UNITED STATES GOVERNMENT
National Labor Relations Board
Office of Inspector General

Audit of the NLRB Fiscal Year 2005 Financial Statements

Report No. OIG-F-10-06-01

December 2005

INSPECTOR GENERAL

NATIONAL LABOR RELATIONS BOARD

WASHINGTON, DC 20570

December 16, 2005

I hereby submit the Audit of the National Labor Relations Board's (NLRB) Fiscal Year (FY) 2005 Financial Statements, Report No. OIG-F-10-06-01. The audit was required by the Accountability of Tax Dollars Act of 2002. On November 10, 2005, we transmitted Carmichael, Brasher, Tuvell & Company's (CBTC) audit opinion, which was included in the Agency's FY 2005 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. 01-02, Audit Requirements for Federal Financial Statements. The audit results were:

- The financial statements present fairly, in all material respects, the financial condition and activity of the NLRB as of and for the years ending September 30, 2004 and 2005.

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

- One reportable condition involving the need for the Agency to implement 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 01-02 were identified.

A management letter, included on page 6 of this report, identified two other areas in which management could improve controls. These areas involved controls over the Momentum financial system and intragovernmental transactions documentation.

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

The Director of Administration agreed with the finding and recommendation made in the audit report and the findings and recommendations made in the management letter. Comments on the audit report and management letter are presented in their entirety as appendixes to this report.

Jane E. Altenhofen

Jane E. Altenhofen
Inspector General

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A. Memorandum from the Director of Administration, Response to Draft Audit Report – NLRB Fiscal Year 2005 Financial Statements, dated October 31, 2005

B. Memorandum from the Director of Administration, Comments on Draft Management Letter on Audit of NLRB's FY 2005 Financial Statements, dated December 12, 2005

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, 2005 and 2004, and the related consolidated statements of net cost, changes in net position, statement of financing, and the combined statement of budgetary resources for the 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. 01-02, *Audit Requirements for Federal Financial Statements*. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

OPINION ON FINANCIAL STATEMENTS

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities, and net position of NLRB, as of September 30, 2005 and 2004; 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.

As discussed in Note 18 to the financial statements, a FY 2005 obligation totaling approximately $1.5 million is currently under review by NLRB management and the NLRB Office of Inspector General. The ultimate outcome of this matter cannot presently be determined. Accordingly, no provision for any liability that may result has been made in the accompanying financial statements.

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. 01-02. We did not test all internal controls relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act of 1982 (FMFIA), such as those controls relevant to ensuring efficient operations. The objective of our audit was not to provide assurance on internal control. Consequently, we do not provide an opinion on internal control.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be reportable conditions. Under standards issued by the American Institute of Certified Public Accountants, reportable conditions are matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect the Agency's ability to record, process, summarize, and report financial data consistent with the assertions by management in the financial statements. Material weaknesses are reportable conditions in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that material misstatements in relation to the audited financial statements may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Because of inherent limitations in internal controls, misstatements, losses, or noncompliance may nevertheless occur and not be detected. We noted 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. 01-02. The objective of our audit was not to provide assurance on these internal controls. Accordingly, we do not provide an opinion on such controls. With respect to internal control related to performance measures reported in the Management Discussion and Analysis (MD&A) section of the Performance and Accountability Report, we obtained an understanding of the design of significant internal controls relating to the existence and completeness assertions, and determined whether these internal controls had been placed in operation as required by OMB Bulletin No. 01-02. Our procedures were not designed to provide assurance on internal control over reported performance measures, and, accordingly, we do not provide an opinion on such controls.

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. 01-02, including the requirements referred to in the Federal Financial Management Improvement Act of 1996 (FFMIA). We limited our tests of compliance to these provisions and we did not test compliance with all laws and regulations applicable to 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. 01-02.

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

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

We have examined NLRB's compliance with the requirements of FFMIA as of September 30, 2005. These requirements include implementing and maintaining financial management systems that substantially comply with the Federal financial management systems requirements, applicable Federal accounting standards, and the United States Government Standard General Ledger at the transaction level. Management is responsible for the NLRB's compliance with these requirements. Our responsibility is to report whether the Agency's financial management systems substantially comply with these requirements.

Our examination was conducted in accordance with the attestation standards established by the American Institute of Certified Public Accountants; *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Bulletin No. 01-02, *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 specified requirements. The results of our tests of compliance with FFMIA disclosed no instances in which NLRB's financial management systems did not substantially comply with Federal financial management system requirements, applicable Federal accounting standards, or the United States Government Standard General Ledger at the transaction level.

