RESPONSE (continued)

The June 2007 receipt of the response to the 2005 Audit Management Letter was also not considered timely.

We noted that the semi-annual Inspector General reports issued October 24, 2005 and June 1, 2006 and due to Congress within thirty (30) days of their issuance were sent to Congress in May 2007. We do not consider the May 2007 submission of these semi-annual Inspector General reports to be timely since the October 24th report was submitted approximately a year and a half late and the June 1st report was over ten months late.

However, the assertion that management "will work with the Inspector General to clarify which items actually remain open" is considered a positive step in the right direction towards the spirit of OMB Circular A-50. It should be noted that this positive step has not yet been attempted by management as of the date of this report.

2007 CURRENT STATUS:

The Inspector General is working with management to address prior year open issues. We will follow up the issue of open items again in next year's audit.

Prior Year Comment/Follow up of Fiscal Year 2006 Matter:

2) OMB Circular NO. A-123, "Management's Responsibility for Internal Control"

Noted in 2006 - We noted that management did not properly assess the adequacy of internal control in Federal programs and operations in compliance to Office of Management and Budget (OMB) Circular No. A-123 (Revised) dated December 21, 2004, "Management's Responsibility for Internal Control".

According to OMB Circular NO. A-123, "Agencies and individual Federal managers must take systematic and proactive measures to "... (ii) assess the adequacy of internal control in Federal programs and operations;... (iv) identify needed improvements; (v) take corresponding corrective action; and (vi) report annually on internal control through management assurance statements."

Under "Agency Implementation" of OMB Circular A-123, it states "... agency, management should have a clear, organized strategy with well-defined documentation processes that contain an audit trail, verifiable results, and specify document retention periods so that someone not connected with the procedures can understand the assessment process."

Management failed to document internal control processes and perform a documented assessment of those processes in fiscal year 2006 as required.

Noted in 2006 (continued)

As a result, without proper management assessment of the adequacy of internal control, the assurance of internal control in the agency fiscal year 2006 cannot be properly reported.

We noted that management has initiated corrective action efforts for a proper assessment being conducted in fiscal year 2007, with the hiring of external contractors to assist in revising or drafting selected agency-wide internal control system documentation policies, instructions, and operating procedures.

We recommend, for fiscal year 2007 and beyond, that **FLRA** management assess the adequacy of internal control in Federal programs and operations in compliance to OMB Circular No. A-123.

MANAGEMENT'S 2006 RESPONSE

Response from FLRA Chairman Cabaniss:

"FLRA Management does not interpret the requirement referenced above as mandating a complete assessment of all internal controls each year. FLRA Management confirmed this interpretation with contractors hired from Grant-Thornton, to evaluate financial and management control agency instructions during 2007. Therefore, FLRA Management identified and assessed specific internal controls based upon risk to the agency. During FY 2006, the FLRA undertook a specific *assessment* of time & attendance (T&A) reporting as part of the FLRA's continuing responsibilities for ensuring proper internal controls under the FMFIA. Proper tracking and coding of time is required to guard against waste, fraud, and abuse of resources, and thus taxpayer dollars. The objective of the FLRA TBA system is to ensure that the hours worked, hours in pay status, and hours absent are properly recorded. This is especially important given personnel represents the FLRA's largest expense. During FY 2006, the Office of Executive Director assessed the FLRA's T&A on an agency-wide basis and followed-up with a number of actions, agency-wide, to ensure proper internal controls. Such actions included: (1) creating and implementing a single, agency-wide timesheet; (2) requiring use of OPM-Form 71 for all leave requests; (3) designating specific individuals in each organization to serve as time-keepers and certifiers, thereby segregating duties; and (4) conducting two agency-wide training sessions, one for time-keepers and another for certifying officials. The Executive Director included the FLRA Inspector General in the agency training and drafted the slides that the Inspector General presented at each training session. All T&A certifying officials also received and discussed the GAO- 03-3526, *Maintaining Effective Control over Employee Time and Attendance Reporting* guidance.

These actions, particularly Agency assignment of accountabilities for T&A activities supported the achievement of *control objectives* and enabled the FLRA to record and maintain, for each employee and pay period, the following information and documentation: (1) employee name and unique identifying number; (2) pay period number or dates; (3) hours worked; (4) hours of premium pay, by type, and overtime to

MANAGEMENT'S 2006 RESPONSE (continued)

which the employee is entitled; (5) dates and number of hours of leave (by type), credit hours, and compensatory hours earned and used; (6) evidence of approval by an authorized official (usually the supervisor); and (7) supporting documentation or records for absences.

The Chairman's reasonable assurance recognizes that (1) the cost of management controls should not exceed the projected derived benefits; and (2) the benefits consist of reductions in the risks of failing to achieve the stated objectives. The expected benefits and related costs of control procedures should be addressed using estimates and managerial judgment. Moreover, errors and irregularities may occur and not be detected because of inherent limitations in any system of internal accounting and administrative control, including those limitations resulting from resource constraints, restrictions, and other factors. Finally, projection of any evaluation of the system to future periods is subject to risk that procedures may be inadequate because of changes in conditions or that the degree of compliance with the procedures may change.

In addition to the specific internal control assessment undertaken, since the appointment of a permanent executive director, FLRA management has taken steps to ensure all agency policies and procedures are current, including retiring obsolete instructions and creating new instructions, where appropriate. To that end, in September 2006, the FLRA awarded a contract to *Grant Thornton* for the purpose of reviewing, updating, and creating, as needed, all agency instructions to policies excluding human resources (addressed by a different contract), including management controls, internal controls, procurement, financial systems, budgeting, travel, and records management. FLRA management advised the OIG of this initiative and requested the OIG put her internal 'review' of agency instructions in abeyance until the completion of the contract. This comprehensive activity will be completed during FY 2007."

AUDITOR'S 2006 RESPONSE

The Executive Director informed us of events occurring in fiscal year 2007 to address this Circular. We concur that a complete assessment of controls is not required by the FLRA every year. However, given the large number of adjusting journal entries we proposed, and documented lack of oversight of key FLRA accounting staff, we still believe the requirements of OMB Circular No. A-123 were not met for fiscal year 2006. We noted no documentation of internal control processes and assessment of those processes.

We applaud efforts to rectify this in fiscal year 2007.

2007 CURRENT STATUS:

Management followed through on its pledge to improve performance in this area. We consider this finding closed.

Prior Year Comment/Follow up of Fiscal Year 2006 Matter:

3) Federal Managers' Financial Integrity Act of 1982 (FMFIA) and Control Environment

Noted in 2006 - The Federal Managers' Financial Integrity Act of 1982 (FMFIA) requires the Government Accountability Office (GAO) to issue standards for internal control in government. One of the five standards established by GAO is the Control Environment. This standard states "management and employees should establish and maintain an environment throughout the organization that sets a positive and supportive attitude toward internal control and conscientious management." Management failed to document internal control processes and perform a documented assessment of those processes in fiscal year 2006 as required by OMB Circular No. A-123, "Management's Responsibility for Internal Control". In addition, there was no evidence of financial reporting oversight controls for the financial statements and footnotes for either three quarters of fiscal year 2006 or at year-end. Manual adjustments were needed between the general ledger and the financial statements at year-end.

The lack of the processes described above demonstrates an ineffective environment for setting a positive and supportive attitude toward internal control and conscientious management.

We recommend, for fiscal year 2007 and beyond, that management, and its employees, establish and maintain an environment throughout the organization that sets a positive and supportive attitude toward internal control and conscientious management.

