UNITED STATES GOVERNMENT
National Labor Relations Board
Office of Inspector General

Audit of the NLRB Fiscal Year 2006 Financial Statements

Report No. OIG-F-11-07-01

December 2006

INSPECTOR GENERAL

NATIONAL LABOR RELATIONS BOARD

WASHINGTON, DC 20570

December 14, 2006

I hereby submit the Audit of the National Labor Relations Board's (NLRB) Fiscal Year (FY) 2006 Financial Statements, Report No. OIG-F-11-07-01. The audit was required by the Accountability of Tax Dollars Act of 2002. On November 9, 2006, we transmitted Carmichael, Brasher, Tuvell & Company's (CBTC) audit opinion, which was included in the Agency's FY 2006 Performance and Accountability Report. This document is the Office of Inspector General's comprehensive report on our efforts related to auditing the Agency's financial statements and includes the audit report, management letter, NLRB's financial statements and related notes, and management's responses to both the audit report and management letter.

The Accountability of Tax Dollars Act of 2002 requires NLRB to prepare and submit to the Congress and the Director of the Office of Management and Budget (OMB) an audited financial statement. We contracted with CBTC to perform the audit. The objectives of the audit were to issue an opinion on the fairness of the financial statements, obtain an understanding of the Agency's internal controls, and test compliance with laws and regulations that could have a direct and material effect on the financial statements.

The audit was conducted by CBTC in accordance with Government Auditing Standards issued by the Comptroller General of the United States and OMB Bulletin No. 06-03, Audit Requirements for Federal Financial Statements. The audit results were:

- The financial statements present fairly, in all material respects, the financial condition and activity of the NLRB as of and for the years ending September 30, 2005 and 2006.

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

- One reportable condition involving the implementation of a disaster recovery plan was identified.

- No instances of non-compliance with laws and regulations that were required to be reported under Government Auditing Standards or OMB Bulletin 06-03 were identified.

A management letter, included on page 6 of this report, identified four other areas in which management could improve controls. These areas involved information technology security, major systems development capitalization, property accounting, and database subscriptions obligations.

CBTC's independent auditors' report included one recommendation for improving information technology controls and CBTC's management letter contained four findings with six additional recommendations. The management letter also provided information on the status of open prior year recommendations.

The Director of Administration reported that a disaster recovery plan was developed by a contractor in accordance with National Institute of Standards and Technology standards, received by the Agency, and implemented. She reported that simulation testing was conducted on October 19, 2006. The Agency's actions to address the recommendation will be evaluated during the FY 2007 financial statement audit.

Management generally agreed with two of the four findings and related recommendations made in the Management Letter and reported that corrective action has been initiated on one of these items. The Chief Information Officer agreed with most of our information technology security findings but disagreed that improvements would be neither labor nor resource intensive to implement. The Office of Inspector General will work with Agency management to reach agreement on approaches to mitigate identified vulnerabilities. Management disagreed with our conclusion that it was inappropriate to obligate Fiscal Year FY 2006 funds for subscription contracts that were entirely for FY 2007 services. Comments on the audit report and management letter are presented in their entirety as appendixes to this report.

Jane E. Altenhofen

Jane E. Altenhofen
Inspector General

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INDEPENDENT AUDITORS' REPORT

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

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

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

We have audited the consolidated balance sheet of NLRB as of September 30, 2006 and 2005, and the related consolidated statements of net cost, changes in net position, statements of financing, and the combined statements of budgetary resources for the years then ended. These financial statements are the responsibility of NLRB's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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. 06-03, *Audit Requirements for Federal Financial Statements*. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

OPINION ON FINANCIAL STATEMENTS

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities, and net position of NLRB, as of September 30, 2006 and 2005; and the net cost, changes in net position, budgetary resources, reconciliation of net cost to budgetary resources and financing for the years then ended in conformity with accounting principles generally accepted in the United States of America.

REPORT ON INTERNAL CONTROL

In planning and performing our audit, we considered NLRB's internal control over financial reporting by obtaining an understanding of the Agency's internal controls, determined whether internal controls had been placed in operation, assessed control risk, and performed tests of controls in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements. We limited our internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin No. 06-03. We did not test all internal controls relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act of 1982 (FMFIA), such as those controls relevant to ensuring efficient operations. The objective of our audit was not to provide assurance on internal control. Consequently, we do not provide an opinion on internal control.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be reportable conditions. Under standards issued by the American Institute of Certified Public Accountants, reportable conditions are matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect the Agency's ability to record, process, summarize, and report financial data consistent with the assertions by management in the financial statements. Material weaknesses are reportable conditions in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that material misstatements in relation to the audited financial statements may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Because of inherent limitations in internal controls, misstatements, losses, or noncompliance may nevertheless occur and not be detected. We noted a matter involving the internal control and its operation that we consider to be a reportable condition described in Exhibit A. However, the reportable condition is not believed to be a material weakness.

A separate letter will be provided to management regarding other matters that came to our attention as a result of our audit.

We considered NLRB's internal control over Required Supplementary Information (RSI) by obtaining an understanding of the Agency's internal control, determining whether these internal controls had been placed in operation, assessing control risk, and performing tests of controls as required by OMB Bulletin No. 06-03. The objective of our audit was not to provide assurance on these internal controls. Accordingly, we do not provide an opinion on such controls. With respect to internal control related to performance measures reported in the Management Discussion and Analysis (MD&A) section of the Performance and Accountability Report, we obtained an understanding of the design of significant internal controls relating to the existence and completeness assertions, and determined whether these internal controls had been placed in operation as required by OMB Bulletin No. 06-03. 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.

REPORT ON COMPLIANCE WITH LAWS AND REGULATIONS

The management of NLRB is responsible for complying with laws and regulations applicable to the Agency. As part of obtaining reasonable assurance about whether the Agency's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts, and certain other laws and regulations specified in OMB Bulletin No. 06-03, including the requirements referred to in the Federal Financial Management Improvement Act of 1996 (FFMIA). We limited our tests of compliance to these provisions and we did not test compliance with all laws and regulations applicable to NLRB.

The results of our tests of compliance with the laws and regulations discussed in the preceding paragraph disclosed no instances of noncompliance with laws and regulations that are required to be reported under *Government Auditing Standards* or OMB Bulletin No. 06-03.

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

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

We have examined NLRB's compliance with the requirements of FFMIA as of September 30, 2006. These requirements include implementing and maintaining financial management systems that substantially comply with Federal financial management systems requirements, applicable Federal accounting standards, and the United States Government Standard General Ledger at the transaction level. Management is responsible for the NLRB's compliance with these requirements. Our responsibility is to report whether the Agency's financial management systems substantially comply with these requirements.