OTHER ACCOMPANYING INFORMATION

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

The other accompanying information included in the MD&A and RSI sections of the Performance and Accountability Report are required by the Federal Accounting Standards Advisory Board and OMB 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, P.C.

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

Atlanta, Georgia
October 31, 2005

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 Institutes of Science and Technology (NIST). NIST Special Publication 800 establishes many of the minimum information systems requirements for Federal agencies. Certain conditions related to NLRB's information technology function were identified that could adversely impact the Agency's ability to accumulate, process, and report information critical to NLRB's mission and programs. The following general condition was noted during both the FY 2005 and FY 2004 audits:

- A disaster recovery plan has not yet been implemented.

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

Recommendation

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

Management's Response

We are in agreement with this recommendation. The CIO has budgeted funds in FY 2006 to initiate a disaster recovery plan. The expected completion date for this project is the fourth quarter of FY 2006.

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, 2005 and 2004, on which we issued an unqualified opinion dated October 31, 2005. 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 our opinion on the financial statements and not to provide assurance on the internal control structure. We have not considered the internal control structure since the date of our report.

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

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

CARMICHAEL BRASHIER TUVELL & COMPANY

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

October 31, 2005

#1 – Momentum Financial System

Condition
NLRB is a client-user of the Momentum financial system maintained and administered by the National Business Center (NBC). An Independent Auditors' Report on the Momentum system environment at NBC for the period October 1, 2004 through July 31, 2005, disclosed deficiencies in certain general computer controls that directly affect NLRB. The report disclosed that:

- An NLRB account for a separated NBC employee had not been closed;
- The Momentum auditing log feature had not been enabled;
- The auditing feature of Oracle database tables was not enabled; and
- A generic system account was used to migrate files from test to production environments. The use of the account was not logged and reviewed to determine whether the use was authorized.

Cause
The Independent Auditors' Report, dated October 12, 2005, stated that NBC administers the Momentum system environment and did not perform required control procedures. NLRB was not aware of these deficiencies and could not take appropriate corrective action during the period under audit.

Effect
Although the audit report indicated that the deficiencies have been corrected, NLRB data for the period October 1, 2004 through July 31, 2005, was at increased risk for unauthorized modifications. The compromise of the Momentum testing and production environments could have resulted in changes to security settings and accounting maintenance tables without NLRB authorization or knowledge.

Criteria
National Institute of Standards and Technology (NIST) Special Publication (SP) 800-53, *Recommended Security Controls for Federal Information Systems*, establishes guidance for federal agencies when establishing security controls for information systems. NIST SP 800-53 states,

> "It is of paramount importance that responsible individuals within the organization understand the risks and other factors that could adversely affect their operations and assets. . . . The ultimate objective is to conduct the day-to-day operations of the organization and to accomplish the organization's stated missions with what OMB Circular A-130 defines as adequate security, or security commensurate with risk, including the magnitude of harm resulting from the unauthorized access, use, disclosure, disruption, modification, or destruction of information."

The audit report included a list of client control considerations. These are controls for which NLRB is responsible. Such controls, if effectively implemented, could help provide for a more secure system and data, and augment or compensate for controls at NBC.

Recommendation
We recommend NLRB's Finance Branch (Finance) Chief review the controls listed in the audit report to ensure that all are properly implemented by NLRB.

Management Response
The Director of Administration agreed with this recommendation and stated that they have initiated corrective action.

#2 – Intragovernmental Transactions Documentation

Condition
Receipt of goods and services from other government agencies paid through the Intragovernmental Payment and Collection System (IPAC) was not documented.

Cause
Finance records IPAC charged amounts against funds obligated for an agreement, but generally lacks information to determine whether the charges are proper or correct. Finance has relied upon individual NLRB offices to reconcile amounts charged against their obligated funds with services received under interagency agreements. Receiving reports documenting the receipt of goods and services provided by other governmental agencies were not retained and forwarded to Finance for review.

Effect
Finance is unable to determine the validity of IPAC transactions or whether goods and services were received and accepted.

Criteria
Federal Acquisition Regulations, 48 CFR 46.601, state that agencies shall prescribe procedures and instructions for the use, preparation, and distribution of material inspection and receiving reports and commercial shipping documents and packing lists to evidence Government inspection and acceptance.

Federal Acquisition Regulations, 48 CFR 46.501, state that acceptance shall ordinarily be evidenced by execution of an acceptance certificate on an inspection or receiving report form or commercial shipping document and packing list.

Recommendation
We recommend the Finance Chief require documentation of receipt of goods and services from the ordering office for IPAC transactions.

