FEDERAL MEDIATION AND CONCILIATION SERVICE

AUDIT REPORTS
IN ACCORDANCE WITH THE REPORTING REQUIREMENTS OF THE FEDERAL ACCOUNTING STANDARDS ADVISORY BOARD

For the Years Ended September 30, 2011 and 2010

Walker & Compa
Assurance, Business and Advisor Services

FEDERAL MEDIATION AND CONCILIATION SERVICE

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Walker & Co., LLP
Assurance, Business and Advisory Services

REPORT OF INDEPENDENT AUDITORS

Director
Federal Mediation and Conciliation Service

We have audited the accompanying balance sheet of the Federal Mediation and Conciliation Service (FMCS) as of September 30, 2011, and the related statements of net cost, changes in net position and budgetary resources for the year then ended. These financial statements are the responsibility of FMCS management. Our responsibility is to express an opinion on these financial statements based on our audit. The balance sheet of FMCS as of September 30, 2010, and the related statements of net cost, changes in net position and budgetary resources for the year then ended was audited by other auditors. Those auditors expressed an unqualified opinion on the statements in their report dated November 15, 2010.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements,* as amended. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of FMCS as of September 30, 2011, and its net cost, changes in net position and budgetary resources for the year then ended in conformity with accounting principles generally accepted in the United States.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The information in the Management's Discussion and Analysis and Required Supplementary Information sections are not a required part of the basic financial statements, but are supplementary information required by OMB Circular A-136, *Financial Reporting Requirements.* We have applied certain limited procedures to such information, which consisted principally of inquires of management regarding the methods of measurement and presentation

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of the supplementary information. We also reviewed such information for consistency with the related information presented in FMCS financial statements. We did not audit this information and, accordingly, express no opinion on it.

The other accompanying information on performance and accountability and appendices are presented for purposes of additional analysis and are not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

In accordance with *Government Auditing Standards* and OMB Bulletin 07-04, as amended, we have also issued our reports dated November 14, 2011, on our consideration of the Agency's internal control over financial reporting, and on our tests of FMCS compliance with certain provisions of laws and regulations and other matters. The purpose of those reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. Those reports are an integral part of our audit performed in accordance with *Government Auditing Standards* and OMB Bulletin 07-04, as amended, and should be considered in assessing the results of our audit.

Walker & Co., LLP

November 14, 2011

FEDERAL MEDIATION AND CONCILIATION SERVICE
BALANCE SHEETS

	September 30, 2011	September 30, 2010
ASSETS		
Intragovernmental Assets		
Fund balance with Treasury (Note 3)	$ 12,139,454	$ 11,651,801
Accounts receivable (Note 4)	14,204	22,047
Total intragovernmental assets	12,153,658	11,673,848
Assets with the Public		
Accounts receivable (Note 4)	-	1,702
Other	-	200
Total non-governmental assets	-	1,902
General property and equipment, net (Note 5)	746,118	619,528
Total Assets	$ 12,899,776	$ 12,295,278
LIABILITIES		
Intragovernmental Liabilities		
Accounts payable	$ -	$ 22,491
Accrued federal employees' compensation act liabilities	832,429	891,681
Accrued unemployment liabilities	-	3,333
Advances from others	15,943	175,999
Other	71	36
Total intragovernmental liabilities	848,443	1,093,540
Liabilities with the Public		
Accounts payable	426,932	435,780
Accrued payroll and benefits	2,272,224	2,212,777
Accrued annual and compensatory leave liabilities	2,607,262	2,787,802
Total non-governmental liabilities	5,306,418	5,436,359
Total Liabilities	6,154,861	6,529,899
NET POSITION		
Unexpended appropriations	5,205,078	4,998,754
Cumulative results of operations	1,539,837	766,625
Total Net Position	6,744,915	5,765,379
Total Liabilities and Net Position	$ 12,899,776	$ 12,295,278

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

FEDERAL MEDIATION AND CONCILIATION SERVICE
STATEMENTS OF NET COSTS

	Year ended September 30, 2011	2010
Gross Program Costs		
Intragovernmental gross costs	$ 13,225,150	$ 8,443,393
Less: Intragovernmental earned revenue	(1,471,038)	(1,026,929)
Intragovernmental net costs	11,754,112	7,416,464
Gross costs with the public	36,865,528	40,201,748
Less: Earned revenues from the public	(1,009,263)	(1,059,038)
Net costs with the public	35,856,265	39,142,710
Net Cost of Operations	$ 47,610,377	$ 46,559,174

The accompanying notes are an integral part of these statements.

FEDERAL MEDIATION AND CONCILIATION SERVICE

STATEMENTS OF CHANGES IN NET POSITION

	Year ended September 30, 2011	2010
Unexpended Appropriations		
Beginning balance	$ 4,998,754	$ 2,975,763
Prior period adjustments	-	13,513
Beginning balance adjusted	4,998,754	2,989,276
Appropriations received	46,652,000	46,652,000
Other adjustments	(192,612)	(106,549)
Appropriations used	(46,253,064)	(44,535,973)
Total Unexpended Appropriations	$ 5,205,078	$ 4,998,754
Cumulative Results of Operations		
Beginning balance	$ 766,625	$ 538,451
Prior period adjustments	-	(141,011)
Beginning balance, adjusted	766,625	397,440
Appropirations used	46,253,064	44,535,973
Imputed financing	2,130,596	2,392,422
Other revenue	(71)	(36)
Net cost of operations	(47,610,377)	(46,559,174)
Total Cumulative Results of Operations	$ 1,539,837	$ 766,625
Net Position	$ 6,744,915	$ 5,765,379

The accompanying notes are an integral part of these statements.