Our examination was conducted in accordance with the attestation standards established by the American Institute of Certified Public Accountants; *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Bulletin No. 06-03, *Audit Requirements for Federal Financial Statements*. These standards include examining, on a test basis, evidence about NLRB's compliance with those requirements, including FFMIA Section 803(a) requirements, and performing such other procedures as we considered necessary in the circumstances. Our examination does not provide a legal determination on NLRB's compliance with specific requirements. The results of our tests of compliance with FFMIA disclosed no instances in which NLRB's financial management systems did not substantially comply with Federal financial management system requirements, applicable Federal accounting standards, or the United States Government Standard General Ledger at the transaction level.

OTHER ACCOMPANYING INFORMATION

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

The other accompanying information included in the MD&A and RSI sections of the Performance and Accountability Report are required by the Federal Accounting Standards Advisory Board and OMB Circular A-136, *Financial Reporting Requirements*. We have applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the information. We did not audit the other accompanying information and, accordingly, do not express an opinion or any other form of assurance on it.

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

CARMICHAEL, BRASHER, TUVELL & COMPANY, PC

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

Atlanta, Georgia
November 1, 2006

EXHIBIT A

CURRENT YEAR REPORTABLE CONDITION

Information Technology

Federal information systems are required to conform to standards set forth by both OMB and the National Institute of Standards and Technology (NIST). NIST Special Publication (SP) 800-34, *Contingency Planning Guide for Information Technology Systems*, establishes many of the minimum information systems requirements for Federal agencies. A condition related to NLRB's information technology function was identified that could adversely impact the Agency's ability to accumulate, process, and report information critical to NLRB's mission and programs. The following general condition was noted during the FY 2006, 2005 and 2004 audits:

- A disaster recovery plan has not yet been implemented.

The specifics of the findings have been presented to management. NLRB contracted with a third party to develop a management action plan for a disaster recovery plan. However, as of September 30, 2006, the disaster recovery plan had not been fully implemented.

Recommendation

We recommend that the Chief Information Officer fully implement a disaster recovery plan to assure compliance with NIST standards.

Management's Response

The Director of Administration stated that the Agency had previously agreed to implement this recommendation and has been working towards full implementation. The Office of the Chief Information Officer contracted with an outside vendor to develop a Disaster Recovery Plan for the Agency. A plan was developed in accordance with NIST standards, received by the Agency, and has been implemented. Simulation testing, as recommended by the contractor, was held on October 19, 2006.

Auditors' Comments

We acknowledge Management's response and the Agency's accomplishments in developing and testing the disaster recovery plan subsequent to September 30, 2006. The Agency's actions to address the recommendation will be evaluated during the FY 2007 audit.

MANAGEMENT LETTER

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

We audited the financial statements (consolidated balance sheet, and the related statements of net cost, changes in net position, financing and combined statement of budgetary resources, hereinafter referred to as "financial statements") of the National Labor Relations Board (NLRB) as of and for the years ended September 30, 2006 and 2005, on which we issued an unqualified opinion dated November 1, 2006. In planning and performing our audit of the financial statements of the NLRB, we considered its internal control structure in order to determine our audit procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure. We have not considered the internal control structure since the date of our report.

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

Management generally agreed with two of the four findings and related recommendations and reported that corrective action has been initiated on one of these items. The Chief Information Officer agreed with most of our information technology security findings but disagreed that improvements would be neither labor nor resource intensive to implement. The Office of Inspector General (OIG) will work with Agency management to reach agreement on approaches to mitigate identified vulnerabilities. Management disagreed with our conclusion that it was inappropriate to obligate Fiscal Year (FY) 2006 funds for subscription contracts that were entirely for FY 2007 services.

The report is intended for the information and use of the management of the NLRB, the NLRB OIG, the Office of Management and Budget, and the U.S. Congress, and is not intended to be and should not be used by anyone other than those specified parties.

CARMICHAEL BRASHER TUVELL & COMPANY

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

November 1, 2006

#1 Information Technology Security

Condition

Previously identified information technology security vulnerabilities, the details of which were provided to management, were not corrected. Due to the sensitive nature of these items, we are not making this information available to the general public.

Carmichael Brasher Tuvell & Company (CBTC) identified internal security vulnerabilities related to the Agency's local area network and wide area network in 2005. The details and related suggestions were provided to the Agency in Items Noted During Review (INDR) No. 1 – 2005.

The OIG issued Report OIG-INS-47-06-05, *Trusted Insider Threats*, on September 11, 2006. The goal of this inspection was to better understand the extent that a trusted insider who had physical access to NLRB facilities could elevate his or her IT privileges to obtain unauthorized access to IT resources. This inspection identified several of the same vulnerabilities that were identified by CBTC.

The open recommendations from both INDR No. 1 – 2005 and OIG-INS-47-06-05 were summarized in INDR No. 5 – 2006.

Cause

The suggested improvements to mitigate the security vulnerabilities would be neither labor nor resource intensive to implement. We, therefore, see no reason why the suggestions were not implemented.

Effect

The Agency is not in compliance with certain National Institute of Standards and Technology (NIST) guidance, which results in an increased risk for system exploitation.

Criteria

NIST is responsible for developing standards, guidelines, and techniques for Federal computer systems. Applicable NIST guidance includes:

- NIST SP 800-40, *Creating a Patch and Vulnerability Management Program*
- NIST SP 800-42, *Guideline on Network Security Testing*
- NIST SP 800-53, *Recommended Security Controls for Federal Information Systems*
- NIST SP 800-70, *Security Configuration Checklists Program for IT Products*

Recommendation

We recommend that the Chief Information Officer implement the recommendations summarized in INDR No. 5 – 2006.

Management Response

Overall, the Chief Information officer agreed with most of the findings, but disagreed that the recommendations were neither labor nor resource intensive to implement. The OIG will work with the Agency to reach agreement on approaches to mitigate identified vulnerabilities.

#2 Major Systems Development Capitalization

Condition
The costs related to the development of the Next Generation Case Management System were not being identified, accumulated, and capitalized in accordance with Federal accounting standards. Three contracts reviewed were related to developing this system. One of these contracts was awarded for close to $1.2 million with options valued at more than $6 million. These three contracts have already incurred costs of almost $400,000.

Cause
The agency did not have a process for accumulating, processing, and capitalizing internal-use software development costs.

Effect
Non-compliance with Federal accounting standards for internal use software could result in a material misstatement of the NLRB FY 2007 financial statements.

Criteria
Federal Accounting Standards Advisory Board Statement of Federal Financial Accounting Standards No. 10, *Accounting for Internal Use Software*, states that entities should capitalize the cost of software when such software meets the criteria for general property, plant and equipment. For commercial off-the-shelf software, the capitalized cost should include the amount paid to the vendor. For contractor-developed software, the capitalized cost should include the amount paid to a contractor to design, program, install, and implement the software. Material internal costs incurred by the Agency to implement the software and otherwise make it ready for use should also be capitalized. The Agency's capitalization threshold for internal use software is $100,000.

Recommendation
That the Finance Chief develop and implement procedures to identify, accumulate, and capitalize costs related to system development efforts.

Management Response
The Director of Administration agreed with this recommendation and stated that the Finance Chief will develop and implement procedures to capitalize costs related to system development efforts.