Management Response
The Director of Administration stated that the Finance Chief has already instituted procedures requiring proper documentation to support all IPAC charges.

#3 – Prior Year Recommendations

Open Prior Year Reportable Conditions

Carmichael, Brasher, Tuvell & Company's (CBTC) Fiscal Year 2004 Independent Auditors' Report, dated November 1, 2004, included four recommendations. Actions remain to be completed on three recommendations. One of these recommendations, to develop a disaster recovery plan, is reported in CBTC's Fiscal Year 2005 Independent Auditors' Report, dated October 31, 2005.

The remaining two open recommendations were to implement an intrusion-detection and response program and a systematic policy for the storage, retrievability, retention, and disposal of Privacy Act information. These two recommendations were not included in the 2005 auditor's report because enough progress was made that these items are no longer considered reportable conditions.

Open Prior Year Management Letter

CBTC's Fiscal Year 2004 Management Letter, dated November 1, 2004, included four recommendations. Actions remain to be completed on two recommendations. The first open recommendation was for Finance to implement its plan to migrate the Regional Office Budget System to Momentum by the end of Fiscal Year 2005. The Agency planned to implement this migration and related training concurrently with migrating to a new eTravel system. The Agency was informed by the eTravel system provider that the system would not be ready for implementation in time for the office manager training scheduled for April, June, and August 2005. The Agency decided that it would not be cost effective to conduct separate training for the two systems and plans to implement this recommendation by September 2006.

The second open recommendation was to develop and implement internal procedures for debtors to challenge debt and to establish regulations and delegations of authority for compromising or terminating actions for the collection of debt. The Agency has developed internal procedures and updated delegations of authority, and developed regulations covering debt collections. These regulations await the Board's approval.

Management Response
The Director of Administration stated that once the eTravel system is available for Agency use, the office managers will be provided training on both Momentum and eTravel at Headquarters. This is expected to be completed in FY 2006.

The Director of Administration stated that they will continue efforts to obtain necessary approval of regulations for compromising or terminating actions for the collection of debt.

Auditors' Reports and Financial Statements
Principal Statements

National Labor Relations Board
Consolidated Balance Sheet
As of September 30, 2005 (CY)* and September 30, 2004 (PY)* *(in dollars)*

		2005 (CY)		2004 (PY)
Assets				
Intragovernmental				
Fund balance with treasury (Note 2)	$	25,649,530	$	22,835,385
Investments, net (Note 3)		1,652,216		4,987,094
Accounts receivable (Note 5)		37,313		—
Advances (Note 4)		20,848		2,952
Total intragovernmental		27,359,907		27,825,431
Accounts receivable, net (Note 5)		53,696		46,508
Advances (Note 4)		14,447		4,773
General property plant, and equipment, net (Note 6 and 10)		126,384		77,519
Total assets	**$**	**27,554,434**	**$**	**27,954,231**
Liabilities				
Intragovernmental				
Accounts payable (Note 7)	$	723,580	$	1,508,233
Employee contributions and payroll taxes		1,332,219		1,007,545
FECA liability (Note 8 and 10)		921,357		1,016,372
Custodial liability		50		489
Total Intragovernmental		**2,977,206**		**3,532,639**
Accounts payable (Note 7)		4,522,069		4,728,853
Estimated future FECA liability (Note 8 and 10)		1,784,290		1,889,307
Accrued payroll and benefits		6,047,056		5,418,496
Accrued annual leave (Note 8 and 10)		13,263,621		12,425,309
Backpay settlement due to others (Note 8 and 9)		3,079,936		7,027,695
Custodial liability (Note 8 and 9)		549,313		163,164
Total liabilities		**32,223,491**		**35,185,463**
Net position				
Unexpended appropriations		11,120,013		7,979,219
Cumulative results of operations (Note 10)		(15,789,070)		(15,210,451)
Total net position	$	(4,669,057)	$	(7,231,232)
Total liabilities and net position	**$**	**27,554,434**	**$**	**27,954,231**

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

The accompanying notes are an integral part of these statements.