MANAGEMENT'S 2006 RESPONSE

Response from FLRA Chairman Cabaniss:

"FLRA Management does not interpret the requirement to mandate a complete assessment of all internal controls each year. FLRA Management confirmed this interpretation with contractors hired from Grant-Thornton, to evaluate all financial and management control agency instructions during 2007. FLRA Management identified and assessed specific internal controls based upon risk to the agency. During FY 2006, the FLRA undertook a specific *assessment* of time & attendance (T&A) reporting as part of the FLRA's continuing responsibilities for ensuring proper internal controls under the FMFIA. Proper tracking and coding of time is required to guard against waste, fraud, and abuse of resources, and thus taxpayer dollars. The objective of the FLRA T&A system is to ensure that the hours worked, hours in pay status, and hours absent are properly recorded. This is especially important given personnel represents the FLRA's largest expense. During FY 2006, the Office of Executive Director assessed the FLRA's T&A on an agency-wide basis and followed-up with a number of actions, agency-wide, to ensure proper internal controls. Such actions included: (1) creating and implementing a single, agency-wide timesheet; (2) requiring use of OPM-Form 71 for all leave requests; (3) designating specific individuals in each organization to serve as time-keepers and certifiers, thereby segregating duties; and (4) conducting two agency-wide training sessions, one for timekeepers and another for certifying officials. The Executive Director included the FLRA Inspector General in the agency training and drafted the slides that the Inspector General presented at each training

MANAGEMENT'S 2006 RESPONSE (continued)

session. All T&A certifying officials also received and discussed the GAO-03-352G, *Maintaining Effective Control over Employee Time and Attendance Reporting* guidance.

These actions, particularly Agency assignment of accountabilities for T&A activities supported the achievement of *control objectives* and enabled the FLRA to record and maintain, for each employee and pay period, the following information and documentation: (1) employee name and unique identifying number; (2) pay period number or dates; (3) hours worked; (4) hours of premium pay, by type, and overtime to which the employee is entitled; (5) dates and number of hours of leave (by type), credit hours, and compensatory hours earned and used; (6) evidence of approval by an authorized official (usually the supervisor); and (7) supporting documentation or records for absences.

The Chairman's reasonable assurance recognizes that (1) the cost of management controls should not exceed the projected derived benefits; and (2) the benefits consist of reductions in the risks of failing to achieve the stated objectives. The expected benefits and related costs of control procedures should be addressed using estimates and managerial judgment. Moreover, errors and irregularities may occur and not be detected because of inherent limitations in any system of internal accounting and administrative control, including those limitations resulting from resource constraints, restrictions, and other factors. Finally, projection of any evaluation of the system to future periods is subject to risk that procedures may be inadequate because of changes in conditions or that the degree of compliance with the procedures may change.

In addition to the specific internal control assessment undertaken, since the appointment of a permanent executive director,

- FLRA management has taken steps to ensure all agency policies and procedures are current, including retiring obsolete instructions and creating new instructions, where appropriate. To that end, in September 2006, the FLRA awarded a contract to *Grant Thornton* for the purpose of reviewing, updating, and creating, as needed, all agency instructions to policies excluding human resources (addressed by a different contract), including management controls, internal controls, procurement, financial systems, budgeting, travel, and records management. FLRA management advised the OIG of this initiative and requested the OIG put her internal "review" of agency instructions in abeyance until the completion of the contract. This comprehensive activity will be completed during FY 2007.

- The Executive Director attended **A-123 training**, sponsored by Potomac Forum, LTd, and has cascaded a requirement for such training to budget/finance staff.

MANAGEMENT'S 2006 RESPONSE (continued)

- On June 23 and June 25, 2006, the Office of Executive Director held a first-ever management training for all GS-15 and SES managers from all components. Previously, management training was held by component/office. Because our oversight and internal controls responsibilities are agency-wide, this was one step to engage in change management in terms of shifting the focus of accountability to an agency-wide focus. The IG was invited and attended both days of training.

FLRA Management believes a clear, positive, and supportive attitude toward internal control and conscientious management has been established and will continue to support such an environment."

AUDITOR'S 2006 RESPONSE

The Management Response comments are similar to those in number 2 above. We support efforts to improve oversight and policies and procedures in fiscal year 2007. In addition, we applaud efforts undertaken in fiscal year 2006 to provide certain personnel with additional training. However, our comments relate to our overall assessment of the integrity of the control system in 2006, and we stand by our comments.

2007 CURRENT STATUS:

Controls have improved now that the National Business Center Service Level Agreement is in place. We consider these findings closed for fiscal year 2007.

Prior Year Comment/Follow up of Fiscal Year 2006 Matter:

4) Federal Information Security Management Act of 2002 (FISMA)

Noted in 2006 - Although an independent external auditor was determined to be necessary by the Inspector General and such an auditor was requested by the Inspector General for the annual Inspector General Budget, funding for the conduct of fiscal year 2006 FISMA evaluation by an external auditor was not approved by the FLRA Chairman.

FISMA requires that each year "each agency shall have performed an independent evaluation of the information security program and practices of that agency to determine the effectiveness of such program and practices."

For each agency with an Inspector General appointed under the Inspector General Act of 1978, the annual evaluation required ... shall be performed by the Inspector General or by an independent external auditor, *as determined by the Inspector General of the agency* (emphasis added)". In addition, Section 3548 of FISMA requires that necessary appropriations be provided for carrying out FISMA

Noted in 2006 (continued)

evaluations as it states "There are authorized to be appropriated to carry out the provisions of this subchapter such sums as may be necessary for each of fiscal years 2003 through 2007."

Additionally, although the Inspector General's fiscal year 2006 report on the evaluation of the information security program and practices of the FLRA was provided to the FLRA Chairman, the evaluation report was not timely delivered to the appropriate external authorities as required under FISMA.

The Inspector General's fiscal year 2006 evaluation of the information security program and practices disclosed the following FISMA non-compliance issue:

"Policies were drafted addressing: Contingency Planning; Data Backups; Incident Reporting; Security Program Plan; Security Program Policies and Procedures; User Account Control; Segregation of Duties; Security Awareness Training; Systems Certification and Accreditation; Systems Development Life Cycle and Change Control; and Acceptable Use of Information Resources. However, these policies did not have complete agency approval and were not yet implemented as of the close of the fiscal year."

We recommend that FLRA management ensure that FISMA is complied with and that each year an independent evaluation of the information security program and practices of FLRA is done to determine the effectiveness of such program and practices. Deficiencies reported under those evaluations should be properly addressed and resolved.

MANAGEMENT'S 2006 RESPONSE

Response from FLRA Chairman Cabaniss:

"FLRA management agrees that the Agency should comply with FISMA and to this end, will continue working to achieve and maintain compliance, ensuring first and foremost that sensitive information, as defined by the Agency Head, is secure. The Inspector General's report dated August 19, 2005 is not included in the most recent listing of corrective actions (Semiannual Report #36). On January 11, 2006, the FLRA Authority appointed a permanent Executive Director. Upon obtaining a copy of the August 19th report, management will meet with the FLRA CIO, and others as needed, to assess the report's findings and recommendations in light of those findings and recommendations presented in either the 2004 FISMA audit report or the March 14, 2005 letter by *Dembo, Jones* letter, in order to assess and determine necessary follow-up steps to address relevant outstanding issues."

AUDITOR'S 2006 RESPONSE

We recognize management's willingness to address FISMA related issues in the future.

2007 CURRENT STATUS:

Financial processing and reporting was outsourced to the National Business Center. This diminished many of our concerns that would be addressed in a FISMA evaluation. The Inspector General did perform a FISMA evaluation during 2007 and we consider the findings from that report to be immaterial to the noncompliance that are required to be reported under Government Auditing Standards or OMB Bulletin No. 07-04. We consider this finding closed.