#3 Property Accounting

Condition
Agency capitalized equipment records were not accurate and complete. One out of five equipment items tested, a key system unit with a cost of $59,007, was not located. Management stated that this item was no longer in service and had been replaced with another unit.

Cause
The Agency did not regularly review and verify the accuracy and completeness of the general ledger balance with the supporting schedule of capitalized property and the individual property items.

Effect
Assets are not correctly recorded and reported and control may not be adequate to timely detect loss in the normal course of business.

Criteria
Statement of Federal Financial Accounting Standards No. 6, *Accounting for Property, Plant, and Equipment (PP&E),* states that in the period of disposal, retirement, or removal from service, general PP&E shall be removed from general PP&E accounts along with associated accumulated depreciation or amortization.

Recommendation
We recommend that the Procurement and Facilities Branch Chief:

- Conduct a thorough review of the capitalized asset listing to ensure its accuracy and completeness.

- Develop guidelines that ensure a periodic review of property.

Management Response
The Director of Administration identified actions taken by the Agency to implement corrective action. These actions will be reviewed during the FY 2007 financial statement audit.

#4 Database Subscription Obligations

Condition
Obligations of FY 2006 appropriations totaling $717,899 were made on seven database subscription contracts that were entirely for FY 2007 services:

Purchase Order	Vendor Name	Amount
41-0600044	West Group	$ 399,914
41-0600046	BNA	201,275
41-0600051	Lexis-Nexis	9,933
41-0600052	Lexis-Nexis	71,910
41-0600057	Dun & Bradstreet	20,000
41-0600053	Pacer	8,000
41-0600058	Gallery Watch	6,867
		$ 717,899

Cause
The bona fide needs rule was not correctly applied to the above listed contracts. The Agency is utilizing a statute authorizing advance payments for a funding analysis.

Effect
If left uncorrected, the Agency will be in violation of appropriation law.

Criteria
Under the bona fide needs rule, an appropriation that is limited in time may be obligated only to meet a legitimate need of the time period for which Congress provided the appropriation. For NLRB, Congress limits the appropriation to a single fiscal year.

Recommendation
We recommend that the Finance Chief:

- Correct the Agency's records to record the identified transactions against the FY 2007 appropriation.

- Develop and implement controls to ensure that obligations are charged to the fiscal year appropriation for which a bona fide need for the goods or services exist.

Management Response
The Director of Administration disagreed with our recommendation. She stated that the Agency Special Counsel reviewed the legal sufficiency of the obligation and concluded that the obligation procedures in this matter are correct. She also said that she would provide a more detailed justification at a later date. The OIG affirms its conclusion and will continue to work with management to reach agreement.

#5 Prior Year Recommendations

Open Prior Year Reportable Condition
CBTC's FY 2004 Independent Auditors' Report, dated November 1, 2004, recommended that the Agency implement a disaster recovery plan in accordance with NIST standards. This recommendation was repeated in the FY 2005 Independent Auditor's Report. The Agency took actions in FY 2006 toward implementing a plan, but actions were not complete by the end of the year. This condition was also included in the FY 2006 Independent Auditors' Report. The Agency responded to the FY 2006 report stating that implementation was completed in October 2006. The Agency's actions to address the recommendation will be evaluated during the FY 2007 audit.

Open Prior Year Management Letter
CBTC's FY 2004 Management Letter recommended that the Agency implement its plan to migrate the Regional Office Budget System to the Momentum Financial Accounting System. This recommendation was repeated in CBTC's FY 2005 Management Letter. The Agency stated that they planned to do this concurrently with implementing an eTravel system in FY 2006. Contractor delays in implementing the eTravel system, however, have delayed integrating the Regional Office budget data with the Agency's accounting system. The Agency plans to implement this recommendation during FY 2007.

Principal Statements

National Labor Relations Board

BALANCE SHEET

As of September 30, 2006 (CY) and 2005 (PY)

(in dollars)

	2006 *(CY)	2005 *(PY)
Assets:		
Intragovernmental:		
Fund balance with Treasury (Note 2)	$ 24,541,644	$ 25,649,530
Investments, net (Note 3)	1,668,341	1,652,216
Accounts receivable (Note 5)	0	37,313
Advances (Note 4)	64,460	20,848
Total intragovernmental	26,274,445	27,359,907
Accounts receivable, Net (Note 5)	53,840	53,696
Advances (Note 4)	29,419	14,447
General property, plant and equipment, net (Note 6 and 10)	277,468	126,384
Total assets	$ 26,635,172	$ 27,554,434
Liabilities:		
Intragovernmental:		
Accounts payable (Note 7)	$ 375,612	$ 723,580
Employer contributions and payroll taxes	1,379,765	1,332,219
FECA liability (Note 8 and 10)	920,487	921,357
Custodial liability	0	50
Total Intragovernmental	2,675,864	2,977,206
Accounts payable (Note 7)	3,730,917	4,522,069
Estimated future FECA liability (Note 8 and 10)	2,135,103	1,784,290
Accrued payroll and benefits	6,172,321	6,047,056
Accrued annual leave (Note 8 and 10)	13,511,257	13,263,621
Backpay settlement due to others (Note 8 and 9)	2,532,232	3,079,936
Custodial liability (Note 8 and 9)	253,671	549,313
Total liabilities	31,011,365	32,223,491
Net position:		
Unexpended appropriations	11,859,347	11,120,013
Cumulative results of operations (Note 10)	(16,235,540)	(15,789,070)
Total net position	$ (4,376,193)	$ (4,669,057)
Total liabilities and net position	$ 26,635,172	$ 27,554,434

***CY=Current Year, PY= Prior Year**

The accompanying notes are an integral part of these statements.

National Labor Relations Board

STATEMENT OF NET COST

For the Years Ended September 30, 2006 (CY) and 2005 (PY)

(in dollars)

		2006 (CY)		2005 (PY)
Program Costs:				
Resolve representation cases				
Total Gross Cost (Note 11)	$	43,171,033	$	38,440,183
Resolve unfair labor practices				
Total Gross Cost (Note 11)		221,885,443		223,916,422
Other				
Gross Costs		266,891		112,556
Less: Earned Revenue		266,891		122,556
Total Gross Cost		-		-
Net Cost of Operations (Note 11)	$	265,056,476	$	262,356,605

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

National Labor Relations Board

STATEMENT OF CHANGES IN NET POSITION

For the Years Ended September 30, 2006 (CY) and 2005 (PY)

(in dollars)

	Consolidated Total 2006 (CY)	Consolidated Total 2005 (CY)
Cumulative Results of Operations:		
Beginning Balances	(15,789,070)	(15,210,451)
Budgetary Financing Sources:		
Appropriations - used	247,717,037	245,515,820
Other Financing Sources (Non-Exchange):		
Imputed financing costs (Note 15)	16,892,969	16,262,166
Total Financing Sources	264,610,006	261,777,986
Net Cost of Operations	(265,056,476)	(262,356,605)
Net Change	(446,470)	(578,619)
Cumulative Results of Operations (Note 10)	(16,235,540)	(15,789,070)
Unexpended Appropriations:		
Beginning Balance	11,120,013	7,979,219
Budgetary Financing Sources:		
Appropriations received	252,268,000	251,875,000
Appropriations - used:	(247,717,037)	(245,515,820)
Recissions & cancelled appropriations	(3,811,629)	(3,218,386)
Total Budgetary Financing Sources	739,334	3,140,794
Total Unexpended Appropriations	11,859,347	11,120,013
Net Position	(4,376,193)	(4,669,057)