FEDERAL MEDIATION AND CONCILIATION SERVICE
STATEMENTS OF BUDGETARY RESOURCES

	Year ended September 30, 2011	2010
Budgetary Resources		
Unobligated balance, beginning of period	$ 5,548,956	$ 4,773,415
Recoveries of prior year obligations	285,788	241,778
Budget authority		
Appropriations received	46,652,000	46,652,000
Spending authority from offsetting collections		
Earned		
Collected	2,514,512	2,130,901
Change in receivable from federal sources	(9,180)	(36,724)
Change in unfilled customer orders with advance	(160,056)	29,281
Permanently not available	(192,612)	(106,549)
Total Budgetary Resources	$ 54,639,408	$ 53,684,102
Status of Budgetary Resources		
Obligations incurred		
Direct	$ 47,355,586	$ 46,764,407
Reimburseable	1,254,306	1,370,739
Total obligations incurred	48,609,892	48,135,146
Unobligated balance		
Balance currently available	783,339	913,590
Unobligated balance not available	5,246,177	4,635,366
Total Status of Budgetary Resources	$ 54,639,408	$ 53,684,102
Change in Obligated Balance		
Unpaid obligations brought forward October 1	6,126,192	4,932,942
Uncollected customer payments	(23,384)	(60,108)
Unpaid obligated balance brought forward, net	6,102,808	4,872,834
Obligations incurred	48,609,892	48,135,146
Gross outlays	(48,326,226)	(46,700,117)
Recoveries of prior year unpaid obligations, actual	(285,788)	(241,778)
Change in uncollected customer payments from federal sources	(9,180)	(36,724)
Obligated balance, net - end of period		
Unpaid obligations	6,124,071	6,126,192
Uncollected customer payments from federal sources	(14,204)	(23,384)
Total Obligated Balance, Net, End of Period	$ 6,109,867	$ 6,102,808
Net Outlays		
Gross outlays	48,326,226	46,700,117
Offsetting collections	(2,354,456)	(2,160,182)
Distributed offsetting receipts	(71)	(36)
Net Outlays	$ 45,971,699	$ 44,539,899

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

NOTE 1 ORGANIZATION AND PURPOSE

Reporting entity

FMCS is an independent federal agency whose primary mission is to prevent or minimize labor-management disputes affecting interstate commerce by providing mediation, conciliation, and voluntary arbitration services. These activities are performed in both the private and public sectors, except for the railroad and airline industries, which are covered by the Railway Labor Act and the National Mediation Board, respectively.

At September 30, 2011, FMCS operated a national office, ten district offices, and 67 field offices.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of significant accounting policies utilized in the preparation of the financial statements is as follows:

Basis of presentation

These financial statements have been prepared from the books and records of FMCS to report the financial position and results of operations of FMCS as required by the Government Management Reform Act of 1994, Public Law 103-356, 108, Stat. 3515 in accordance with accounting principles generally accepted in the United States (GAAP), and the form and content for entity's financial statements specified by the Office of Management and Budget (OMB) in OMB Circular No. A-136, *Financial Reporting Requirements*, as revised. GAAP for federal entities are standards prescribed by the Federal Accounting Standards Advisory Board (FASAB), which has been designated the official accounting standards-setting body for the federal government by the American Institute of Certified Public Accountants (AICPA).

OMB Circular No. A-136 requires agencies to prepare basic financial statements, which include a balance sheet, statement of net cost, statement of changes in net position and a statement of budgetary resources. The balance sheets present, as of September 30, 2011 and 2010, amounts of future economic benefits owned or managed by the FMCS (assets), amounts owed by the FMCS (liabilities) and amounts which comprise the difference (net position). The statements of net cost report the full cost of the Agency's program, both direct and indirect costs of the output, and the costs of identifiable supporting services provided by other segments within the FMCS. The statement of budgetary resources reports the FMCS's budgetary activity.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Position, shown on the Balance Sheet, is composed of unexpended appropriations and cumulative results of operations. Unexpended appropriations are appropriated funds obligated during the period when they were available for obligation. Those goods and services to be provided to FMCS that have not been completely received at the end of the fiscal year will be delivered in a subsequent year. Funds to cover the cost of those goods and services are carried forward after fiscal year end close. "Cumulative results of operations" is the account to which revenues and expenses are closed.

Earmark fund

By GAO's definition of Earmark Funds, FMCS does not have any funds earmarked for a specific purpose.

Basis of accounting

The FMCS prepares financial statements to report its financial position and results of operations pursuant to the requirements of 31 U.S.C. 3515(b), the Chief Financial Officers Act of 1990 (P. L. 101-576), as amended by the Government Management Reform Act of 1994, and in accordance with the requirements in OMB Circular No. A-136, as revised. These statements have been prepared from the FMCS' financial records using the accrual basis in conformity with GAAP. GAAP for federal entities are the standards prescribed by the FASAB and recognized by the AICPA as federal GAAP.

Transactions are recorded on the accrual and budgetary bases of accounting. According to the accrual basis of accounting, revenues are recognized when earned, and expenses are recorded when resources are consumed, without regard to the payment of cash. 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 accrual based transactions. The recognition of budgetary accounting transactions is essential for compliance with legal constraints and controls over the use of federal funds. The FMCS uses the cash basis of accounting for some programs with accrual adjustments made by recording year-end estimates of unpaid liabilities.