Prior Year Comment/Follow up of Fiscal Year 2006 Matter:

5) OMB Circular No. A-136, "Financial Reporting Requirements"

Noted in 2006 - Under OMB Circular No. A-136, the content of the Financial Section of the PAR is to include a signed letter from the CFO of the **FLRA** that briefly summarizes:

(1) Planned time frames for correcting audit weaknesses and noncompliance;
(2) Major impediments to correcting audit weaknesses and noncompliance;
(3) Progress made in correcting previously reported problems; and
(4) Integrity Act information, if the agency chooses not to include it in the PAR MD&A.

The **FLRA**'s Performance and Accountability Report (PAR) for fiscal year 2005 did not contain such a letter from the Chief Financial Officer (CFO) (i.e., the Chairman of the **FLRA** who is also the CFO).

In addition, the PAR for fiscal year 2005 submitted to Office of Management and Budget (OMB) and the Congress by the November 15 deadline did not contain signed statements of audit opinion. Alternatively, drafts of audit opinions, that were neither signed nor contained the auditors' identity, were included and sent.

The PAR for fiscal year 2006 was not submitted to either OMB or Congress by the November 15 deadline.

The Accountability of Tax Dollars Act of 2002 extended the requirements of the Chief Financial Officer's Act to the **FLRA** a requirement to prepare and submit to the Congress and the Director of the OMB annual audited financial statements. As such, the **FLRA** is subject to OMB Circular No. A-136, "Financial Reporting Requirements".

We recommend that **FLRA** management ensure that OMB Circular No. A-136, "Financial Reporting Requirements" is adhered to by the agency.

MANAGEMENT'S 2006 RESPONSE

Response from FLRA Chairman Cabaniss:

"FLRA management provided the draft PAR to OMB as soon as the auditor provided the draft financial statements report. FLRA management believes submission of the PAR and related financial statements to the Office of Management and Budget (OMB) by the required date could be met if the financial statements audit report was completed by the date specified in the agency's contract with the auditors and provided to FLRA management within the 10-day period prior to the 15 November deadline to OMB. FLRA management notes that this is the second year that the audit report has not been provided to FLRA management for inclusion with the PAR to OMB by the required deadline. Although the audit team has remained the same each year while the agency FTE have been reduced each year and accounting processes have been increasingly automated, the agency contract file does not include documentation of contract changes/modifications, either to scope or time. FLRA management is not able to control changes to the contract performance period as relates to contract modifications for delivery of final deliverables that the OIG may enter into with the contractor(s)."

AUDITOR'S 2006 RESPONSE

Our understanding of Management's Response is that somehow the lack of an audit report caused the delay of management submitting the annual Performance Accountability Report (PAR). However, in order for our audit opinion to be issued, we would first need to be given the final PAR and financial statements from management on which to render such an opinion. Since management did not provide the fiscal year 2006 financial statements and PAR to the Inspector General and us until March 2007, we are thoroughly perplexed as to why the Chairman would assert that we had any involvement in the PAR delay. In fact, we made numerous attempts to communicate to management the need for management to provide us the evidence we needed to render an opinion.

In addition, a PAR for fiscal year 2005 (that we considered a draft) was sent out to external agencies by the Chairman despite our request to obtain it first in order to perform our audit procedures.

We consider the inference that our audit performance somehow interfered with the agency delivering the PARs in a timely manner to be ludicrous.

2007 CURRENT STATUS:

In part due to delays by the National Business Center in Denver in preparing complete financial statements, a completed and accurate PAR was not presented to us in early November, in order for us to complete our audit by November 15, 2007. We met with management in December 2007, and provided them with a list of items that needed correction or improvement. We were presented with a revised PAR in late January 2008. As a result, this finding remains open.

While this report is intended solely for the information and use of the management of the **Federal Labor Relations Authority**, OMB and Congress, it is also a matter of public record, and its distribution is, therefore, not restricted.

Dembo, Jones, Healy, Pennington & Marshall, P.C.

February 8, 2008

UNITED STATES OF AMERICA

FEDERAL LABOR RELATIONS AUTHORITY

WASHINGTON, D. C. 20424

CHAIRMAN

FEB 21 2008

The Honorable Francine Eichler
Inspector General
Federal Labor Relations Authority

Dembo, Jones, Healy, Pennington, Marshall, P.C.
6010 Executive Boulevard
Suite 900
Rockville, Maryland 20852

Dear Ms. Eichler:

The Federal Labor Relations Authority (FLRA) is pleased to receive your opinion that our fiscal year 2007 financial statements are presented fairly, in all material respects, in conformity with generally accepted accounting principles; that your testing of internal control identified no material weaknesses in the agency's financial reporting; and that the results of your tests of compliance with certain provisions of laws and regulations disclosed that management is working with the Inspector General and the National Business Center (NBC) to resolve issues of timely reporting. Your findings have helped validate the success of our efforts to enhance the agency's financial systems.

While FLRA agrees there are no material weakness, it also acknowledges that the auditors noted certain control deficiencies attributable to NBC. FLRA will continue to aggressively monitor the reports and services provided by the NBC and will work with NBC and other partners to address and correct issues in a timely manner. FLRA and its financial service partners are fully committed to integrating accounting and budget mechanisms to improve program performance and provide good stewardship of taxpayers' money. FLRA executive leadership will continue to meet regularly with financial program management personnel to monitor and assess the efficiency and effectiveness of financial systems.

We appreciate the time and effort committed by you and your colleagues who worked on the audit. We take our financial accounting and reporting responsibilities seriously and truly welcome suggestions on ways to continue to strengthen our financial systems.

Dale Cabaniss
Chairman

Federal Labor Relations Authority
Balance Sheets
As of September 30, 2007 and 2006

		2007		Unaudited 2006
ASSETS				
Intragovernmental				
Fund Balance with Treasury - Note 2	$	10,779,671	$	8,920,547
Accounts Receivable – Note 3		18,938		20,696
Total Intragovernmental Assets		10,798,609		8,941,243
Property, Plant, and Equipment, Net – Note 4		786,721		758,901
Total Assets	$	11,585,330	$	9,700,144
LIABILITIES				
Liabilities Covered by Budgetary Resources:				
Intragovernmental				
Accounts Payable		225,656		232,318
Total Intragovernmental Liabilities		225,656		232,318
Other Payables and Liabilities				
Accounts Payable Public		156,663		246,618
Accrued Payroll		806,219		929,077
Total Other Payables and Liabilities		962,882		1,175,695
Total Liabilities Covered by Budgetary Resources		1,188,538		1,408,013
Liabilities Not Covered by Budgetary Resources: Note 5				
Contingent Liabilities		150,000		
Unfunded FECA Liability	$	243,333	$	227,907
Unfunded Actuarial FECA Liability		1,067,948		967,906
Unfunded Leave		1,289,925		1,315,262
Total Liabilities Not Covered by Budgetary Resources		2,751,206		2,511,075
Total Liabilities	$	3,939,744	$	3,919,088
NET POSITION				
Unexpended Appropriations	$	9,622,973	$	7,544,373
Cumulative Results of Operations		(1,977,387)		(1,763,317)
Total Net Position		7,645,586		5,781,056
Total Liabilities and Net Position	$	11,585,330	$	9,700,144

The accompanying notes are an integral part of these statements.

Federal Labor Relations Authority
Statements of Net Cost
For the Years Ended September 30 and, 2007 2006

	2007	Unaudited 2006
Program Costs		
Intragovernmental gross costs	**$ 8,009,497**	$ 11,285,315
Less: Intragovernmental earned revenue	**-**	(6,986)
Intragovernmental net costs		11,278,329
Public costs	**16,022,247**	12,557,042
Net Cost of Operations	**$ 24,031,744**	$ 23,835,371

The accompanying notes are an integral part of these statements.