National Labor Relations Board

Consolidated Statement of Net Cost

As of September 30, 2005 (CY) and September 30, 2004 (PY) *(in dollars)*

	2005 (CY)	2004 (PY)
Program Costs:		
Resolve representation cases		
Total Gross Cost (Note 11)	$ 38,440,183	$ 39,862,438
Resolve unfair labor practices		
Total Gross Cost (Note 11)	223,916,422	221,880,171
Other		
Gross Costs	112,556	123,860
Less: Earned Revenue	112,556	123,860
Total Gross Cost	—	—
Net Cost of Operations (Note 11)	**$ 262,356,605**	**$ 261,742,609**

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

National Labor Relations Board

Consolidated Statement of Changes in Net Position

As of September 30, 2005 (CY) and September 30, 2004 (PY) *(in dollars)*

	2005 Cumulative Results of Operations (CY)	2005 Unexpended Appropriations (CY)	2004 Cumulative Results of Operations (PY)	2004 Unexpended Appropriations (PY)
Beginning Balances	**$ (15,210,451)**	**$ 7,979,219**	**$ (14,795,410)**	**$ 11,764,532**
Budgetary Financing Sources:				
Appropriations—received	—	251,875,000	—	244,073,000
Appropriations—used	245,515,820	(245,515,820)	245,664,129	(245,664,129)
Rescissions & cancelled appropriations	—	(3,218,386)	—	(2,194,184)
Other Financing Sources:				
Imputed financing costs (Note 15)	16,262,166	—	15,663,439	—
Transfers out without reimbursement	—	—	—	—
Total Financing Sources	**261,777,986**	**3,140,794**	**261,327,568**	**(3,785,313)**
Net Cost of Operations	**(262,356,605)**	**—**	**(261,742,609)**	**—**
Net Change	(578,619)		(415,041)	
Ending Balances	**$ (15,789,070)**	**$ 11,120,013**	**$ (15,210,451)**	**$ 7,979,219**

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

National Labor Relations Board

Combined Statement of Budgetary Resources

As of September 30, 2005 (CY) and September 30, 2004 (PY) *(in dollars)*

	2005 (CY)	2004 (PY)
Budgetary Resources:		
Budget authority:		
Appropriations received (Note 13)	$ 251,875,000	$ 244,073,000
Unobligated balance:		
Beginning of period	4,841,158	3,861,883
Spending authority from offsetting collections:		
Earned		
Collected	191,943	123,860
Receivable from Federal sources	37,157	—
Earned	229,100	123,860
Recoveries of prior year obligations	1,219,779	1,953,564
Permanently not available (Note 13)	(3,218,386)	(2,194,184)
Total budgetary resources (Note 14)	**$ 254,946,651**	**$ 247,818,123**
Status of Budgetary Resources:		
Obligations incurred:		
Direct	$ 249,930,369	$ 242,853,105
Reimbursable	112,556	123,860
Subtotal (Note 14)	250,042,925	242,976,965
Unobligated balance:		
Apportioned (Note 14)	455,357	392,805
Exempt from apportionment	10,124	9,503
Unobligated balance not available	4,438,245	4,438,850
Total status of budgetary resources	**$ 254,946,651**	**$ 247,818,123**
Relationship of Obligations to Outlays:		
Obligated balance, net, beginning of period	$ 15,793,463	$ 17,094,345
Obligated balance, net, end of period:		
Accounts receivable	(37,157)	—
Undelivered orders	6,180,990	3,130,337
Accounts payable	12,624,924	12,663,126
Outlays:		
Disbursements	245,810,694	242,324,282
Collections	(191,943)	(123,860)
Net Outlays	**$ 245,618,751**	**$ 242,200,422**

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

National Labor Relations Board

Consolidated Statement of Financing

As of September 30, 2005 (CY) and September 30, 2004 (PY) *(in dollars)*

	2005 (CY)	2004 (PY)
Resources Used to Finance Activities:		
Budgetary Resources Obligated:		
Obligations incurred	$ 250,042,925	$ 242,976,965
Less: spending authority from offsetting collections/adjustments	1,448,879	2,077,424
Net obligations	$ 248,594,046	$ 240,899,541
Other Resources:		
Transfers in/out without reimbursement (+/–)	—	—
Imputed financing from costs absorbed by others (Note 15)	16,262,166	15,663,439
Net other resources used to finance activities	16,262,166	15,663,439
Total resources used to finance activities	**$ 264,856,212**	**$ 256,562,980**
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 (+/–)	$ (3,078,225)	$ 5,003,070
Resources that finance the acquisition of assets	(118,870)	(58,369)
Total resources used to finance items not part of the net cost of operations	(3,197,095)	4,944,701
Total resources used to finance the net cost of operations	**$ 261,659,117**	**$ 261,507,681**
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	838,314	452,465
Upward/downward reestimates in credit subsidy expense (+/–)	—	
Increase in exchange revenue receivable from the public	(10,797)	25,355
Other (+/–)	**(200,033)**	**(318,878)**
Total components of net cost of operations that will require or generate resources in future periods	**627,484**	**158,942**
Components not Requiring or Generating Resources:		
Depreciation and amortization (Note 6)	70,004	75,986
Total components of Net Cost of Operations that will not require or generate resources	**70,004**	**75,986**
Total components of net cost of operations that will not require or generate resources in the current period	697,488	234,928
Net cost of operations	**$ 262,356,605**	**$ 261,742,609**