Use of estimates

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

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund balance with Treasury

The FMCS maintains its available funds with the Department of the Treasury (Treasury). The fund balance with Treasury is available to pay current liabilities and finance authorized purchases. Cash receipts and disbursements are processed by Treasury and reconciled with those of Treasury on a regular basis. Note 3, Fund Balance with Treasury, provides additional information.

Accounts receivable

Accounts receivable consist of the amounts owed to the FMCS as the result of the provision of goods and services. Intra-governmental accounts receivable generally arise from the provision of reimbursable services to other federal agencies and no allowance for uncollectible accounts is established as those accounts are considered to be fully collectible.

General property and equipment

General property and equipment (P&E) consists of software and equipment used for operations. The basis for recording purchased P&E is acquisition cost, which includes all costs incurred to bring the P&E to its intended use. All P&E with initial acquisition cost of $5,000 or more and estimated useful lives of two years or more are capitalized except for internal use software discussed below.

The P&E is depreciated using the straight-line method over the estimated useful lives of assets. Maintenance and repair costs are expensed as incurred.

Liabilities

Liabilities represent the amount of monies or other resources that are likely to be paid by FMCS as a result of a transaction or event that has occurred. Since FMCS is a component of the U.S. Government, a sovereign entity, its liabilities cannot be liquidated without legislation providing resources to do so. Liabilities for which an appropriation has not been enacted are classified as unfunded liabilities and there is no certainty that corresponding future appropriations will be enacted. Liabilities arising from other than contracts can be abrogated by the Government, acting in its sovereign capacity. Since liabilities are only those items that are present obligations of the government. The FMCS's liabilities are classified as covered by budgetary resources or not covered by budgetary resources.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Liabilities (continued)

Liabilities Covered by Budgetary Resources include: (1) new budget authority, (2) spending authority from offsetting collections, (3) recoveries of expired budget authority, (4) unobligated balances of budgetary resources at the beginning of the year, and (5) permanent indefinite appropriations or borrowing authority. *Liabilities Not Covered by Budgetary Resources* represent liabilities where funding has not yet been made available through Congressional appropriations or current earnings. The major liabilities in this category include employee annual leave earned but not taken. *Liabilities Covered by Budgetary Resources and Liabilities Not Covered by Budgetary Resources* are combined on the balance sheets.

Accounts payable

Accounts payable primarily consist of amounts due for goods and services received, progress on contract performance, interest due on accounts payable and other miscellaneous payables.

Accrued payroll and benefits

Accrued payroll and benefits consist of salaries, wages, leave and benefits earned but not taken or disbursed as of year end. Annual and compensatory leave is expended with an offsetting liability as it is earned and the liability is reduced as leave is taken. Each year, the balance in the accrued annual leave liability account is adjusted to reflect current pay rates. To the extent current or prior year appropriations are not available to fund annual and compensatory leave earned but not taken, funding will be obtained from future financing resources. Sick leave and other types of non-vested leave are expended as taken.

Interest on late payments

Pursuant to the Prompt Payment Act, 31 U.S.C. 3901-3907, Federal agencies must pay interest on payments for goods and services made to business concerns after the due date. The due date is generally 30 days after receipts of a proper invoice or acceptance of the goods or services.

Federal employee benefits

With few exceptions, employees hired before January 1, 1984, are covered by the Civil Service Retirement System (CSRS), a defined benefit plan, and employees hired after December 31, 1983, are covered by the Federal Employees Retirement Systems (FERS), a defined benefit and contribution plan. For employees covered

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Federal employee benefits (continued)

under CSRS, the FMCS withholds 7.0% of each employee's salary and contributes a matching amount to the Civil Service Retirement and Disability Fund (the fund). CSRS covered employees are not subject to FICA withholdings and, thus do not accrue Social Security benefits. However, 1.45% for Medicare is withheld and matched.

Employees covered under CSRS Offset have 0.8% of their basic pay withheld from their salaries biweekly. FMCS contributes 7% of their basic salaries to CSRS and 7.65% (6.2% OSADI + 1.45% Medicare) of their gross pay to Social Security biweekly. If an employee reaches the annual Social Security wages maximum and withholding stop for OASDI tax, the CSRS withholding increases to 7% (0.8% + 6.2%).

For employees covered under FERS, in addition to FICA withholdings, FMCS withholds 0.8% from each employee's basic earnings for a retirement annuity. FMCS makes contributions to the plan at an established rate by OPM which was 11.7% and 11.2% for 2011 and 2010, respectively. Under FERS, employees also receive retirement benefit from Social Security and benefits from a defined contribution plan known as the Thrift Savings Plan (TSP). Under the TSP, an employee may contribute up to the annual IRS limit to a tax deferred investment fund. FMCS contributes 1% of salary for FERS employees, whether or not they contribute their own money to the TSP. For FERS employees who do contribute their own money to the TSP, FMCS matches the amount dollar-for-dollar on the first 3% and 50 cents on the dollar for the remaining 2%. The combined automatic and matching portion of FMCS' contribution cannot exceed 5% of salary. Those employees who elected to remain under CSRS after December 31, 1983 and those covered by CSRS offset, continue to receive benefits in place, and may also contribute (tax deferred) up to the annual IRS limit to the TSP, but with no matching amount contributed by FMCS. CSRS, CSRS Offset and FERS employees are eligible to contribute an additional tax deferred amount to TSP for a "TSP Catch-Up" if they are over age 50 and plan to have the maximum in "regular" TSP deductions during the tax year. There is no match on the catch-up contributions.