Federal Labor Relations Authority
Statements of Changes in Net Position
For the Years Ended
September 30, 2007 and 2006

	2007 Cumulative Results Of Operations	2007 Unexpended Appropriations	Unaudited 2006 Cumulative Results Of Operations	Unaudited 2006 Unexpended Appropriations
Beginning Balances	$ (1,763,317)	$ 7,544,373	$ (1,767,735)	$ 5,056,973
Budgetary Financing Sources:				
Appropriations received	-	25,372,339	-	25,468,000
Other adjustments - Rescission	-	-	-	(254,680)
Other adjustments - Closed accounts	-	(842,402)	-	(274,724)
Appropriations used	22,451,337	(22,451,337)	22,451,196	(22,451,196)
Other Financing Sources:				
Imputed financing from costs absorbed by others	1,366,337	-	1,388,593	-
Total Financing Sources	23,817,674	2,078,600	23,839,789	2,487,400
Less: Net Cost of Operations	24,031,744	-	23,835,371	-
Ending Balances	$ (1,977,387)	$ 9,622,973	$ (1,763,317)	$ 7,544,373

The accompanying notes are an integral part of these statements.

Federal Labor Relations Authority

Statements of Budgetary Resources

For the Years Ended September 30, 2007 and 2006

	2007	Unaudited 2006
Budgetary Resources:		
Unobligated balance, brought forward, October 1:	**$ 5,419,749**	$ 3,735,713
Recoveries of prior year unpaid obligations	**1,591,855**	559,027
Budget Authority		
Appropriations Received	**25,372,339**	25,468,000
Spending Authority from Offsetting Collections:		
Earned		
Collected	**1,710**	31,821
Change in receivables from Federal Sources	**(7,885)**	(24,837)
Change in unfilled customer orders		
Advance from Federal sources		
Anticipated Reimbursements		
Permanently not available		
Cancellations of expired and no-year accounts	**(842,401)**	(274,724)
Enacted Reductions	**-**	(254,680)
Total Budgetary Resources	**$ 31,535,367**	$ 29,240,320
Status of Budgetary Resources:		
Obligations Incurred:		
Direct	**$ 23,171,207**	$ 23,803,794
Reimbursable	**-**	16,777
Subtotal	**23,171,207**	23,820,571
Unobligated Balance:		
Apportioned	**3,629,451**	1,322,877
Unobligated Balance not Available	**4,734,709**	4,096,872
Total Status of Budgetary Resources	**$ 31,535,367**	$ 29,240,320
Change in Obligated Balances:		
Obligated Balance, net		
Unpaid obligations, brought forward, October 1	**$ 3,532,638**	$ 3,234,567
Uncollected customer payments from Federal sources	**(31,839)**	(56,676)
Total unpaid obligated balance, net	**3,500,799**	3,177,891
Obligations incurred	**23,171,207**	23,820,571
Gross outlays	**(22,672,523)**	(22,963,473)
Recoveries of prior year unpaid obligations, actual	**(1,591,855)**	(559,027)
Change in uncollected customer payments from Fed. sources	**7,885**	24,837
Obligated balance, net, end of period:		
Unpaid Obligations	**2,439,467**	3,532,638
Uncollected customer payments from Federal sources	**(23,954)**	(31,839)
Total, unpaid obligated balance, net, end of period	**2,415,513**	3,500,799
Net Outlays:		
Disbursements	**22,672,524**	22,963,473
Collections	**(1,710)**	(31,821)
Net Outlays	**$ 22,670,814**	$ 22,931,652

The accompanying notes are an integral part of these statements .

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Federal Labor Relations Authority (FLRA) is an independent administrative federal agency created by Title VII of the Civil Service Reform Act of 1978 (also known as the *Federal Service Labor-Management Relations Statute)* (the Statute).[7] The Statute allows certain non-postal federal employees to organize, bargain collectively, and to participate through labor organizations of their choice in decisions affecting their working lives.[8]

The FLRA conducts its statutory, case-processing work through four components: the *General Counsel of the Authority,* the *Office of Administrative Law Judges,* the *Authority decisional component,* and the *Federal Service Impasses Panel.* Three of these four components are headed by a Presidential appointee.

> ***The Office of the General Counsel*** the initial point-of-entry for unfair labor practice (ULP) cases filed with the FLRA. The General Counsel's Office investigates and prosecutes ULPs through the seven Regional Offices. The Office also processes representation (Rep) petitions filed with the FLRA and decides appeals of Regional Directors' decisions not to issue ULP complaints.
>
> ***Office of Administrative Law Judges*** the 3-Member Authority appoints Administrative Law Judges (ALJs) to hear and prepare decisions in cases involving alleged unfair labor practices and decisions involving applications for attorney fees filed under the *Back Pay Act* or the *Equal Access to Justice Act.*
>
> ***The Authority*** a quasi-judicial body with three full-time Members who are appointed for five-year terms by the President with the advice and consent of the Senate. One Member is appointed by the President to serve as Chairman of the Authority and as the Chief Executive and Administrative Officer of the FLRA. The Chairman also chairs the Foreign Service Labor Relations Board.
>
> ***The Federal Service Impasses Panel*** resolves impasses between Federal agencies and unions representing Federal employees arising from negotiations over conditions of employment under the Federal Service Labor-Management Relations Statute and the Federal Employees Flexible and Compressed Work Schedules Act. If bargaining between the parties, followed by mediation assistance, proves unsuccessful, the FSIP recommends procedures and takes whatever action it deems necessary to resolve the impasse.

Each FLRA component exercises some statutorily independent responsibilities, either prosecutorial or adjudicative. The immediate staffs of Authority Members, the General Counsel of the Authority, and the Federal Service Impasses Panel are under the general, day-to-day, supervision of their respective members or component heads. The FLRA also provides full staff support to two other organizations - - the *Foreign Service Impasse Disputes Panel* and the *Foreign Service Labor Relations Board.*[9] The FLRA's financial activity is considered to be in the general government and central personnel management budget function.

7 Public Law 95-454, 5 U.S.C. § 7101 *et seq.*
8 The Postal Reorganization Act (Public Law 91-375, Aug. 12, 1970) governs labor-management relations in the Postal Service.
9 Created by the Foreign Service Act of 1980, the FSIDP is a five-member board, chaired by the FLRA Chairman, that resolves bargaining impasses between Federal agencies and Foreign Service personnel in the U.S. Information Agency, the Agency for International Development, and the Departments of State, Agriculture, and Commerce, over conditions of employment. Also under the same Act, the three-member FSLRB administers the labor-management relations program for Foreign Service employees in the U.S. Information Agency, the Agency for International Development, and the Departments of State, Agriculture, and Commerce.

Basis of Presentation
The financial statements of FLRA were prepared from its accounting records to report its financial position, net costs, changes in net position, budgetary resources, and reconciliation of net cost to budgetary resources. Such statements have been prepared in accordance with generally accepted accounting principles (GAAP), and the form and content requirements specified by the Office of Management and Budget (OMB) Circular No. A-136, Financial Reporting Requirements. The GAAP for Federal entities are the standards prescribed by the Federal Accounting Standards Advisory Board (FASAB), which has been designated as the official accounting standards-setting body for the U.S. Federal Government by the American Institute of Certified Public Accountants (AICPA).

Basis of Accounting
FLRA uses both the accrual basis and budgetary basis of accounting to record transactions. Under the accrual basis, revenues are recognized when earned and expenses are recognized when a liability is incurred, without regard to receipt or payment of cash. These financial statements were prepared following accrual accounting. Budgetary account balances are included in certain statements as appropriate. Budgetary accounting principles ensure that funds are obligated according to legal requirements. Balances on these statements may therefore differ from those on financial reports prepared pursuant to other OMB directives that are primarily used to monitor and control FLRA use of budgetary resources.