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

National Labor Relations Board

STATEMENT OF BUDGETARY RESOURCES

For the Years Ended September 30, 2006 (CY) and 2005 (PY)

(in dollars)

		2006 (CY)		2005 (PY)
Budgetary Resources:				
Unobligated balance, brought forward, October 1:		4,903,727		4,841,158
Recoveries of prior year unpaid obligations		1,643,869		1,219,779
Budget authority:				
Appropriations (Note 13)		252,268,000		251,875,000
Spending authority from offsetting collections:				
Earned				
Collected		372,551		191,943
Receivable from Federal sources		(37,157)		37,157
Subtotal		252,603,394		252,104,100
Permanently not available (Note 13)		(3,811,629)		(3,218,386)
Total Budgetary Resources (Note 14)	$	255,339,361	$	254,946,651
Status of Budgetary Resources:				
Obligations incurred:				
Direct	$	250,043,526	$	249,930,369
Reimbursable		266,891		112,556
Subtotal (Note 14)		250,310,417		250,042,925
Unobligated balance:				
Apportioned (Note 14)		420,908		455,357
Exempt from apportionment		0		10,124
Unobligated balance not available		4,608,036		4,438,245
Total Status of Budgetary Resources	$	255,339,361	$	254,946,651
Change in Obligated Balance:				
Obligated balance, net,	$		$	
Unpaid obligations, brought forward, October 1		18,805,914		15,793,463
Uncollected customer payments from Federal Sources, brought forward, October 1		(37,157)		-
Total unpaid obligated balance, net:		18,768,757		15,793,463
Obligations incurred, net		250,310,417		250,042,924
Gross Outlays		(249,077,325)		(245,810,694)
Recoveries of prior year unpaid obligations, actual		(1,643,869)		(1,219,779)
Change in uncollected customer payments from federal sources		37,157		(37,157)
Obligated balance, net, end of period:				
Unpaid obligations		18,395,138		18,805,914
Net Outlays:				
Gross outlays		249,077,325		245,810,694
Offsetting collections		(372,551)		(191,943)
Net Outlays	$	248,704,774	$	245,618,751

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

National Labor Relations Board

STATEMENT OF FINANCING

For the Years Ended September 30, 2006 (CY) and 2005 (PY)

(in dollars)

	2006 (CY)	2005 (PY)
***Resources Used to Finance Activities*:**		
Budgetary Resources Obligated:		
Obligations incurred	$ **250,310,417**	$ **250,042,925**
Less: Spending authority from offsetting collections/adjustments	**1,979,263**	**1,448,879**
Net obligations	**248,331,154**	**248,594,046**
Other Resources:		
Imputed financing from costs absorbed by others (Note 15)	**16,892,969**	**16,262,166**
Net other resources used to finance activities	**16,892,969**	**16,262,166**
Total resources used to finance activities	**265,224,123**	**264,856,212**
Resources Used to Finance Items Not Part of the Net Cost of Operations		
Change in budgetary resources obligated for goods, services, and benefits ordered but not yet provided (+/-)	**(614,117)**	**(3,078,225)**
Resources that finance the acquisition of assets	**(232,297)**	**(118,870)**
Total resources used to finance items not part of the net cost of operations	**(846,414)**	**(3,197,095)**
Total resources used to finance the net cost of operations	**264,377,709**	**261,659,117**
Components of Net Cost of Operations that will not Require or Generate Resources in the Current Period		
Components Requiring or Generating Resources in Future Periods:		
Increase in annual leave liability	**247,635**	**838,314**
Increase in Exchange Revenue Receivable From the Public	**(25)**	**(10,797)**
Other (+/-) (Note 8 and 10)	**349,943**	**(200,033)**
Total components of Net Cost of Operations that will require or generate resources in future periods	**597,553**	**627,484**
Components not Requiring or Generating Resources:		
Depreciation and amortization (Note 6)	**81,214**	**70,004**
Total components of Net Cost of Operations that will not require or generate resources	**81,214**	**70,004**
Total components of net cost of operations that will not require or generate resources in the current period	**678,767**	**697,488**
Net Cost of Operations	$ **265,056,476**	$ **262,356,605**

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

Notes to Principal Statements

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

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

B. Basis of Accounting and Presentation

These financial statements have been prepared to report the financial position, net cost, changes in net position, budgetary resources and reconciliation of net cost to budgetary obligations of the NLRB as required by the Accountability of Tax Dollars Act of 2002. These financial statements have been prepared from the books and records of NLRB in accordance with accounting principles generally accepted in the United States of America (GAAP), and the form and content requirements of the Office of Management and Budget (OMB) Circular No. A-136, *Financial Reporting Requirements*. GAAP for Federal entities are the standards prescribed by the Federal Accounting Standards Advisory Board (FASAB), which is the official standard-setting body for the Federal government. While the statements have been prepared from the books and records of NLRB in accordance with United States GAAP 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 which are prepared from the same books and records. These financial statements present proprietary and budgetary information.

The fiscal year (FY) 2008 Budget of the United States (also known as the President's Budget) with actual numbers for FY 2006 was not published at the time that these financial statements were issued. The President's Budget is expected to be published in February 2007 and will be available from the United States Government Printing Office. There are no differences in the actual amounts for FY 2005 that have been reported in the FY 2007 Budget of the United States and the actual numbers that appear in the FY 2005 Statement of Budgetary Resources.

OMB financial statement reporting guidelines for FY 2006 require the presentation of comparative financial statements for all of the principal financial statements. NLRB is presenting comparative FY 2006 financial statements for the Balance Sheet, Statement of Net Cost, Statement of Changes in Net Position, Statement of Budgetary Resources, and Statement of Financing and these statements have been prepared in accordance with generally accepted accounting principles.

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

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

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

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

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

body, deciding cases on the basis of the formal trial record according to the law and the body of case law that has been developed by the Board and the Federal courts.

C. Budgets and Budgetary Accounting

Congress annually adopts a budget appropriation that provides the NLRB with authority to use funds from Treasury to meet operating expense requirements. NLRB has single year budgetary authority and all unobligated amounts at year-end are expired. At end of the fifth year all amounts not expended are canceled. All revenue received from other sources must be returned to the Treasury.

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

Transactions are recorded on an accrual accounting basis. Under the accrual method, revenues are recognized when earned and expenses are recognized when a liability is incurred, without regard to receipt or payment of cash.