The U.S. Office of Personnel and Management administers these benefit plans and, thus, report CSRS or FERS assets, accumulated plan benefits or unfunded liabilities applicable to federal employees. Therefore, the FMCS Financial Statements do not recognize any liability on its balance sheets for pension, other retirement benefits and other post employment benefits.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Actuarial liabilities

The Federal Employees' Compensation Act (FECA) provides wage loss benefits, medical benefits and vocational rehabilitation to covered Federal civilian employees injured on the job, employees who have incurred a work-related occupational disease, and survivor benefits to eligible dependents of injured workers whose death is attributable to a job-related injury or occupational disease. Claims incurred for benefits of FMCS employees under FECA are administered by the Department of Labor (DOL) and are ultimately paid by FMCS. The future workers' compensation liability has two components, (1) unpaid billings, and (2) an amount of estimated unbilled claims. The unbilled claims are estimated by applying actuarial procedures. The DOL calculated the liability of the Federal Government for future compensation benefits, which includes the expected liability of the Federal Government for future compensation benefits, which includes the expected liability for death, disability, medical, and miscellaneous costs for approved compensation costs. The liability was determined using the paid-losses extrapolation method patterns related to a specific incurred period to predict the ultimate payments related to that period. The projected annual benefit payments were discounted to present value. The resulting Federal Government liability was then distributed by agency.

In accordance with OMB guidance, each reporting entity preparing financial statements under the Chief Financial Officers Act and the Government Management Reform Act should include its respective portion of the actuarial liability for workers' compensation benefits as a liability in its financial statements, if such amounts are material. The FECA actuarial data is for financial statements presentation only and should not be used as a standard for incorporating actuarial liabilities in fees, prices, and reimbursements. This liability constitutes an extended future estimate of cost, which will not be obligated against budgetary resources until the fiscal year in which the cost is actually billed to FMCS.

Comparative data

Comparative data for the prior year have been presented in order to provide an understanding of changes in the financial position and operations of FMCS.

Revenues and other financing sources

FMCS receives the majority of the funding needed to support its operations through appropriations. The Agency receives annual appropriations that may be used, within statutory limits, for operating expenditures. Additional amounts are obtained from fees reimbursed for alternative dispute resolution and arbitration services provided to the federal, public and private sectors.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenues and other financing sources (continued)

Appropriations are recognized as other financing sources when used and fees for services are recognized as revenues at the time they are earned and the related program or administrative expenses are incurred. Appropriations accrued for property and equipment are recognized as expenses when the asset is consumed in operations.

Contingencies and commitments

FMCS leases various facilities accounted for as operating leases. Assets held under these leases consist primarily of offices and parking facilities. All of the space occupied by FMCS is leased by the General Services Administration (GSA). The space is assigned to FMCS by GSA based on FMCS' square footage requirements. The rent charged by GSA is based on approximate commercial rates for commercial space. FMCS may terminate the leases with GSA; however, it is anticipated that FMCS will continue to occupy and lease space from GSA in future years.

NOTE 3 FUND BALANCE WITH TREASURY

The fund balance with the Treasury as reported in the financial statements represents the unexpended cash balance on FMCS books for all FMCS Treasury Symbols and custodial liability of $71. The balances were comprised of the following at September 30:

	2011	2010
Fund balance with Treasury		
Appropriated S&E Funds	$ 7,774,699	$ 7,518,396
Labor Mgmt Coop Project	4,364,755	4,133,405
Total	$ 12,139,454	$ 11,651,801
Status of fund balance with Treasury		
Unobligated balance		
Available	783,339	913,950
Unavailable	5,246,177	4,635,043
Obligated balance not yet disbursed	6,109,938	6,102,808
Total	$ 12,139,454	$ 11,651,801

In fiscal year 2011, FMCS cancelled its FY 2006 annual appropriation and returned $99,308 to the Treasury. In addition, current year appropriation was recinded by $93,304.

NOTE 4 ACCOUNTS RECEIVABLE

Accounts receivable consist primarily of amounts due from federal government departments and other agencies. An allowance for doubtful account is established even though the balance at year end was zero. Since these receivables are from other government agencies, management believes these receivables are fully collectable.

The receivable balance consisted of the following at September 30:

	2011	2010
Accounts Receivable		
Intragovernmental	$ 14,204	$ 22,047
With the public	-	1,702
Total	$ 14,204	$ 23,749

NOTE 5 GENERAL PROPERTY AND EQUIPMENT

Property and equipment owned by FMCS are all classified as equipment and consisted of the following at September 30:

	2011	2010
Equipment, Furniture and Hardware	$ 1,683,914	$ 1,346,361
ADP Software	22,377	22,377
Total	1,706,291	1,368,738
Less: Accumulated depreciation and amortization	(960,173)	(749,210)
Net Book Value	$ 746,118	$ 619,528

Depreciation expense for the fiscal years ended September 30, 2011 and 2010, was $281,999 and $219,737, respectively. During fiscal year 2011, FMCS disposed of $71,038 of property and equipment and reduced its cost and accumulated depreciation by this amount.

NOTE 6 LIABILITIES NOT COVERED BY BUDGETARY RESOURCES

Liabilities not covered by budgetary resources include liabilities for which congressional action is needed before budgetary resources can be provided.