Use of Estimates in Preparing the Financial Statements
The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Fund Balance with Treasury
Funds within the Department of the Treasury primarily represent appropriated funds that are available to pay current liabilities and finance authorized purchase commitments.

Accounts Receivable
Accounts Receivable consists of claims by the FLRA for payment from other entities. Gross receivables are reduced to net realizable value by an allowance for doubtful accounts. Accounts receivable are recorded net of any related allowance for doubtful accounts.

Property, Plant, and Equipment, Net
FLRA's property and equipment is recorded at cost and is depreciated using the straight-line method over the estimated useful life of the asset. Major alterations and renovations are capitalized, while maintenance and repair costs are charged to expense as incurred. FLRA's capitalization threshold was $3,500 for individual purchases. Bulk purchases of similar items, which individually are worth less than $3,500, but collectively are worth more than $30,000 are also capitalized using the same property and equipment categories and useful lives as capital acquisitions. Service lives are shown below:

Description	Years
Computer equipment	5
Software	3
Office equipment	7
Office furniture	15
Leasehold Improvements	Life of Lease

Liabilities
Liabilities represent the amount of monies or other resources likely to be paid by FLRA as a result of transactions or events that have already occurred. No liability can be paid, however, absent an appropriation.

Liabilities for which an appropriation has not been enacted are, therefore, classified as not covered by budgetary resources, and there is no certainty that the appropriation will be enacted. Also, the Government, acting in its sovereign capacity, can abrogate liabilities.

Liabilities that are covered by budgetary resources consist of intra-governmental and public accounts payable and accrued funded payroll. Liabilities not covered by budgetary resources consist of unfunded *Federal Employees Compensation Act* (FECA) for 2006 and 2007 (since agencies reimburse the Department of Labor two and one quarter years after the actual payment of expenses) as well as unfunded actuarial FECA liabilities. Liabilities not covered by budgetary resources also include unfunded leave.

Accrued FECA Liability
A liability is recorded for actual and estimated future payments to be made for workers' compensation pursuant to the FECA. The actual costs incurred are reflected as a liability because Agencies will reimburse the Department of Labor (DOL) two years after the actual payment of expenses. Future revenues will be used for their imbursement to DOL. The liability consists of (1) the net present value of estimated future payments calculated by the DOL, and (2) the un-reimbursed cost paid by DOL for compensation to recipients under the FECA.

Actuarial FECA Liability
An estimated actuarial liability for future Workers' Compensation benefits is included. The liability estimate is based on the Department of Labor's FECA actuarial model that takes the amount of benefit payments over the last nine to 12 quarters and calculates the annual average of payments for medical expenses and compensation. This average is then multiplied by the liabilities to benefits paid ratios for the whole FECA program for FY 2007. The ratios may vary from year to year as a result of economic assumptions and other factors but the model calculates a liability approximately 11 times the annual payments.

Annual, Sick and Other Leave
Annual leave is accrued as it is earned, and the accrual is reduced as leave is taken. Each year, the balance in the accrued annual leave account is adjusted to reflect current pay rates. To the extent that current or prior year funding is not available to cover annual leave earned but not taken, funding will be obtained from future financing sources. Sick leave and other types on non-vested leave are expensed as taken. Any liability for sick leave that is accrued but not taken by a CSRS-covered employee is transferred to the Office of Personnel Management upon the retirement of that individual. No credit is given for sick leave balances upon the retirement of FERS-covered employees.

Accounts Payable and Other Accrued Liabilities
Accounts payable and accrued liabilities represent a probable future outflow or other sacrifice of resources as a result of past transactions or events. Liabilities are recognized when they are incurred regardless of whether they are covered by available budgetary resources. FLRA liabilities cannot be liquidated without legislation that provides resources to do so. Since the FLRA is a component of the U.S. Government, a sovereign entity, payments of all liabilities other than contracts can be abrogated by the sovereign entity.

Net Position
Net position is the residual difference between assets and liabilities and is composed of Unexpended Appropriations and Cumulative Results of Operations. Unexpended Appropriations represent the amount of unobligated and unexpended budget authority. Unobligated Balance is the amount of appropriations or other authority remaining after deducting the cumulative obligations from the amount available for obligation. Cumulative Results of Operations are the net result of FLRA's operations since inception, which principally comprise property and equipment less unfunded liabilities.

Retirement Plans
FLRA's employees participate in the Civil Service Retirement System (CSRS) or the Federal Employee's

Retirement System (FERS).

Civil Service Retirement System

For employees hired prior to January 1, 1984, FLRA withholds 7.0 percent of each employee's salary and contributes 7.0 percent of the employee's basic salary to the retirement fund. These employees may also contribute, on a tax-deferred basis, to a defined contribution plan - the Thrift Savings Plan (TSP). Starting in 2006, employees were no longer limited to a salary percentage, and the regular IRS limit was $15,000. In 2007, the regular IRS limit was $15,500. FLRA is not required to and does not contribute any matching amounts for CSRS employees.

Federal Employees Retirement System

FERS was established by enactment of Public Law 99-335. Pursuant to this law, FERS and Social Security automatically cover most employees hired after December 31, 1983. Employees hired before January 1, 1984 elected either to join FERS and Social Security or to remain in CSRS.

FLRA withholds 6.2 percent in an old age survivors and disability insurance up to a specified wage ceiling and 0.8 percent of an employee's gross earnings for retirement. FLRA matches the retirement withholdings with a contribution equal to 11.2 percent of the employee's taxable salaries.

All employees are eligible to contribute to the TSP. For those employees participating in FERS, a TSP account is automatically established. FLRA is required to make a mandatory contribution of 1.0 percent of the base salaries of all employees under FERS. Starting in 2006, employees were not limited as to salary percentage, and the regular IRS limit was $15,000. In 2007, the regular IRS limit was $15,500. FLRA is required to match the employee's contribution up to a maximum of 5.0 percent of their salaries. Matching contributions are not made to the TSP accounts established by CSRS employees.

FERS employees and certain CSRS reinstatement employees are eligible to participate in the Social Security program after retirement. In these instances, FLRA remits the employer's share of the required contribution. FLRA does not report on its financial statements information pertaining to the retirement plans covering its employees. Reporting amounts such as plan assets, accumulated plan benefits, and related unfunded liabilities, if any, is the responsibility of the Office of Personnel Management.

Imputed Costs/Financing Sources

The FASAB's SFFAS Number 5, "Accounting for Liabilities of the Federal Government," requires that employing agencies recognize the full cost of pensions, health and life insurance benefits, during their employees' active years of service. OPM, as the administrator of the CSRS and FERS plans, the Federal Employees Health Benefits Program and the Federal Employees Group Life Insurance Program, must provide the "cost factors" that adjust the agency contribution rate to the full cost for the applicable benefit programs. An imputed financing source and corresponding imputed personnel cost is reflected in the Statement of Change in Net Position, the Statement of Net Cost, and the Statement of Financing, respectively.

Revenue and Other Financing Sources

Reimbursable Work Agreements (Exchange) — FLRA recognizes reimbursable work agreement revenue when earned, i.e., goods that have been delivered or services rendered. Each reimbursable work agreement specifies the dollar value of the agreement and is based on estimated resources needed to perform the specified services, whether it is personnel services to include base pay, overtime and benefits, or travel and per diem.

Annual Appropriations (Financing Source) — FLRA receives an annual salaries and expense appropriation from Congress. Annual appropriations are used, within statutory limits, for salaries and administrative expenses and operating and capital expenditures for essential personal property.