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

Notes to Principal Statements

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

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

B. Basis of Accounting and Presentation

These financial statements have been prepared to report the financial position, net cost, changes in net position, budgetary resources and reconciliation of net cost to budgetary obligations of the NLRB as required by the Accountability of Tax Dollars Act of 2002. These financial statements have been prepared from the books and records of NLRB in accordance with accounting principles generally accepted in the United States of America (GAAP), and the form and content requirements of the Office of Management and Budget (OMB) Circular No. A-136 (formerly Bulletin No. 01-09). GAAP for Federal entities are the standards prescribed by the Federal Accounting Standards Advisory Board (FASAB), which is the official standard-setting body for the Federal Government. These financial statements present proprietary and budgetary information.

OMB financial statement reporting guidelines for FY 2005 require the presentation of comparative financial statements for all of the principal financial statements. NLRB is presenting comparative FY 2005 financial statements for the Consolidated Balance Sheet, Consolidated Statement of Net Cost, Consolidated Statement of Changes in Net Position, the Combined Statement of Budgetary Resources, and Consolidated Statement of Financing.

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

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 ALJ, who issues a decision, which may be appealed by any party to the Board. The Board acts in such matters as a quasi-judicial body, deciding cases on the basis of the formal trial record according to the law and the body of case law that has been developed by the Board and the Federal courts.

C. Budgets and Budgetary Accounting

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

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

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

E. Fund with the U.S. Treasury

The NLRB's cash receipts and disbursements are processed by the U.S. Treasury (Treasury). The fund balances with the Treasury are primarily appropriated funds that are available to pay current liabilities and to finance authorized purchases. Funds with Treasury represent NLRB's right to draw on the Treasury for allowable expenditures. In addition, funds held with Treasury also include escrow funds that are not appropriated but are Backpay funds that are the standard Board remedy whenever a violation of the 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, 2005 and September 30, 2004, 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 and for commercial payment system for postage and penalty mail.

See Note 4 for additional information on the Advances.

H. Accounts Receivable, Net of Allowance for Doubtful Accounts

Accounts Receivable primarily consists of health benefits due the NLRB from employees and reimbursable receivables due from Federal Emergency Management Agency. 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. Normal repairs and maintenance are charged to expense as incurred. The useful life for this category is five to twelve years. There are no restrictions on the use or convertibility of general property plant, and equipment.

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

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

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

K. Liabilities Not Covered by Budgetary Resources

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

Intragovernmental

The U.S. Department of Labor (DOL) paid Federal Employees Compensation Act (FECA) benefits on behalf of NLRB which had not been billed or paid by NLRB as of September 30, 2005 and 2004, 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.

L. Contingencies

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

See Note 17 for additional information on Contingencies.

M. Unexpended Appropriations

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

N. Annual, Sick, and Other Leave

Annual and Sick Leave Program

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

See Note 10 for additional information on Annual Leave.

O. Life Insurance and Retirement Plans

Federal Employees Group Life Insurance (FEGLI) Program

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

Retirement Programs

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

For FERS employees, NLRB contributes an amount equal to one percent of the employee's basic pay to the tax deferred Thrift Savings Plan and matches employee contributions up to an additional four percent of pay. The maximum percentage of base pay that an employee participating in FERS may contribute is 15 percent in calendar year (CY) 2005 to this plan. Employees belonging to CSRS may contribute up to 10 percent of their salary in CY 2005 and receive no matching contribution from NLRB. The maximum amount that either FERS or CSRS employees may contribute to the plan is $14,000 in CY 2005. 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.

P. Operating Leases

The NLRB has no capital lease liability or capital leases. Operating leases consist of real and personal property leases with GSA. The real property leases are for NLRB's Headquarters and Regional Offices and the personal property leases are for GSA cars. The GSA charges NLRB lease rates that approximate commercial rates for comparable space.

See Note 12 for additional information on Operating Leases.