Liabilities covered by budgetary resources as of September 30, 2011 and 2010, were respectively comprised of accounts payable of $426,932 and $435,780, advances from others of $15,943 and $175,999 and accrued funded payroll and leave of $2,272,224 and $2,212,777.

NOTE 6 LIABILITIES NOT COVERED BY BUDGETARY RESOURCES (Continued)

The FMCS future funding requirements were comprised of the following at September 30:

	2011	2010
Unfunded annual leave liability	$ 2,607,262	$ 2,787,802
Unfunded FECA liability	832,429	891,681
Unfunded unemployment liability	-	3,333
Total Liabilities not covered by budgetary resources	$ 3,439,691	$ 3,682,816

Change in liability not covered by budgetary resources:

	2011	2010	Change
Unfunded leave liability	$ 2,607,262	$ 2,787,802	$ (180,540)
Unfunded FECA liability	832,429	891,681	(59,252)
Unfunded unemployment liability	-	3,333	(3,333)
	$ 3,439,691	$ 3,682,816	$ (243,125)

NOTE 7 APPORTIONMENT CATEGORIES OF OBLIGATIONS INCURRED: DIRECT VS. REIMBURSABLE OBLIGATIONS

Direct vs. Reimbursable Obligations incurred have the following apportionment categories:

	2011	2010
Direct Obligations (Category A)	$ 46,605,586	$ 46,014,407
Direct Obligations - Grants (Category A)	750,000	750,000
Reimbursable Obligations (Category A)	1,254,306	1,370,739
Total	$ 48,609,892	$ 48,135,146

NOTE 8 UNDELIVERED ORDERS AT THE END OF THE PERIOD

The Unpaid Obligated Balances of $6,109,867 and $6,102,808 for the fiscal years ended September 30, 2011 and 2010, represented obligations relating to Undelivered Orders (goods and services contracted for but not yet received at year end), Accounts Payable (amounts owed at year end for goods and services received) and Accounts Receivable (amounts owed to FMCS at year end for goods and services provided).

NOTE 9 BUDGETARY RESOURCES

FMCS maintains unobligated balances in annual appropriations. The remaining unobligated balances in annual appropriations are no longer available for obligation, except for upward and downward adjustments of the balance. Annual funds are primarily for salaries and operating expenses. FMCS monitors its budget execution at the individual appropriation level. The amount of budgetary resources obligated for undelivered orders at September 30, 2011 and 2010, was \$3,424,914 and \$3,455,145, respectively.

NOTE 10 OPERATING LEASES

The FMCS leases office space for headquarters operations in Washington, D.C. and for district and field operations. The lease agreements expire at various dates, the latest being 2021. Assets held under these leases consist primarily of offices. All office space occupied by FMCS is leased by the General Services Administration.

Future estimated minimum lease payments for the fiscal years ended September 30 are as follows:

2012		$ 5,610,000
2013		5,702,000
2014		5,987,000
2015		6,286,000
2016		6,585,000
	Total	$30,170,000

Rent expense totaled \$5,329,675 and \$5,126,348 for fiscal years September 30, 2011 and 2010, respectively.

NOTE 11 PENSIONS, OTHER RETIREMENT BENEFITS, AND OTHER POST RETIREMENT BENEFITS

The FMCS reports the full cost of employee pensions, other retirement benefits, and other post-employment benefits in accordance with SFFAS No. 5, *Accounting for Liabilities of the Federal Government.* Although the FMCS funds a portion of the benefits under FERS and CSRS relating to its employees and withholds the necessary payroll deductions, a portion of the Normal Pension Cost remains unpaid. SFFAS No. 5 requires the recognition of this remaining cost as imputed financing.

The FMCS also funds a portion of the benefits for health and life insurance relating to its employees and withholds the necessary premiums as established annually by the Office of Personnel Management. The FMCS portion of the health insurance premium is determined by the Office of Personnel Management and is based upon the plan under which the employee is enrolled. The FMCS

NOTE 11 PENSIONS, OTHER RETIREMENT BENEFITS, AND OTHER POST RETIREMENT BENEFITS (Continued)

portion of the basic life insurance coverage is 2/3 of the premium. The premium is determined by the employee's annual salary rounded to the next $1,000, plus $2,000.

Pension and other retirement benefit expenses are calculated using cost factors determined by actuaries at the Office of Personnel Management. These cost factors are calculated based on economic and demographic assumptions. The cost factor is multiplied by the basic pay in order to obtain the Normal Cost for the accounting period. This Normal Cost is the present value of the projected benefits of each employee allocated on a level basis over the service of the employee between entry age and assumed exit age. The imputed financing amount represents the difference between normal cost of benefit plan and the employer's total benefit expense and the employees' contribution. For the periods ended September 30, 2011 and 2010, the Normal Cost, employers total pension expense, employees' contribution and imputed financing amounts were as follows:

Employee Benefit Type	Normal Cost	Withholding	Contribution	Employers Imputed Financing Expense
2011				
CSRS	$ 912,267	$ 212,155	$ 212,155	$ 487,957
CSRS-Offset	146,211	4,977	43,552	97,682
FERS	3,183,995	184,579	2,699,474	299,942
Total	$ 4,242,473	$ 401,711	$ 2,955,181	$ 885,581
Health insurance				1,240,055
Life insurance				4,960
Total life and health insurance cost				1,245,015
Total Imputed Financing Cost				$ 2,130,596
2010				
CSRS	$ 1,155,299	$ 268,674	$ 268,674	$ 617,951
CSRS-Offset	149,196	5,079	44,441	99,676
FERS	3,077,463	179,404	2,497,651	401,408
Total	$ 4,391,958	$ 452,157	$ 2,810,766	$ 1,119,035
Health insurance				1,268,314
Life insurance				5,073
Total life and health insurance cost				1,273,387
Total Imputed Financing Cost				$ 2,392,422