D. Financing Sources

NLRB received funds to support its programs through annual appropriations. These may be used to pay program and administrative expenses (primarily salaries and benefits, occupancy, travel, and contractual service costs).

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

E. Fund with the U.S. Treasury

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

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

F. Investments, Net

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

The Federal government securities include marketable Treasury market-based securities issued by the Federal Investment Branch of the Bureau of the Public Debt. Market-based securities are Treasury securities that are not traded on any securities exchange, but mirror the prices of marketable securities with similar terms.
It is expected that Investments will be held until maturity; therefore they are valued at cost and adjusted for amortization of discounts, if applicable. The discounts are recognized as adjustments to interest income, utilizing the straight-line method of amortization for short-term securities (i.e., bills).

The market value is estimated as the sales price of the security multiplied by the bid price as of September 30, 2006 and September 30, 2005, respectively.

There exists a signed Memorandum of Understanding (MOU) between the NLRB and the Treasury establishing the policies and procedures that the NLRB and the Treasury agree to follow for investing monies in, and redeeming investments held by, the deposit fund account in Treasury.

See Note 3 for additional information on Investments, Net.

G. Advances

Advances consist of amounts advanced by NLRB for the transit subsidy program, United States Postal Service for penalty mail and for commercial payment system for postage.

See Note 4 for additional information on the Advances.

H. Accounts Receivable, Net of Allowance for Doubtful Accounts

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

See Note 5 for additional information on Accounts Receivable.

I. General Property, Plant and Equipment

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

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

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

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

J. Non-Entity Assets

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

See Note 8, 9 and 16 for additional information on Non-Entity Assets.

K. Liabilities

Liabilities represent the amount of monies or other resources that are likely to be paid by NLRB as the result of a transaction or event that has already occurred. However, no liability can be paid by NLRB absent an appropriation. Liabilities for which an appropriation has not been enacted are therefore classified as Liabilities Not Covered by Budgetary Resources and there is no certainty that the appropriation will be enacted. Also, liabilities of NLRB arising from other than contracts can be abrogated by the government, acting in its sovereign capacity.

L. Liabilities Not Covered by Budgetary Resources

Liabilities represent the amount of monies or other resources that are likely to be paid by NLRB as the result of a transaction or event that has already occurred. Liabilities not covered by budgetary resources result from the receipts of goods or services in the current or prior periods, or the occurrence of eligible events in the current or prior periods for which appropriations, revenues, or other financing sources of funds necessary to pay the liabilities have not been made available through Congressional appropriations or current earnings of the reporting entity.

Intragovernmental

The U.S. Department of Labor (DOL) paid Federal Employees Compensation Act (FECA) benefits on behalf of NLRB which had not been billed or paid by NLRB as of September 30, 2006 and 2005, respectively.

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

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

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

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

See Note 8 for additional information on the FECA liability.

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

See Note 10 for additional information on Annual Leave.

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

See Note 17 for additional information on Contingencies.

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

O. Annual, Sick, and Other Leave

Annual and Sick Leave Program.

Annual leave is accrued as it is earned by employees and is included in personnel compensation and benefit costs. Each year, the balance in the accrued annual leave liability account is adjusted to reflect current pay rates. Sick leave and other types of nonvested leave are expensed as taken.

See Note 10 for additional information on Annual Leave.

P. Life Insurance and Retirement Plans

Federal Employees Group Life Insurance (FEGLI) Program.

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

Retirement Programs.

NLRB employees participate in one of two retirement programs, either the Civil Service Retirement System (CSRS) or the Federal Employees Retirement System (FERS), which became effective on January 1, 1987. Most NLRB employees hired after December 31, 1983, are automatically covered by FERS and Social Security. Employees hired prior to January 1, 1984, could elect to either join FERS and Social Security or remain in CSRS. Employees covered by CSRS are not subject to Social Security taxes, nor are they entitled to accrue Social Security benefits for wages subject to CSRS.
For FERS employees, NLRB contributes an amount equal to one percent of the employee's basic pay to the tax deferred Thrift Savings Plan and matches employee contributions up to an additional four percent of pay. The maximum percentage of base pay that an employee participating in FERS may contribute is $15,000 in calendar year (CY) 2006 to this plan. Employees belonging to CSRS may also contribute up to $15,000 of their salary in CY 2006 and receive no matching contribution from NLRB. The maximum amount that either FERS or CSRS employees may contribute to the plan is $15,000 in CY 2006. The sum of the employees' and NLRB's contributions are transferred to the Federal Retirement Thrift Investment Board.

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

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

Liabilities for future pension payments and other future payments for retired employees who participate in the Federal Employees Health Benefits and the FEGLI programs are reported by OPM rather than NLRB.

SFFAS No. 5, Accounting for Liabilities of the Federal Government, requires employing agencies to recognize the cost of pensions and other retirement benefits during their employees' active years of service. OPM actuaries determine pension cost factors by calculating the value of pension benefits expected to be paid in the future, and provide these factors to the agency for current period expense reporting. Information was also provided by OPM regarding the full cost of health and life insurance benefits.

In FY 2006, NLRB, utilizing OPM provided cost factors, recognized $7,347,627 of pension expenses, $9,516,780 of post-retirement health benefits expenses, and $28,562 of post-retirement life insurance expenses, beyond amounts actually paid. NLRB recognized offsetting revenue of $16,892,969 as an imputed financing source to the extent that these intragovernmental expenses will be paid by OPM.

In FY 2005, NLRB, utilizing OPM provided cost factors, recognized $7,581,409 of pension expenses, $8,652,569 of post-retirement health benefits expenses, and $28,188 of post-retirement life insurance expenses, beyond amounts actually paid. NLRB recognized offsetting revenue of $16,262,166 as an imputed financing source to the extent that these intragovernmental expenses will be paid by OPM.

See Note 15 for additional information

Q. Operating Leases

The NLRB has no capital lease liability or capital leases. Operating leases consist of real and personal property leases with the General Services Administration (GSA). Regarding NLRB's building lease, the GSA entered into a lease agreement for NLRB's rental of building space. NLRB pays GSA a standard level users charge for the annual rental. The standard level users charge approximates the commercial rental rates for similar properties. NLRB is not legally a party to any building lease agreements, so it does not record GSA-owned properties. The real property leases are for NLRB's Headquarters and Regional Offices and the personal property leases are for GSA cars.

See Note 12 for additional information on Operating Leases.

R. 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 balances are the amount of appropriations or other authority remaining after deducting the cumulative obligations from the amount available for obligation. The cumulative results of operations are the net result of NLRB's operations since inception.

S. Use of Management Estimates

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

T. Tax Status

NLRB, as an independent Board of the Executive Branch, a Federal agency, is not subject to federal, state, or local income taxes, and, accordingly, no provision for income tax is recorded.