Appropriations are recognized as non-exchange revenues at the time the related program or administrative expenses are incurred. Appropriations expended for capitalized property and equipment are recognized as expenses when an asset is consumed in operations. The annual appropriation for FY 2006 was $25,468,000. A 1 percent rescission to the FY 2006 appropriation reduced that amount by $254,680 for a total available of $25,213,320. The annual appropriation for FY 2007 was $25,372,339.

Expired Accounts and Cancelled Authority

Unless otherwise specified by law, annual authority expires for incurring new obligations at the beginning of the subsequent fiscal year. The account into which the annual authority is placed is called the expired account. For five fiscal years, the expired account is available for expenditure to liquidate valid obligations incurred during the unexpired period. Adjustments are allowed to increase or decrease valid obligations incurred during the unexpired period but not previously reported. At the end of the fifth expired year, the expired account is canceled.

Transactions with Related Parties

In the course of its operations, the FLRA has relationships and conducts financial transactions with numerous Federal agencies. The most prominent of these relationships are with the United States Department of the Treasury, the Department of the Interior's National Business Center, Health and Human Services, and the General Services Administration.

Contingencies

A contingency is an existing condition, situation or set of circumstances involving uncertainty as to possible gain or loss to the Agency. The uncertainty will ultimately be resolved when one or more future events occur or fail to occur. With the exception of pending, threatened or potential litigation, a contingent liability is recognized when a past transaction or event has occurred, a future outflow or other sacrifice of resources is more likely than not, and the related future outflow or sacrifice of resources is measurable. For pending, threatened or potential litigation, a liability is recognized when a past transaction or event has occurred, a future outflow or other sacrifice of resources is likely, and the related future outflow or sacrifice of resources is measurable.

NOTE 2 – FUND BALANCE WITH TREASURY

Fund Balances with Treasury:

	2007(CY)	2006 (PY)
Fund Balances:		
Appropriated Funds	$10,779,671	$ 8,920,547
Status of Fund Balance with Treasury		
Unobligated Balance:		
Available	$ 3,629,451	$1,322,877
Unavailable	4,734,709	4,096,872
Obligated balance not yet disbursed	2,415,511	3,500,798
Total	$10,779,671	$ 8,920,547

NOTE 3 – ACCOUNTS RECEIVABLE

On the Balance Sheet, Accounts Receivable consists of the following:

	2007(CY)	2006(PY)
Accounts Receivable – Intragovernmental	$ 29,136	$ 31,840
Allowance for Bad Debts	(10,198)	(11,144)
Total Accounts Receivable	$ 18,938	$20,696

NOTE 4 – PROPERTY, PLANT, AND EQUIPMENT

Property, plant, and equipment is comprised of furniture, equipment, and computer software, and is comprised of the following:

	2007 (CY)	2006 (PY)
Cost:		
Computer equipment	$ 404,159	$ 280,935
Software	258,957	217,372
Office equipment	338,539	248,265
Office furniture	526,524	526,524
Leasehold Improvements	226,580	226,580
Total Cost	1,754,759	1,499,676
Less accumulated depreciation	(968,038)	(740,775)
Net Book Value	$ 786,721	$ 758,901

NOTE 5 – RECLASSIFICATIONS

Certain reclassifications to prior year balances have been made in the accompanying financial statements to make disclosures consistent with those of the current year.

NOTE 6 – OPERATING LEASES

FLRA has operating leases for rental of office space and office equipment. The copier lease arrangements are renewable annually with five possible annual renewal periods. As a Federal Agency, the FLRA is not liable for any lease terms beyond one year. FLRA anticipates that space levels consistent with FY 2007 will be required for the next five years and has estimated space and copier payments consistent with that need in the schedule below. Lease requirements per existing contracts are as follows:

Fiscal Year	**Bldg.**	**Copier**	**Total**
2008	$ 2,323,315	$ 20,000	$ 2,343,315
2009	$ 1,994,132	$	$ 1,994,132
2010	$ 1,935,410	$ -	$ 1,935,410
2011	$ 1,829,218	$ -	$ 1,829,218
THEREAFTER	$ 2,291,794	$ -	$ 2,291,794
Total anticipated future lease payments	$10,373,869	$ 20,000	$ 10,393,869

NOTE 7 – COMMITMENTS

FLRA is a party in various administrative proceedings, legal actions, and claims brought by or against the agency. In the opinion of FLRA management, the ultimate resolution of proceedings, actions, and claims, will not materially affect financial position or results of operations of the FLRA. The FLRA has examined its obligations related to canceled FY 2002 authority and believes that it has no outstanding commitments that will require future resources.

NOTE 8– APPORTIONMENT CATEGORIES OF OBLIGATIONS INCURRED

The following summarizes apportionment categories of obligations incurred:

Category A	**2007(CY) Budgetary**	**2006(PY) Budgetary**
Direct	$23,171,207	$23,803,794
Reimbursable	$ -	16,777

NOTE 9 - EXPLANATION OF DIFFERENCES BETWEEN LIABILITES NOT COVERED BY BUDGETARY RESOURCES AND COMPONENTS REQUIRING OR GENERATING RESOURCES IN FUTURE PERIODS

The liabilities not covered by budgetary resources on the balance sheet include annual leave and FECA liability. This balance is reported in the Statement of Financing as a component requiring or generating resources in future periods. The FECA liability is reported as resources that fund expenses recognized in prior years on the Statement of Financing.

NOTE 10 – RECONCILIATION OF NET COST TO BUDGET (FORMERLY THE STATEMENTS OF FINANCING)

Federal Labor Relations Authority
Reconciliation of Net Cost to Budget (formerly the SOF)
For the Years Ended September 30, 2007 and 2006

		2007		2006
Resources Used to Finance Activities:				
Budgetary Resources Obligated				
Obligations incurred	$	**23,171,207**	$	23,820,571
Less: Spending authority from offsetting collections and Recoveries		**(1,585,679)**		(566,013)
Obligations net of offsetting collections and recoveries		**21,585,528**		23,254,558
Other Resources				
Imputed financing from costs absorbed by others		**1,366,337**		1,388,593
Total resources used to finance activities		**22,951,865**		24,643,151
Resources Used to Finance Items Not Part of Net Cost of Operations:				
Change in budgetary resources obligated for goods, services and benefits ordered but not yet provided		**833,469**		(803,364)
Resources that fund expenses recognized in prior periods		**223,468**		10,221
Resources that finance the acquisition of assets		**255,083**		(224,297)
Total resources used to finance items not part of the net cost of operations		**1,312,020**		(1,017,440)
Total resources used to finance the net cost of operations		**24,263,885**		23,625,711
Components of Net Cost of Operations Not Requiring or Generating Resources in the Current Period				
Components Not Requiring or Generating Resources:				
Depreciation and Amortization		**(227,263)**		216,843
Revaluation of assets or liabilities		**-**		-
Other		**(4,878))**		(7,183)
Total Components Not Requiring or Generating Resources		**(232,141)**		209,660
Total Components of Net Cost of Operations not Requiring or Generating Resources in the Current Period	**$**	**(232,141)**	$	209,660
Net Cost of Operations	**$**	**24,031,744**	$	23,835,371

OTHER ACCOMPANYING INFORMATION

Management Challenges

As required by OMB Circular-136, the Agency Inspector General (IG) provided the following summary, listing what the IG considers the most serious management and performance challenges facing the agency, including a brief assessment of the agency's progress in addressing those challenges. The Agency Head may comment on, but not modify the IG statement.