Q. Net Position

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

R. Use of Management Estimates

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

Note 2. Fund Balance With Treasury

Treasury performs cash management activities for all Federal agencies. The net activity represents Fund Balance with Treasury. The Fund Balance with Treasury represents the right of the NLRB to draw down funds from Treasury for expenses and liabilities. Fund Balance with Treasury by fund type as of September 30, 2005 and September 30, 2004 consists of the following:

Fund Balance with Treasury by Fund Type:

(Dollars in thousands)	FY 2005 Entity Assets	Non-Entity Assets	Total	FY 2004 Entity Assets	Non-Entity Assets	Total
General Funds	$24,222	—	$24,222	$20,794	—	$20,794
Escrow Funds	—	1,428	1,428	—	2,041	2,041
Total Fund Balance with Treasury	$24,222	$1,428	$25,650	$20,794	$2,041	$22,835

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

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

Status of Fund Balance with Treasury as of September 30, 2005 and September 30, 2004 consists of the following:

Fund Balance with Treasury by Availability:

(Dollars in thousands)	FY 2005	FY 2004
Unobligated Balance		
Available	$ 466	$ 403
Unavailable	6,415	6,639
Obligated balance not yet disbursed	18,769	15,793
Totals	**$ 25,650**	**$ 22,835**

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 2005, the maturity value of the investment was $2 million as compared to FY 2004 of $5 million. The decrease was a result of maturity of securities that were disbursed to discriminatees.

There exists a signed 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 the Treasury.

Investments as of September 30, 2005 and September 30, 2004 consist of the following:

Investment Value at Investment Market Value:

(Dollars in thousands)	Investment Type	Value at Maturity	Investment Net	Market Value Disclosure
FY 2005 U.S. Treasury Securities	Marketable	$ 1,665	$ 1,652	$ 1,652
FY 2004 U.S. Treasury Securities	Marketable	$ 4,995	$ 4,987	$ 4,987

For FY 2005 and 2004, the discount on the marketable securities amounted to $13 and $8, respectively (Dollars in thousands).

Note 4. Advances

Intragovernmental

Intragovernmental Advances of $20,848 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, 2005. The USPS advance for September 30, 2005 was $20,848 and zero for September 30, 2004. The DOT advance for September 30, 2005 was zero and $2,952 for September 30, 2004 (Amounts in dollars).

Commercial

Advances of $14,447 as of September 30, 2005 and $4,773 for September 30, 2004, represent advances to a commercial vendor for postage (Amounts in dollars).

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

The intragovernmental accounts receivable for FY 2005 is the amount due from the Federal Emergency Management Agency (FEMA) for NLRB's employees assisting FEMA with hurricane Katrina's destruction. Accounts receivable at each fiscal year end consisted of the following

(Dollars in thousands)	FY 2005	FY 2004
Intragovernmental		
Accounts Receivable	$ 37	0
Total Intragovernmental	$ 37	0
With the Public		
Accounts Receivable	$ 56	$ 48
Allowance Doubtful Accounts	(2)	(1)
Total Accounts Receivable, Net—Public	54	47
Accounts Receivable—Net	$ 91	$ 47

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, 2005 were $70,004 and $75,986 for September 30, 2004 (Amounts in dollars).

(Dollars in thousands)	FY 2005 General Property Plant, and Equipment	FY 2004 General Property Plant, and Equipment
Cost	$ 1,529	$ 1,694
Accumulated Depreciation	(1,403)	(1,616)
Net Book Value	$ 126	$ 78

Note 7. Intragovernmental Accounts Payable

The FY 2005 Consolidated Balance Sheet is being presented to include a change to the amount shown for FY 2004 intragovernmental accounts payable for comparative financial statements. The FY 2004 amount for intragovernmental accounts payable was included in the (non-Federal) accounts payable of $6,237,086 and was not separately shown as intragovernmental as required by OMB Circular No. A-136 (formerly Bulletin No. 01-09). The accounts payable (non-Federal) for FY 2004 is being reclassified to show the portion for non-Federal of $4,728,853 and intragovernmental of $1,508,233 on the FY 2005 Consolidated Balance Sheet (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, 2005, and September 30, 2004, is as follows:

(Dollars in thousands)	FY 2005	FY 2004
Intragovernmental		
FECA—Unfunded	$ 921	$ 1,016
Total Intragovernmental	921	1,016
Estimated Future—FECA	1,784	1,889
Accrued Annual Leave	13,264	12,425
Backpay Settlement Due to Others	3,080	7,028
Custodial Liability	549	163
Total Liabilities Not Covered by Budgetary Resources	$ 19,598	$ 22,521
Total Liabilities Covered by Budgetary Resources	12,625	12,664
Total Liabilities	$ 32,223	$ 35,185

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, 2005 and September 30, 2004, is as follows:

(Dollars in thousands)	FY 2005	FY 2004
Non-Entity Assets		
Intragovernmental		
Fund Balance with Treasury	$ 549	$ 160
Accounts Receivable	—	—
Total Intragovernmental	$ 549	$ 160
Backpay Settlement Due to Others	3,080	7,028
Total Non-Entity Assets	$ 3,629	$ 7,188
Entity Assets	23,925	20,766
Total Assets	$ 27,554	$ 27,954

Note 10. Cumulative Results of Operations

(Dollars in thousands)	FY 2005	FY 2004
FECA paid by DOL	$ (469)	$ (495)
FECA—Unfunded	(921)	(1,016)
Estimated Future FECA	(1,784)	(1,889)
Accrued Annual Leave	(13,264)	(12,425)
General Property Plant, and Equipment, Net	126	78
Other	523	537
Cumulative Results of Operations	$ (15,789)	$ (15,210)

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 2005	FY 2004
Resolve Representation Cases		
Intragovernmental Costs	$ 12,236,370	$ 13,303,374
Costs with the Public	26,203,813	26,559,064
Total Net Cost—Resolve Representation Cases	**38,440,183**	**39,862,438**
Resolve Unfair Labor Practices		
Intragovernmental Costs	70,845,144	73,842,907
Costs with the Public	153,071,278	148,037,264
Total Net Cost—Resolve Unfair Labor Practices	**223,916,422**	**221,880,171**
Other		
Intragovernmental Costs	112,556	123,860
Less: Intragovernmental Earned Revenue	112,556	123,860
Net Intragovernmental Cost	—	—
Total Net Cost—Other	—	—
Net Cost of Operations	**$262,356,605**	**$261,742,609**

Note 12. Operating Leases

GSA Real Property. Most of the NLRB's facilities are rented from the General Services Administration (GSA), which charges rent that is intended to approximate commercial rental rates. The terms of the NLRB's 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 OA are notification requirements for the Agency to release space, that are generally 120 to 180 days. For purposes of disclosing future operating lease payments in the table below, Federally owned leases are included in years 2006 through 2010.

Rental expenses for operating leases as of September 30, 2005 were $26,866,735 for Agency lease space and $1,432,593 for Agency building security. For FY 2004 the GSA operating lease costs was $27,125,204 and the building security portion was $1,146,691. As of FY 2005, the Agency is required to show 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 2006 through 2010. The estimated future operating lease payments for GSA and private personal property leases are based on a 3 percent increase over the 2005 actual personal property rental expense.

Rental expenses for operating leases as of September 30, 2005 and 2004 were $122,014 and $111,948, 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
2006	$ 28,113	$ 126	$ 28,239
2007	28,517	130	28,647
2008	29,773	134	29,907
2009	30,487	138	30,625
2010	31,219	142	31,361
After 5 Years	—	—	—
Total Future Lease Costs	$ 148,109	$ 670	$ 148,779

Note 13. Appropriations Received

The NLRB received $249,860,000 and $242,632,969 (net of rescission) in warrants for the fiscal years ended September 30, 2005 and 2004, respectively. The rescissions were $2,015,000 and $1,440,031 for FYs 2005 and 2004, respectively. The amount shown on the Combined Statement of Budgetary Resources under caption "Permanently not available" for FY 2005 in the amount of $3,218,386 is a combination of the rescission of $2,015,000 and the cancelled appropriation for FY 2000 in the amount of $1,203,386. The amount of $2,194,184 for FY 2004 is a combination of the rescission of $1,440,031 and FY 1999 cancelled appropriation of $754,153.

Note 14. Statement of Budgetary Resources

The Combined Statement of Budgetary Resources provides information about how budgetary resources were made available as well as their status at the end of the period. It is the only financial statement exclusively derived from the entity's budgetary general ledger in accordance with budgetary accounting rules that are incorporated into generally accepted accounting principles for the Federal Government. The total Budgetary Resources of $254,946,651 as of September 30, 2005 and $247,818,123 as of September 30, 2004, 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, 2005, was $455,357 and at September 30, 2004 was $392,805.

Apportionment Categories of Obligations Incurred. The NLRB's obligations incurred as of September 30, 2005 and September 30, 2004 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 2005	Category A	Category B	Apportionment	Total
Obligations Incurred:				
Direct	$ 236,982	$ 12,958	$ (10)	$ 249,930
Reimbursable	113	—	—	113
Total Obligations Incurred	$ 237,095	$ 12,958	$ (10)	$ 250,043

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

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, 2005 and 2004 consisted of:

(Dollars in thousands)	FY 2005	FY 2004
Office of Personnel Management:		
Pension Expenses	$ 7,581	$ 7,786
Federal Employees Health Benefits	8,653	7,849
Federal Employees Group Life Insurance Program	28	28
Total Imputed Financing	$ 16,262	$ 15,663

Note 16. Backpay Checks Held in NLRB Regional Offices

The NLRB may use Backpay as a remedy to settle a 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 a NLRB Regional Office to deliver to the discriminatee(s); and (3) the respondent makes the Backpay payable to the NLRB, who deposits the check and then issues U.S. Treasury checks to the discriminatee(s).