Note 2. Fund Balance With Treasury

Treasury performs cash management activities for all Federal agencies. The net activity represents Fund Balance with Treasury. The Fund Balance with Treasury represents the right of the NLRB to draw down funds from Treasury for expenses and liabilities. Fund Balance with Treasury by fund type as of September 30, 2006 and September 30, 2005 consists of the following:

Fund Balance with Treasury by Fund Type:

(Dollars in thousands)	FY 2006 Entity Assets	Non-Entity Assets	Total	FY 2005 Entity Assets	Non-Entity Assets	Total
General Funds	**$23,678**		**$23,678**	**$24,222**	**-**	**$24,222**
Escrow Funds		**864**	**864**	**-**	**1,428**	**1,428**
Total Fund Balance with Treasury	**$23,678**	**$864**	**$24,542**	**$24,222**	**$1,428**	**$25,650**

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

Obligated and unobligated balances reported for the status of fund balance with Treasury do not agree with obligated and unobligated balances reported on the Statement of

Budgetary Resources because the Fund Balance with Treasury includes items for which budgetary resources are not recorded, such as deposit funds and miscellaneous receipts.

Status of Fund Balance with Treasury as of September 30, 2006 and September 30, 2005 consists of the following:

Fund Balance with Treasury by Availability:

(Dollars in thousands)	FY 2006	FY2005
Unobligated Balance		
Available	**$421**	**$466**
Unavailable	**5,352**	**6,415**
Obligated balance not yet disbursed	**18,769**	**18,769**
Totals	**$24,542**	**$25,650**

Note 3. Investments, Net

Investments in Treasury Securities:

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

In FY 2006, the maturity value of the investment was $2 million as compared to FY 2005 of $2 million.

There exists a signed Memorandum of Understanding (MOU) between the NLRB and the U.S. Treasury (Treasury) establishing the policies and procedures that the NLRB and the Treasury agree to follow for investing monies in, and redeeming investments held by, the deposit fund account in Treasury.

Investments as of September 30, 2006 and September 30, 2005 consist of the following:

Investment Value at Investment Market Value

(Dollars in thousands)	Investment Type	Value at Maturity	Investment Net	Market Value Disclosure
FY 2006				
U.S. Treasury Securities	**Marketable**	**1,683**	**1,668**	**1,668**
FY 2005				
U.S. Treasury Securities	**Marketable**	**1,665**	**1,652**	**1,652**

For FY 2006 and 2005, the discount on the marketable securities amounted to $15 and $13, respectively (Dollars in thousands).

Note 4. Advances

Intragovernmental

Intragovernmental Advances of $64,460 represent advances to the United States Postal Service (USPS) for penalty mail and the Department of Transportation (DOT) for the transit subsidy as of September 30, 2006. The USPS advance for September 30, 2006 was $12,611 and $20,848 for September 30, 2005. The DOT advance for September 30, 2006 was $51,849 and zero for September 30, 2005 (Amounts in dollars).

Commercial

Advances to Others of $29,419 as of September 30, 2006 and $14,447 for September 30, 2005, represent advances to a commercial vendor for postage (Amounts in dollars).

Note 5. Accounts Receivable, Net of Allowances for Doubtful Accounts

The FY 2006 intragovernmental accounts receivable is zero and the FY 2005 amount was from the Federal Emergency Management Agency (FEMA) relative to NLRB's employees assisted FEMA with Hurricane Katrina's destruction. Accounts receivable at each fiscal year end consisted of the following:

(Dollars in thousands)	FY 2006	FY2005
Intragovernmental		
Accounts receivable	**0**	**37**
Total Intragovernmental	**0**	**37**
With the public		
Accounts receivable	**$56**	**$56**
Allowance doubtful accounts	**(2)**	**(2)**
Total Accounts receivable, net - Public	**54**	**54**
Accounts receivable-net	**$54**	**$91**

Note 6. General Property, Plant and Equipment, Net

General property, plant and equipment consist of that property which is used in operations and consumed over time. The table below summarized the cost and accumulated depreciation for general property, plant and equipment.

Depreciation expenses for September 30, 2006 were $81,214 and $70,004 for September 30, 2005 (Amounts in dollars).

(Dollars in thousands) FY 2006	Acquisition Cost	Accumulated Depreciation/ Amortization	Net Book Value
Equipment	**$ 1,761**	**$ 1,484**	**$ 277**
Internal Use Software	**$ 163**	**$ 163**	**$ -**

(Dollars in thousands) FY 2005	Acquisition Cost	Accumulated Depreciation/ Amortization	Net Book Value
Equipment	**$ 1,529**	**$ 1,403**	**$ 126**
Internal Use Software	**$ 163**	**$ 163**	**$ -**

Note 7. Intragovernmental Accounts Payable

The FY 2006 Balance Sheet is being presented to include the amount shown for intragovernmental accounts payable for comparative financial statements (Amounts in dollars).

Note 8. Liabilities Not Covered by Budgetary Resources

Liabilities not covered by budgetary resources represent amounts owed in excess of available congressionally appropriated funds or other amounts. The custodial liability represents amounts collected from the public for court costs, freedom of information requests and other miscellaneous amounts that must be transferred to the U.S. Treasury. The composition of liabilities not covered by budgetary resources as of September 30, 2006 and September 30, 2005, is as follows:

Intragovernmental: (Dollars in thousands)	FY 2006	FY 2005
FECA-Unfunded	$920	$921
Total Intragovernmental	920	921
Estimated Future - FECA	2,135	1,784
Accrued Annual Leave	13,511	13,264
Backpay Settlement Due to Others	2,532	3,080
Custodial Liability	254	549
Total Liabilities not covered by budgetary resources	$19,352	$19,598
Total Liabilities covered by budgetary resources	11,659	12,625
Total Liabilities	$31,011	$32,223

Note 9. Non-Entity Assets

Non-Entity assets, restricted by nature, consist of miscellaneous receipt accounts and Backpay settlement due to others. These amounts represent cash collected and accounts receivable (net of allowance for doubtful accounts). The miscellaneous receipts represent court costs, freedom of information requests and closed out Backpay cases that must be transferred to the U.S. Treasury. The Backpay settlement due to others represents monies to be disbursed to discriminatees at a later date. The composition of non-entity assets as of September 30, 2006 and September 30, 2005, is as follows:

(Dollars in thousands)	FY 2006	FY 2005
Non-entity assets		
Intragovernmental		
Fund Balance with Treasury	**$254**	**$549**
Accounts receivable	**-**	**-**
Total Intragovernmental	**$254**	**$549**
Backpay Settlement Due to Others	**2,532**	**3,080**
Total Non-entity assets	**$2,786**	**$3,629**
Entity assets	**23,849**	**23,925**
Total Assets	**$26,635**	**$27,554**

Note 10. Cumulative Results of Operations

(Dollars in thousands)	FY 2006	FY 2005
FECA paid by DOL	**$(419)**	**$(469)**
FECA - Unfunded	**(920)**	**(921)**
Estimated Future FECA	**(2,135)**	**(1,784)**
Accrued Annual Leave	**(13,511)**	**(13,264)**
General Property, Plant & Equipment, Net	**277**	**126**
Other	**472**	**523**
Cumulative Results of Operations	**$(16,236)**	**$(15,789)**

Note 11. Intragovernmental Costs and Exchange Revenue

For the intragovernmental costs, the buyer and seller are both Federal entities. The earned revenue is the reimbursable costs from other Federal entities. NLRB provided administrative law judges' services to other Federal entities. There is no exchange revenue with the public.