FLRA Inspector General Statement of Management Challenges

From: Eichler, Francine
Sent: Wednesday, December 05, 2007 9:45 AM
To: Crumpacker, Jill
Cc: Cabaniss, Dale
Subject: RE: Management Challenges

Jill

I was not informed by anyone nor aware that this requirement was needed by the Chairman or you for the PAR (30 days prior to issuance for inclusion in the PAR). I don't recall being notified about this for previous PARS or this one.. If you do need them, I will list my opinion now which you may use.

Management Challenges

Rebuilding/Redeveloping the FLRA's working environment
Keep improving Human Capital and employees attitudes.
Continue to provide required and necessary training to all employees, including managers
Ensure that internal controls are beneficial, risks are minimal, and OIG oversight activities findings and recommendations and identified material weakness are addressed and corrected.
Increase component budgets as well as OIG budgets and continue to increase staffs when necessary .
Re-create monthly management meetings so that important issues can be discussed and known.

Agency Comments

The above comments are not presented within a specific context. Therefore, it is unclear what the "challenge" is for purposes of determining the extent of the Agency's progress in addressing each challenge. Notwithstanding, the FLRA is proud of its continued efforts to address the changing nature of work, resources, and customer needs and expectations. With respect to the above-listed management challenges, Agency actions undertaken during FY2007 include the following:

- Rebuilding/Redeveloping the FLRA's working environment

  During 2007, the Agency realigned the Authority Decisional Component career staff attorneys into a Case Production Unit within the Office of Case Adjudication, in order to improve the alignment of program performance management with the agency's performance goals and to begin aligning programs with budget. In addition, preparatory work for implementing an agency-wide, non- pass/fail performance-management system was completed.

- Keep Improving Human Capital and Employees Attitudes

  During 2007, the Agency continued to correct classifications and standardize position descriptions in order to reflect actual duties performed. The Agency also continued efforts to eliminate perceived barriers for career development between and among components so that, for example, staff attorneys who begin their FLRA career within one component are not discouraged from opportunities within other components, thereby strengthening and dispersing the institutional knowledge throughout the agency and providing a broader scope of career options for employees who choose to remain with the Agency.

- Continue to Provide Necessary and Required Training to all Employees, Including Managers

  Throughout 2007, the FLRA provided necessary and required training to all employees, including the following: Ethics, COTR training, Computer Security Awareness, Sexual Harassment, Retirement, Management and Internal Controls. In addition, the FLRA provided numerous opportunities for skills-building through legal research/writing training for all attorneys, software training (such as Word, Excel, Powerpoint), budgeting and accounting training, acquisition and contracting, LEXIS, and a variety of leadership, management, and administrative courses.

- Ensure that Internal Controls are Beneficial, Risks are Minimal, and OIG Oversight and Activities Findings and Recommendations and Identified Material Weaknesses are Addressed and Corrected.

  The FLRA undertook an agency-wide assessment of internal controls through contractor Grant-Thornton, Inc. The FLRA IG participated in individual meetings with the contractors. Following the assessment, consultants assisted with revision or creation of draft instructions, as appropriate. Grant-Thornton consultants also presented several all-employee and all-manager/supervisor training sessions on the topic of internal controls, focusing on the responsibilities and obligations of employees, depending upon their organizational role, in promoting and ensuring reasonable assurance of proper controls and subsequent actions should such controls be determined not to be in place or adhered to by agency personnel.

The all-employee training sessions, which the IG attended, included the following learning objectives and discussion topics:

Learning Objectives:

- Involve attendees in interactive presentation
- Review management control background, requirements, structure
- Promote and increase awareness and knowledge of the importance of sound management controls
- Discuss FLRA management's responsibility to management controls
- Understand FLRA's management control program
- Relate management controls to policies and procedures

Discussion Topics:

- Management Control Overview and Structure
- FLRA's Management Control Environment
- FLRA Policy and Procedure Instructions
- Management Control Systems
- Relationship between Instructions and Controls

- Increase Component Budgets as well as OIG Budgets and Continue to Increase Staffs When Necessary

  The annual budget is developed based upon input at the program level, up through the Component level. The FLRA Chairman/CFO meets and confers with Component Heads and budget/finance staff prior to the finalization of the annual budget. The Chairman and Component Heads meet and confer throughout the year with budget/finance staff to discuss budget/accounting reports during budget execution, and to monitor and adjust, as needed, the budget, in consultation with OMB, subject to Congressional approval. All Component Heads justify staff and budget adjustments, whether increases or decreases, based on caseload and program activity.

- Re-create Monthly Management Meetings so that Important Issues can be Discussed and Known

  During FY2007 and previously, the FLRA Chairman has and does meet with Component Heads in person and/or teleconference, as needed, to ensure efficient agency and component operations. Such meetings occur more frequently than monthly. In turn, Component Heads meet with their senior managers and senior managers meet with their supervisory staff or subordinate employees. For example, the FLRA General Counsel holds a weekly (Tuesday) teleconference with all Regional Directors. The FLRA Chairman frequently meets daily with her senior direct reports. Thus, it is unclear what the challenge is that the Agency is to address or how the Agency is to demonstrate progress towards meeting the challenge.

TABLE I - Summary of Financial Statement Audit

FY 2006 Audit Opinion: Disclaimer					
Restatement: No					
Material Weaknesses	**Beginning Balances**	**New**	**Resolved**	**Consolidated**	**Ending Balances**
Financial Statements:					
No opinion was expressed on FLRA's financial statements for the fiscal year ended September 30, 2006.					
Internal Controls:					
Inadequate oversight of financial accounting and reporting		✓			
The Executive Director did not sign the management representation letter		✓			
Delay in submitting the FY 06 Performance and Accountability Report		✓			
Inadequate review and analyses of unliquidated obligations.		✓			
Inadequate review of subsidiary supporting detail		✓			
Weaknesses identified in FY 2005 Management Letter were not responded to by management		✓			
Compliance with Laws and Regulations:					
FY 06 IG semi-annual reports to Congress were not timely reported		✓			
Management did not properly assess the adequacy of internal control in programs and operations		✓			
Ineffective environment for setting a positive and supportive attitude toward internal control and conscientious management		✓			
OIG's request for independent FISMA evaluation was not approved		✓			
Financial Section of FY 05 PAR was incomplete		✓			
Total Material Weaknesses	0	11		0	11
FY 2007 Audit Opinion: Unqualified					
Restatement: No					
Material Weaknesses	**Beginning Balances**	**New**	**Resolved**	**Consolidated**	**Ending Balances**
None noted					
Total Material Weaknesses	11	0	11	0	0

TABLE II - Summary of Management Assurances

Section 1 - Effectiveness of Internal Control over Financial Reporting						
FY 06 Statement of Assurance	Qualified					
Material Weaknesses:	Beginning Balances	New	Resolved	Consolidated	Reassessed	Ending Balances
Inadequate oversight of financial accounting and reporting		✓				
The Executive Director did not sign the management representation letter		✓				
Delay in submitting the FY 06 Performance and Accountability Report		✓				
Inadequate review and analyses of unliquidated obligations.		✓				
Inadequate review of subsidiary supporting detail		✓				
Weaknesses identified in FY 2005 Management Letter were not responded to by management		✓				
FY 06 IG semi-annual reports to Congress were not timely reported		✓				
Management did not properly assess the adequacy of internal control in programs and operations		✓				
Ineffective environment for setting a positive and supportive attitude toward internal control and conscientious management		✓				
OIG's request for independent FISMA evaluation was not approved		✓				
Financial Section of FY 06 PAR was incomplete		✓				
Total Material Weaknesses	0	11				11
FY 07 Statement of Assurance	Unqualified					
Material Weaknesses:	Beginning Balances	New	Resolved	Consolidated	Reassessed	Ending Balances
Total Material Weaknesses	11	0	11			0