NOTE 12 STATEMENT OF BUDGETARY RESOURCES COMPARISONS TO THE BUDGET OF THE UNITED STATES GOVERNMENT

The reconciliation of the Statement of Budgetary Resources to the Budget of the U.S. Government as of September 30, 2011, is not presented since the submission of the Budget of the United States (Budget) for fiscal year 2011, which presents the execution of the FY 2011 budget, will occur after publication of these financial statements and will present the execution of the fiscal year 2011 budget. The Federal Mediation and Conciliation Services Budget Appendix can be found on the OMB website (http://www.whitehouse.gov/omb/budget) and will be available in early February 2012.

The reconciliation for the fiscal year ended September 30, 2010 in (millions) was as follows:

	Budgetary Resources	Obligations Incurred	Distributed Offsetting Receipts	Net Outlays
Statement of Budgetary Resources	$ 54	$ 48	$ -	$ 45
Expired Funds	(1)	-	-	-
Budget of the United States	$ 53	$ 48	$ -	$ 45

The difference between the Statement of Budgetary Resources and the Budget of the U.S. Government is due to Expired Unobligated Balances being reported in the FY 2010 Budget of the United States Government but not in the Statement of Budgetary Resources.

NOTE 13 SUBSEQUENT EVENTS

In preparing these financial statements, FMCS has evaluated events and transactions through November 14, 2011, the date the financial statements were issued, for potential recognition or disclosure in the financial statements for the year ended September 30, 2011.

NOTE 14 RECONCILIATION OF NET COST OF OPERATIONS (PROPRIETARY) TO BUDGET

	2011	2010
Resources Used to Finance Activities		
Budgetary resources obligated		
Obligations incurred	$ 48,609,892	$ 48,135,146
Less: Spending authority from offsetting collections and recoveries	(2,631,064)	(2,365,236)
Obligations net of offsetting collections and recoveries	45,978,828	45,769,910
Less: Distributed offsetting receipts	(71)	(36)
Net obligations	45,978,757	45,769,874
Other resources		
Imputed financing from costs absorbed by other	2,130,596	2,392,422
Total Resources Used to Finance Activities	48,109,353	48,162,296
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	(1,392,171)	1,384,440
Resources that fund expenses recognized in prior periods	62,585	59,935
Resources that finance the acquisition of assets	375,334	388,302
Total Resources Used to Finance Items not Part of the Net Cost of Operations	(954,252)	1,832,677
Total Resources Used to Finance the Net Cost of Operations	47,155,101	46,329,619
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	180,540	8,811
Total Components of Net Cost of Operations That Will Require or Generate Resources in Future Periods	180,540	8,811
Components Not Requiring or Generating Resources:		
Depreciation and amortization	281,999	219,737
Other adjustments	(7,263)	1,007
Total Components of Net Cost of Operations That Will Not Require or Generate Resources in the Current Period	455,276	229,555
Net Cost of Operations	$ 47,610,377	$ 46,559,174

SUPPLEMENTAL INFORMATION

FEDERAL MEDIATION AND CONCILIATION SERVICE
Required Supplemental Information

INTRA-GOVERNMENTAL BALANCES BY TRADING PARTNER:

Intra-governmental Assets by Trading Partner:

Trading Partner	Fund Balance with Treasury	Accounts Receivable	Other Assets
Library of Congress (03)	$ -	$ -	$ -
Government Printing Office (04)	-	-	-
General Accounting Office (05)	-	-	-
U.S. Capitol Police (09)	-	-	-
U.S. Postal Service (18)	-	-	-
Department of State (19)	-	-	-
Department of Treasury (20)	12,139,454	-	-
Office of Personnel Management (24)	-	-	-
General Services Administration (47)	-	-	-
National Science Foundation (49)	-	-	-
Department of Transportation (69)	-	-	-
Treasury General Fund (99)	-	-	-
Other Material Agency (Please List)	-	-	-
Others - Immaterial Agencies (Please List)	-	-	-
Total	$ 12,139,454	$ -	$ -
Total Intra-governmental Assets	$ 12,139,454	$ -	$ -

Intra-governmental Liabilities by Trading Partner:

Trading Partner	Accounts Payable	Other Liabilities
Library of Congress (03)	$ -	$ -
Government Printing Office (04)	-	-
General Accounting Office (05)	-	-
U.S. Capitol Police (09)	-	-
U.S. Postal Service (18)	-	-
Department of State (19)	-	-
Department of Treasury (20)	-	-
Office of Personnel Management (24)	-	-
General Services Administration (47)	-	-
Department of Transportation (69)	-	-
Other Material Agency (Please List)	-	-
Others - Immaterial Agencies (Please List)	-	-
Total	$ -	$ -
Total Intra-governmental Liabilities	$ -	$ -

GOVERNMENT REPORTS

Walker & Co., LLP
Assurance, Business and Advisory Services

REPORT OF INDEPENDENT AUDITORS ON INTERNAL CONTROL

Director
Federal Mediation and Conciliation Service

We have audited the financial statements of the (FMCS or Agency) as of and for the year ended September 30, 2011, and have issued our report thereon dated November 14, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and the Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements,* as amended.