(Amount in dollars)	FY 2006	FY 2005
Resolve Representation Cases		
Intragovernmental Costs	$ 8,600,420	$ 12,236,370
Costs with the Public	34,570,613	26,203,813
Total Net Cost - Resolve Representation Cases	43,171,033	38,440,183
Resolve Unfair Labor Practices		
Intragovernmental Costs	43,788,511	70,845,144
Costs with the Public	178,096,932	153,071,278
Total Net Cost - Resolve Unfair Labor Practices	221,885,443	223,916,422
Other		
Intragovernmental Costs	266,891	112,556
Less: Intragovernmental Earned Revenue	266,891	112,556
Net Intragovernmental Cost	-	-
Total Net Cost - Other	-	-
Net Cost of Operations	$ 265,056,476	$ 262,356,605

Note 12. Operating Leases

GSA Real Property. Most of the NLRB's facilities are rented from the GSA, which charges rent that is intended to approximate commercial rental rates. The terms of the NLRB's occupancy agreements (OA) with GSA will vary according to whether the underlying assets are owned by GSA, or another Federal agency or rented by GSA from +the private sector. The NLRB has OAs with GSA, which sets forth terms and conditions for the space the Agency will occupy for an extended period of time. Included within the OAs are 120 to 180 day notification requirements for the Agency to release space. For purposes of disclosing future operating lease payments in the table below, federally owned leases are included in years 2007 through 2011.

Rental expenses for operating leases as of September 30, 2006 were $27,180,435 for Agency lease space and $1,267,062 for Agency building security. For FY 2005 the GSA operating lease costs was $26,866,735 and the Department of Homeland Security building security portion was $1,432,593. Also, in FY 2006, the Agency is showing separately the payment to GSA for the operating lease and the payment to the Department of Homeland Security for the building security.

Personal Property. The NLRB leases personal property from GSA. The terms for GSA leases frequently exceed one year, although a definite lease period is not always specified. For purposes of disclosing future operating lease payments in the table below, GSA personal property leases are included in years 2007 through 2011. The estimated future operating lease payments for GSA and private personal property leases are based on a 3 percent increase over the 2006 actual personal property rental expense.

Rental expenses for operating leases as of September 30, 2006 and 2005 were $125,132 and $122,014, respectively.

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

(Dollars in thousands) Fiscal Year	GSA Real Property	Personal Property	Total
2007	$27,685	$129	$27,814
2008	29,354	133	29,487
2009	33,299	137	33,436
2010	34,098	141	34,239
2011	34,917	145	35,062
After 5 Years	-	-	-
Total Future Lease Costs	$159,353	$685	$160,038

Note 13. Appropriations Received

The NLRB received $249,745,320 and $249,860,000 (net of rescission) in warrants for the FYs ended September 30, 2006 and 2005, respectively. The rescissions were $2,522,680 and $2,015,000 for FYs 2006 and 2005, respectively. The amount shown on the Statement of Budgetary Resources under caption "Permanently not available" for FY 2006 in the amount of $3,811,629 is a combination of the FY 2006 rescission of $2,522,680, the cancelled appropriation for FY 2001 and FY 1999/2001 Y2K in the amounts of $1,118,695 and 170,254, respectively. The amount of $3,218,386 for FY 2005 is a combination of the rescission of $2,015,000 and FY 2000 cancelled appropriation of $1,203,386.

Note 14. Statement of Budgetary Resources

The Statement of Budgetary Resources provides information about how budgetary resources were made available as well as their status at the end of the period. It is the only financial statement exclusively derived from the entity's budgetary general ledger in accordance with budgetary accounting rules that are incorporated into generally accepted accounting principles for the Federal government. The total Budgetary Resources of $255,339,361 as of September 30, 2006 and $254,946,651 as of September 30, 2005, includes new budget authority, unobligated balances at the beginning of the year, spending authority from offsetting collections, recoveries of prior year obligations and permanently not available. NLRB's unobligated balance available at September 30, 2006, was $420,908 and at September 30, 2005 was $455,357.

Apportionment Categories of Obligations Incurred. The NLRB's obligations incurred as of September 30, 2006 and September 30, 2005 by apportionment Category A and B is shown in the following table. Category A apportionments distribute budgetary resources by fiscal quarters and Category B apportionments typically distribute budgetary resources by activities, projects, objects or a combination of these categories.

(Dollars in thousands)	Apportioned		Not Subject to	
FY 2006	Category A	Category B	Apportionment	Total
Obligations Incurred:				
Direct	$239,730	$10,313	$0	$250,043
Reimbursable	267	-		267
Total Obligations Incurred	$239,997	$10,313	$0	$250,310

(Dollars in thousands)	Apportioned		Not Subject to	
FY 2005	Category A	Category B	Apportionment	Total
Obligations Incurred:				
Direct	$236,982	$12,958	$(10)	$249,930
Reimbursable	113	0		113
Total Obligations Incurred	$237,095	$12,958	$(10)	$250,043

Note 15. Imputed Financing

OPM pays pension and other future retirement benefits on behalf of Federal agencies for Federal employees. OPM provides rates for recording the estimated cost of pension and other future retirement benefits paid by OPM on behalf of Federal agencies. The costs of these benefits are reflected as imputed financing in the consolidated financial statements. Expenses of the NLRB paid or to be paid by other Federal agencies at September 30, 2006 and 2005 consisted of:

(Dollars in thousands)	FY 2006	FY 2005
Office of Personnel Management:		
Pension expenses	$7,347	$7,581
Federal employees health benefits	9,517	8,653
Federal employees group life insurance program	29	28
Total Imputed Financing	$16,893	$16,262

Note 16. Backpay Checks Held in NLRB Regional Offices

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

This footnote identifies the number (in units) and dollar value (in thousands) of checks that are received in the Regional Offices that are made payable to discriminatees. The NLRB has a fiduciary type of responsibility to safeguard these checks until they are successfully disbursed to the discriminatee(s). It should be noted that it might take months to successfully deliver the Backpay.

(Dollars in thousands)	FY 2006		FY 2005	
	Number	Amount	Number	Amount
Checks on Hand, Beginning of Period	389	$ 519	921	$ 755
Checks Received	5,492	17,606	9,622	21,015
Less Checks Distributed	(5,528)	(17,964)	(10,154)	(21,251)
Net Change in Checks on Hand	(36)	$ (358)	(532)	$ (236)
Checks on Hand at End of Period	353	$ 161	389	$ 519

Note 17. Contingencies

The NLRB is a party to several threatened or pending litigation claims. NLRB management has estimated claims are between $100 to $500 thousand that have a reasonable possibility of loss (the chance of loss is less than probable, but more than remote). The Agency has and will continue to vigorously contest these claims. In the opinion of NLRB's management, the ultimate resolution of pending litigation will not have a material effect on the NLRB's financial statements.