Section 2 - Effectiveness of Internal Control Over Operations						
FY 06 Statement of Assurance		Unqualified				
Material Weaknesses:	Beginning Balances	New	Resolved	Consolidated	Reassessed	Ending Balances
Total Material Weaknesses	0	0				0
FY 07 Statement of Assurance		Unqualified				
Material Weaknesses:	Beginning Balances	New	Resolved	Consolidated	Reassessed	Ending Balances
Total Material Weaknesses	0	0				0

Section 3 - Conformance with Financial Management System Requirements						
FY 06 Statement of Assurance		Systems conform to financial management system requirements				
Non-Conformances:	Beginning Balances	New	Resolved	Consolidated	Reassessed	Ending Balances
Total Non-Conformances	0	0	0	0	0	0
FY 07 Statement of Assurance		Systems conform to financial management system requirements				
Non-Conformances:	Beginning Balances	New	Resolved	Consolidated	Reassessed	Ending Balances
Total Non-Conformances	0	0	0	0	0	0

Section 4 - Compliance with Federal Financial Management Improvement Act		
	Agency	Auditor
FY 06 Overall Substantial Compliance	Yes	Yes
1. System Requirements	Yes	Yes
2. Accounting Standards	Yes	Yes
3. USSGL at Transaction level	Yes	Yes
	Agency	Auditor
FY 07 Overall Substantial Compliance	Yes	Yes
1. System Requirements	Yes	Yes
2. Accounting Standards	Yes	Yes
3. USSGL at Transaction level	Yes	Yes

UNITED STATES OF AMERICA
FEDERAL LABOR RELATIONS AUTHORITY
1400 K Street, NW
WASHINGTON, D.C. 20424-0001

OFFICE OF THE CHAIRMAN

The Honorable Francine Eichler
Inspector General
Federal Labor Relations Authority

Dembo, Jones, Healy, Pennington and Marshall, P.C.
6010 Executive Boulevard
Suite 900
Rockville, Maryland 20852

Dear Ms. Eichler:

I am providing this letter in connection with the audit of the Federal Labor Relations Authority's (FLRA) balance sheet as of September 30, 2007 and 2006, and the related statements of net costs, changes in net position, budgetary resources, and financing for the years then ended (hereinafter referred to as the "financial statements").

It is my understanding that the audit was conducted to (1) express an opinion as to whether the financial statements are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles, (2) report [or express an opinion] on the entity's internal control over financial reporting and compliance with laws and regulations as of September 30, 2007, and (3) test for compliance with applicable laws and regulations. In addition, I understand that certain audit procedures were performed with respect to the FLRA's 2007 Management's Discussion and Analysis (MD&A) and other supplementary information, which is included as part of the 2007 financial statements of the FLRA.

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

I confirm, to the best of my knowledge and belief, the following representations made to you or members of the accounting firm Dembo, Jones, Healy, Pennington and Marshall during the audit. These representations pertain to both years' financial statements, and update the representations we provided in the prior year:

Presentation and Disclosure

1. We are responsible for the fair presentation of the financial statements in conformity with U.S. generally accepted accounting principles. We are also responsible for the preparation of the MD&A, and (if any): required supplementary information (RSI), required supplementary stewardship information (RSSI), and other supplementary information.

2. The financial statements are fairly presented in conformity with U.S. generally accepted accounting principles. The MD&A, and (if any) RSI, RSSI, and other supplementary information are fairly presented and are consistent with the financial statements.

3. We have made available to you all: a. financial records and related data; b. where applicable, minutes of meetings of the Board of Directors [or other similar bodies of those charged with governance] or summaries of actions of recent meetings for which minutes have not been prepared; and c. any communications from the Office of Management and Budget (OMB) concerning noncompliance with or deficiencies in financial reporting practices.

4. There are no material transactions that have not been properly recorded in the accounting records underlying the financial statements or disclosed in the notes to the financial statements.

5. There are no uncorrected financial statement misstatements as we have adjusted the financial statements for all known and likely misstatements you have informed us of.

6. The FLRA has satisfactory title to all owned assets, including stewardship property, plant, and equipment. There are no liens or encumbrances on these assets and no assets have been pledged.

7. We have no plans or intentions that may materially affect the carrying value or classification of assets and liabilities or that we are required to disclose in the financial statements.

8. All guarantees under which the FLRA is contingently liable that require reporting or disclosure in the financial statements were reported or disclosed.

9. Related party transactions including related accounts receivable or payable, revenues, expenditures, loans, transfers, leasing arrangements, assessments, and guarantees have been properly recorded and disclosed in the financial statements.
Letter to Francine Eichler

10. No material events or transactions have occurred subsequent to September 30, 2007 that have not been properly recorded in the financial statements or disclosed in the notes.

Intra-governmental Activities

11. All inter-entity transactions and balances have been appropriately identified and eliminated for financial reporting purposes. All intra-governmental transactions and activities have been appropriately identified, recorded, and disclosed in the financial statements. We have reconciled intra-governmental transactions and balances with the federal entity providing the goods or services.

Internal Control

12. We are responsible for establishing and maintaining a system of internal control.

13. Pursuant to 31 U.S.C. 3512(c), (d) (commonly known as the Federal Managers' Financial Integrity Act), we have assessed the effectiveness of the FLRA's internal control in achieving the following objectives:

a. Reliability of financial reporting: transactions are properly recorded, processed, and summarized to permit the preparation of the financial statements and supplementary information in accordance with U.S. generally accepted accounting principles, and assets are safeguarded against loss from unauthorized acquisition, use, or disposition.

b. Compliance with applicable laws and regulations: transactions are executed in accordance with laws governing the use of budget authority; other laws and regulations that could have a direct and material effect on the financial statements, and any other laws, regulations, and government-wide policies identified in OMB audit guidance.

c. Reliability of performance reporting: transactions and other data that support reported performance measures in the MD&A are properly recorded, processed, and summarized to permit the preparation of performance information in accordance with criteria stated by management.

14. Those controls in place on September 30, 2007, provided reasonable assurance that the foregoing objectives are met.

15. We have disclosed to you all significant deficiencies in the design or operation of internal control that could adversely affect the FLRA's ability to meet the internal control objectives and determined that none is a material weakness.

16. There have been no changes to internal control subsequent to September 30, 2007 or other factors that might significantly affect the effectiveness of internal control.

Fraud

17. We acknowledge our responsibility for the design and implementation of programs and controls to prevent and detect fraud (intentional misstatements or omissions of amounts or disclosures in financial statements and misappropriation of assets that could have a material effect on the financial statements).

18. We have no knowledge of any fraud or suspected fraud affecting the FLRA involving: a. management, b. employees who have significant roles in internal control, or c. others where the fraud could have a material effect on the financial statements.

19. We have no knowledge of any allegations of fraud or suspected fraud affecting the FLRA received in communications from employees, former employees, or others.

Laws and Regulations

20. We are responsible for the FLRA's compliance with applicable laws and regulations.

21. We have identified and disclosed to you all laws and regulations that have a direct and material effect on the determination of financial statement amounts.

22. There are no:
   a. Violations or possible violations of laws or regulations whose effects we should evaluate for disclosure in the financial statements or as a basis for recording a loss contingency,
   b. Material liabilities or gain or loss contingencies that are required to be accrued or disclosed that have not been accrued or disclosed, or
   c. Unasserted claims or assessments that are probable of assertion and must be disclosed that have not been disclosed.

23. We have complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.

24. I am not aware of any violations of the Antideficiency Act that we must report to the Congress and the President for the year ended September 30, 2007and through the date of this letter.

Dale Cabaniss

Dale Cabaniss
Chairman and Chief Financial Officer