In planning and performing our audit, we considered FMCS internal control over financial reporting by obtaining an understanding of the design effectiveness of FMCS 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 an opinion on the financial statements. We limited our internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin No. 07-04, as amended. 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 internal control over financial reporting was for the limited purposes described in the preceding paragraphs and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. *A significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. Our consideration of internal control over financial reporting resulted in identifying two deficiencies that we considered to be significant deficiencies. These deficiencies and FMCS responses are described in Appendix I.

Significant Deficiencies

A. Misuse of Contracting and Procurement Authority
B. Deficiencies in the Design and Operations of Information Technology General Controls

In addition, we identified certain other deficiencies that we considered to be deficiencies not considered material or significant deficiencies. These deficiencies are reported to management of FMCS in a separate management letter.

We issued a draft of this report to FMCS management and requested its comments. Management replied and is in general agreement with the audit results. This report is intended for the information and use of FMCS management, the OMB, the Government Accountability Office, and the U.S. Congress, and is not intended to be and should not be used by anyone other than these specified parties.

Walker & Co., LLP.

November 14, 2011

APPENDIX I

A. Misuse of Contracting and Procurement Authority

During fiscal year 2011 test of controls over the use of government issued purchase cards, we noted a deficiency in controls over contracting and procurement. The FMCS has established policies and procedures in its *Procurement Directives* which states "only a Contracting Officer can legally bind the government to a contract." However, our tests results revealed one instance where an employee with no contracting authority was authorized by a supervisor (Contracting Officer) to sign the lease agreement for the FMCS leased vehicle. In addition, through further observations, we noted that the monthly lease payments were being made on the employee's purchase card.

Recommendation:

We recommend that the FMCS adhere to the Agency's existing procedures outlined in its *Procurement Directive* and only allow those employees with obligating/contracting authority to sign contracts or agreements obligating the government for future payments.

Management's Response:

The above finding is accurate and the 36 month lease was signed and first lease payment made on October 30, 2009, by the prior Director of Administrative Services. The matter was reported to the Chief Financial Officer once it was discovered. The plan of action to correct this finding is to contact the lessor to obtain information on terminating the lease agreement and perform market research to procure a new vehicle through GSA.

Auditor's Response:

Management has provided a corrective action plan to address our recommendation. Our fiscal year 2012 audit procedures will determine whether the recommendation has been adequately addressed and considered closed.

B. Deficiencies in the Design and Operations of Information Technology General Controls

During fiscal year 2011, deficiencies in the design and/or operations of FMCS's Information Technology (IT) general controls were noted in Security Management and Access Controls. The details of these conditions are as follows:

Security Management

FMCS's security management program needs improvement. FMCS has established a security management program inclusive of an Information Technology Policy to formalize its information security objectives and a high level policy. However, we noted that FMCS has not established a security awareness training program. As a result, employees and contractor personnel were not required to complete both initial and annual refresher security awareness training.

Without the completion of initial and annual refresher security awareness training, personnel may be unaware of new risks that may compromise the confidentiality, integrity, and availability of data. As a result, personnel may be unable to recognize and respond appropriately to real and potential security concerns.

Access Controls

Overall, access controls at FMCS require strengthening in order to provide a more secure financial processing and computing environment. We noted several access controls at FMCS that need improvement:

a. Access to the GLOWS accounting system was not adequately restricted. Thirteen of the 14 user accounts were granted 'ALL' access thereby allowing users to initiate and complete all transactions available within the application.

b. The Microsoft Windows password settings, which are used to authenticate users to the FMCS network, did not adhere to the guidelines established by the National Institute of Standards and Technology's (NIST) United States Government Configuration Baseline (USGCB)[1]. Specifically, the password history, minimum password age, maximum password age, and minimum password length policy settings are less restrictive than the USGCB's recommended settings.

c. User account management controls were not implemented to ensure user accountability and reduce the risk of unauthorized access. We observed the following control exceptions:

    - The Microsoft Windows 'Administrator' account had not been disabled.
    - Six generic Microsoft Windows user accounts were active.
    - Four Microsoft Windows user accounts that had not been used for over 200 days remained active, including one account belonging to a contractor and two generic user accounts.
    - Two generic VPN user accounts, which may be used to remotely access the FMCS network, were active.
    - The Microsoft Windows and VPN user accounts belonging to a retired employee remained active.

Access controls should provide reasonable assurance that computer resources (data files, application programs, and computer-related facilities and equipment) are protected against unauthorized access, modification, disclosure, loss, or impairment. Without more stringent user account management controls, unauthorized use of user accounts and thus, the risk of unauthorized access to systems increases significantly. Unauthorized access to systems may result in the submission of false transactions, improper access to and dissemination of confidential data, and other malicious activities.

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[1] NIST United States Government Configuration Baseline Windows Settings, September 21, 2011.

In regard to security awareness, NIST Special Publication (SP) 800-53, Revision 3, *Recommended Security Controls for Information Systems and Organizations*,[2] states:

> The organization ensures all users (including managers and senior executives) are exposed to basic information system security awareness materials before authorizing access to the system and thereafter (that is, at least annually).
>
> The organization employs a formal sanctions process for personnel failing to comply with established information security policies and procedures.