Note 18. Obligation for Severable Services

A FY 2005 obligation, totaling approximately $758 thousand (previously stated at 1.5 million) for contractural information technology and end-user support services, was determined by Comptroller General of the United States to be improperly obligated in FY 2005 and should have been charged to FY 2006. This error was corrected in FY 2006. Additionally, in FY 2006, obligations totaling $718 thousand for data base subscription services are currently under review by NLRB management and the NLRB Office of Inspector General. The ultimate outcome of this matter cannot presently be determined. In the opinion of NLRB's management, the ultimate resolution would not have a material effect on the NLRB's financial statements.

UNITED STATES GOVERNMENT
National Labor Relations Board
Division of Administration
Memorandum

TO: Jane E. Altenhofen
Inspector General

FROM: Gloria Joseph
Director of Administration

DATE: November 2, 2006

SUBJECT: Response to Draft Audit Report – NLRB Fiscal Year 2006 Financial Statements

We have reviewed the Audit Report submitted by Carmichael Brasher Tuvell & Company (Carmichael) and are pleased that the FY 2006 audit of the NLRB's financial statements has resulted in an unqualified opinion. We are in agreement with the findings of the report.

In Appendix A, Carmichael identified one reportable condition related to the Agency's information technology function that could adversely impact the Agency's ability to accumulate, process, and report information critical to the NLRB's mission and programs. The one reportable condition was that the Agency has not yet implemented a disaster recovery plan. This reportable condition was also noted in the FY 2004 and the FY 2005 audits. Carmichael recommended that the Chief Information Officer (CIO) implement a disaster recovery plan in accordance with the standards issued by the National Institutes of Science and Technology (NIST).

We had previously agreed to implement this recommendation and have been working towards full implementation since the recommendation was made by the auditors in 2004. The Office of the Chief Information Officer (OCIO) contracted with an outside vendor to develop a Disaster Recovery Plan for the Agency. A plan was developed in accordance with NIST standards, received by the Agency, and has been implemented. Simulation testing, as recommended by the contractor, was held on October 19, 2006.

If you have any questions, please do not hesitate to contact me.

cc: Board
General Counsel

UNITED STATES GOVERNMENT
National Labor Relations Board
Division of Administration

Memorandum

TO: Jane Altenhofen
Inspector General

FROM: Gloria Joseph,
Director of Administration

Date: December 8, 2006

SUBJECT: Comments on Draft Management Letter on Audit of NLRB's FY 2006 Financial Statements

This is in response to your memorandum dated November 30, 2006, in which you requested comments on the draft Management Letter covering the audit of the Agency's FY 2006 financial statements. In your memo, you requested that we should indicate our agreement or disagreement with each of the letter's recommendations.

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

#1 –Information Technology Security

The NLRB's Chief Information Officer should implement suggestions made in Report OIG-INS-47-06-05.

The Management Letter indicated that on September 11, 2006, the OIG issued an Inspection Report entitled, "Trusted Insider Threats" (OIG-INS-47-06-05), which identified several internal security vulnerabilities which had been previously identified by Carmichael, Brasher, Tuvell and Company (CBTC). CBTC provided its recommendations to the Agency regarding these vulnerabilities in Items Noted During Review (INDR) No.1, issued in FY 2005. According to the Chief Information Officer (CIO), a couple of the recommendations contained in INDR #1 were again identified by CBTC in FY 2006 and were contained in another INDR (INDR #5). Overall, the CIO agreed with most of the findings of INDR #5 and the inspection report. However, he disagreed with the statement that the suggested improvements are "neither labor nor resource intensive." Specifically, he cited several recommendations and their costs if implemented. Per the CIO, recommendation (4a) contained in INDR #5 would require a visit to every personal computer owned by the Agency to prevent unauthorized access to the system BIOS. Additionally, it would require the purchase of a lock down mechanism for each personal computer or laptop in order to prevent physical access to the system motherboard. Estimated cost to implement: $200,000 - $250,000.

Furthermore, recommendation (8) of INDR #1 and 9(a) of INDR #5 would require physical access to every workstation every 90 days for a password change. According to the CIO, Microsoft has indicated that there is no quick and easy way to change non-domain user account passwords. Estimated cost to implement: $300,000 - $400,000 annually.

Finally, the CIO references recommendation (7) of INDR #1 and 1(a) of INDR #5. He indicates that these recommendations required significant software changes to the Case Activity Tracking System, the costs of which were estimated at $25,000. However, these changes have already been completed.

#2 – Major Systems Development Capitalization

The Finance Chief should develop and implement procedures to identify, accumulate, and capitalize costs related to system development efforts.

We agree with this recommendation. The Finance Chief will develop and implement procedures to capitalize costs related to system development efforts.

#3 – Property Accounting

The Procurement and Facilities Chief should conduct a thorough review of the capitalized asset listing to ensure its accuracy and completeness, and develop guidelines that ensure a periodic review of property.

The Property Management Section staff of the Procurement and Facilities Branch (PFB) completed an inventory of 100% of the Agency's capitalized assets in November 2006. It has now reconciled the capitalized asset financial database with the Finance Branch. Staff will continue its practice of quarterly reviews of the Agency's assets. Additionally, PFB has implemented a new procedure wherein "red warning labels" are placed prominently on all capitalized property, indicating that the Procurement and Facilities Branch is to be notified if the asset is removed from the Agency's inventory to safeguard against items being excessed without proper adjustment to Agency records.

#4 – Database Subscription Obligations

The Finance Chief should correct the Agency's records to record the identified transactions against the FY 2007 appropriation and develop and implement controls

to ensure that obligations are charged to the fiscal year appropriation for which a bona fide need for the goods or services exist.

We disagree with this recommendation. We have discussed this issue with Agency Special Counsel who has been assigned to review the legal sufficiency of obligations and he concurs that our obligation procedures in this matter are correct. At a later date, we will provide to the OIG more detailed justification of our position.

#5 – Prior Year Recommendations

Open Prior Year Reportable Condition: Implement a disaster recovery plan in accordance with NIST standards.

As indicated in the management letter, the Agency's actions to address this recommendation will be evaluated in FY 2007 since the Agency's response to the FY 2006 Independent Auditors Report indicated that it had completed implementation of the plan in October 2006.

Open Prior Year Management Letter
The Finance Branch implement its plan to migrate the Regional Office Budgeting System (ROBS) to Momentum

As indicated in your management letter, we had planned to implement this recommendation concurrently with the eTravel system. This effort has been hampered due to the problems experienced government-wide with the implementation of the eTravel initiative. The Finance Branch will begin pilot testing the eTravel system this month with the Division of Enforcement Litigation and the Office of Inspector General. If the pilot proves successful, the system will be rolled out to the remaining Headquarters and Field offices during FY 2007. The Office Managers will be brought into Headquarters at that time and will receive training on both Momentum and eTravel.

cc: The Board
General Counsel
Executive Secretary