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

	FY 2005		FY 2004	
	Number	Amount	Number	Amount
Checks on Hand, Beginning of Period	921	$ 755	102	$ 323
Checks Received	9,622	21,015	7,560	17,374
Less Checks Distributed	(10,154)	(21,251)	(6,741)	(16,942)
Net Change in Checks on Hand	(532)	$ (236)	819	$ 432
Checks on Hand at End of Period	389	$ 519	921	$ 755

Note 17. Contingencies Liability

The NLRB is a party to several threatened or pending litigation claims. NLRB management has estimated that claims from $200 to $500 thousand dollars 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 Contingency

A FY 2005 obligation, totaling approximately $1.5 million for contractual information technology and end-user support services, is currently under review by NLRB management and the NLRB Office of Inspector General. Final determination could have a direct effect upon the amounts reported in the Statement of Budgetary Resources and the Consolidated Statement of Financing.

UNITED STATES GOVERNMENT
National Labor Relations Board
Division of Administration
Memorandum

TO: Jane E. Altenhofen
Inspector General

FROM: Gloria Joseph
Director of Administration

DATE: October 31, 2005

SUBJECT: Response to Draft Audit Report – NLRB Fiscal Year 2005 Financial Statements

We have reviewed the Audit Report submitted by Carmichael Brasher Tuvell & Company (Carmichael) and are pleased that the FY 2005 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 audit. 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 are in agreement with this recommendation. The CIO has budgeted funds in FY 2006 to initiate a disaster recovery plan. The expected completion date for this project is the fourth quarter of FY 2006.

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

cc: Board
Acting General Counsel

UNITED STATES GOVERNMENT
National Labor Relations Board
Division of Administration
Memorandum

December 12, 2005

TO: Jane Altenhofen
Inspector General

FROM: Gloria Joseph, Director of Administration

SUBJECT: Comments on Draft Management Letter on Audit of NLRB's FY 2005 Financial Statements

This is in response to your memorandum dated December 2, 2005, in which you requested comments on the draft Management Letter covering the audit of the Agency's FY 2005 financial statements. In your memo, you requested that we also indicate our agreement or disagreement with each of the report's findings and recommendations.

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

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

#1 – Momentum Financial System

We recommend that the NLRB's Finance Branch Chief review the controls listed in the audit report to ensure that all are properly implemented by the NLRB.

We agree with this recommendation. The Finance Branch Chief has reviewed the controls listed in the audit report and has already begun the work necessary to implement those recommendations.

#2 – Intragovernmental Transactions Documentation

We recommend the Finance Branch Chief require documentation of receipt of goods and services from the ordering office for IPAC transactions.

The Finance Branch Chief has already instituted procedures requiring that the proper documentation to support all IPAC charges is obtained from an ordering office. The documentation is then attached to the IPAC report.

#3 – Prior Year Recommendations (Open Prior Year Reportable Conditions)

The Finance Branch implement its plan to migrate the Regional Office Budgeting System (ROBS) to Momentum by the end of Fiscal Year 2005.

It was the Agency's original intent to have this recommendation completed by the end of FY 2005. The plan had been to implement the migration from ROBS to Momentum in conjunction with the implementation of the new eTravel system which agencies are required to migrate to by the end of FY 2006. Training for the regional office managers on both systems was scheduled for April, June, and August 2005. However, the Agency was informed by the system provider early in Calendar Year 2005 that the eTravel system would not be ready in time for the training. It was determined that it would not be cost effective to bring the office managers from each Region to Headquarters to train them on Momentum in FY 2005, and then have to bring them back in to train them on eTravel in FY 2006. Once the eTravel system is available for Agency use, the office managers will be provided training on both systems at Headquarters. It is expected that this recommendation will be completed in FY 2006.

Develop and implement internal procedures for debtors to challenge debt and establish regulations and delegations of authority for compromising or terminating actions for the collection of debt.

As stated in the management letter, the Agency has already developed the internal procedures allowing debtors to challenge debt as recommended by the auditors and has updated the delegations of authority. The recommended debt collection regulations have been drafted and await Board approval. Once approval is obtained, they will be published in the Federal Register. We will continue our efforts to obtain the necessary approval.

cc: The Board
Acting General Counsel