Office of Management and Budget (OMB) Circular No. A-130, *Management of Federal Information Resources*, Revised, Appendix III,[3] states:

> Agencies shall implement and maintain a program to assure that adequate security is provided for all agency information collected, processed, transmitted, stored, or disseminated in general support systems and major applications. "Adequate security" means security commensurate with the risk and magnitude of the harm resulting from the loss, misuse, or unauthorized access to or modification of information. This includes assuring that systems and applications used by the agency operate effectively and provide appropriate confidentiality, integrity, and availability, through the use of cost-effective management, personnel, operational, and technical controls.

According to the NIST USGCB Windows Settings,[4] the Microsoft Windows policy settings should be established as follows:

- Password history of 24;
- Minimum password age of 1 day;
- Maximum password age of 60 days, and
- Minimum password length of eight characters.

NIST SP 800-53, Revision 3,[5] states that the organization manages information system accounts, including establishing, activating, modifying, disabling, and removing accounts, authorizing and monitoring the use of guest/anonymous and temporary accounts, deactivating temporary accounts that are no longer required and accounts of terminated or transferred users, and reviewing accounts.

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[2] NIST SP 800-53, Revision 3, *Recommended Security Controls for Information Systems and Organizations,* August 2009 (updated through September 14, 2009).

[3] OMB Circular No. A-130 Revised, *Management of Federal Information Resources,* Appendix III, "Security of Federal Automated Information Resources," November 28, 2000.

[4] Ibid.

[5] Ibid.

Recommendation:

We recommend that FMCS strengthen its IT general controls as follows:

1. Security Management

a. We recommend that FMCS management update its Information Technology Policy requiring all personnel to attend initial and refresher security awareness training and enforce consequences of non-compliance for personnel who do not successfully complete the security awareness training, as required by NIST SP 800-53, Revision 3.

2. Access Controls

a. We recommend that FMCS management establish procedures to disable default user accounts, when possible, to further reduce the risk of unauthorized access in accordance with NIST SP 800-53, Revision 3.
b. We recommend that FMCS management update its password policies and procedures for Microsoft Windows, inclusive of the password history, minimum password age, maximum password age of 60, and minimum password length in accordance with the USGCB Windows Settings.
c. We recommend that FMCS management establish policies and procedures to restrict the use of generic user accounts and require unique identifiers for user accounts to ensure individual user accountability in accordance with NIST SP 800-53, Revision 3.
d. We recommend that FMCS management establish policies and procedures to restrict access to the GLOWS accounting system using the principle of least privilege as required by NIST SP 800-53, Revision 3.
e. We recommend that FMCS management establish policies and procedures to monitor and periodically review user accounts, and remove user accounts that are no longer needed as required by NIST SP 800-53, Revision 3.

Management's Response:

1. Security Management

FMCS will modify its policy to implement and maintain an annual security awareness refresher program in addition to the initial security awareness program as required by NIST SP 800-53, Revision3.

2. Access Controls

- FMCS will modify its policy to establish procedures to disable default user accounts, when possible, in accordance with NIST SP 800-53, Revision 3.
- FMCS will modify its password policy in accordance of USGCB Windows Settings.
- FMCS will modify its policy to restrict the use of generic user accounts and require unique identifiers for user accounts in accordance with NIST SP 800-53, Revision 3.

- FMCS will review and adjust the GLOWS accessibility according to duties and back up duties in accordance with NIST SP 800-53, Revision 3, as is possible.
- FMCS will modify its policy to establish procedures to monitor, review and remove unneeded user accounts as necessary in accordance with NIST SP 800-53, Revision 3.

Auditor's Response:

Management has provided a corrective action plan to address our recommendation. Our fiscal year 2012 audit procedures will determine whether the recommendation has been adequately addressed and considered closed.

Walker & Co., LLP
Assurance, Business and Advisory Services

REPORT OF INDEPENDENT AUDITORS ON COMPLIANCE WITH LAWS AND REGULATIONS

Director
Federal Mediation and Conciliation Service

We have audited the financial statements of the Federal Mediation and Conciliation Service (FMCS or Agency) as of and for the year ended September 30, 2011 and have issued our report thereon dated November 14, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and the Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements,* as amended.

Management of FMCS is responsible for complying with laws and regulations applicable to the Agency. As part of obtaining reasonable assurance about whether FMCS financial statements are free of material misstatements, we performed tests of its compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts, and certain other laws and regulations specified in OMB Bulletin No. 07-04, as amended, including requirements referred to in the Federal Financial Management Improvement Act (FFMIA) of 1996. We limited our tests of compliance to these provisions, and we did not test compliance with all laws and regulations applicable to FMCS. Providing an opinion on compliance with laws, regulations, contracts, and grants agreements was not an objective of our audit and, accordingly, we do not express such an opinion.

Under OMB Bulletin No. 07-04, as amended, and FFMIA, we are required to report whether FMCS financial management systems substantially comply with: (1) federal financial management systems requirements, (2) applicable federal accounting standards, and (3) the United States Government Standard General Ledger (USSGL) at the transaction level. To meet this requirement, we performed tests of compliance with FFMIA Section 803(a) requirements.

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Under FFMIA, we are required to report whether FMCS financial management systems substantially comply with the federal financial management systems requirements, applicable federal accounting standards, and the USSGL at the transaction level. To meet this requirement, we performed tests of compliance with FFMIA section 803(a) requirements.

Walker & Co., LLP

November 14, 2011