



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

Certified Public Accountants and Consultants

## Report of Independent Auditors on Internal Control

Ms. Dale Cabaniss  
Chairman  
Federal Labor Relations Authority

We have audited the accompanying balance sheet of the Federal Labor Relations Authority (FLRA) as of September 30, 2007, and the related statements of net cost, changes in net position and budgetary resources for the fiscal year then ended, and have issued our report thereon dated February 8, 2008. We conducted our audit in accordance with: auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 07-04, "Audit Requirements for Federal Financial Statements."

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

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

Finally, with respect to internal control related to performance measures reported in the annual performance plan, we obtained an understanding of the design of significant internal controls relating to the existence and completeness assertions, as required by OMB Bulletin No. 07-04. Our procedures were not designed to provide assurance on internal control over reported performance measures, and, accordingly, we do not provide an opinion on such controls.

We noted certain matters involving the internal control and its operation that we continue to consider to be control deficiencies in 2007. These matters are discussed below along with the status of matters from 2006. We did not render an opinion in our report from our engagement concerning the 2006 financial statements and noted material weaknesses in our reports on internal control and compliance to laws and regulations. We are providing the current status of reportable conditions and material weaknesses under standards established by the American Institute of Certified Public Accountants that were reported by us during fiscal year 2006. The status of these matters is as follows:

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

**1) Lack of Control Activities, Communication, and Monitoring**

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

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

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

**MANAGEMENT'S 2006 RESPONSE**

Response from FLRA Chairman Cabaniss:

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

## MANAGEMENT'S 2006 RESPONSE (continued)

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

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

## AUDITOR'S 2006 RESPONSE

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

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

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

## **AUDITOR'S 2006 RESPONSE (continued)**

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

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

### **2007 CURRENT STATUS:**

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

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

#### **2) Assessment of Unliquidated Obligations**

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

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

## **Noted in 2006 (continued)**

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

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

### **MANAGEMENT'S 2006 RESPONSE**

Response from FLRA Chairman Cabaniss:

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

### **AUDITOR'S 2006 RESPONSE**

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

## **AUDITOR'S 2006 RESPONSE (continued)**

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

### **2007 CURRENT STATUS:**

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

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

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

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

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

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

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

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

## Noted in 2006 (continued)

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

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

### MANAGEMENT'S 2006 RESPONSE

Response from FLRA Chairman Cabaniss:

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

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

## **MANAGEMENT'S 2006 RESPONSE (continued)**

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

## **AUDITOR'S 2006 RESPONSE**

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

Our recommendations are still applicable and will remain as stated.

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

## **2007 CURRENT STATUS:**

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

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



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

### **4) Weakness in Control Environment**

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

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

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

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

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

## **MANAGEMENT'S 2006 RESPONSE**

Response from FLRA Chairman Cabaniss:

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

## AUDITOR'S 2006 RESPONSE

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

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

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

### 2007 CURRENT STATUS:

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

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

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

February 8, 2008



Dembo, Jones, Healy, Pennington & Marshall, P.C.  
Certified Public Accountants and Consultants

**Report of Independent Auditors  
on Compliance with Laws and Regulations**

Ms. Dale Cabaniss  
Chairman  
Federal Labor Relations Authority

We have audited the accompanying balance sheet of the Federal Labor Relations Authority (FLRA) as of September 30, 2007, and the related statement of net cost, changes in net position and budgetary resources, for the fiscal year then ended, and have issued our report thereon dated February 8, 2008. We conducted our audit in accordance with: auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and, Office of Management and Budget (OMB) Bulletin No. 07-04, "Audit Requirements for Federal Financial Statements."

The management of the Federal Labor Relations Authority is responsible for complying with laws and regulations applicable to the FLRA. As part of obtaining reasonable assurance about whether the FLRA's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts and certain other laws and regulations specified in OMB Bulletin No. 07-04. We limited our tests of compliance to these provisions and we did not test compliance with all laws and regulations applicable to the Federal Labor Relations Authority.

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

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

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

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

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

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

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

- (1) There was no known Chairman-designated top management official to oversee audit follow-up, including resolution and corrective action as required under the Circular and ensuring that: (a) systems of audit follow-up, resolution, and corrective action are documented and in place, (b) timely responses are made to all audit reports, (c) disagreements are resolved, and (d) corrective actions are actually taken.
- (2) There is evidence that high priority has not been assigned to the resolution of audit recommendations and to corrective action;
- (3) There is evidence that prompt resolution and corrective actions have not been taken on either audit recommendations or Inspector General evaluations and recommendations.

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

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

## **Noted in 2006 (continued)**

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

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

### **MANAGEMENT'S 2006 RESPONSE**

Response from FLRA Chairman Cabaniss:

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

### **AUDITOR'S 2006 RESPONSE**

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

## AUDITOR'S 2006 RESPONSE (continued)

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

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

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

### 2007 CURRENT STATUS:

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

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

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

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

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

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

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

## Noted in 2006 (continued)

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

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

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

### MANAGEMENT'S 2006 RESPONSE

Response from FLRA Chairman Cabaniss:

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

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

## **MANAGEMENT'S 2006 RESPONSE (continued)**

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

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

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

## **AUDITOR'S 2006 RESPONSE**

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

We applaud efforts to rectify this in fiscal year 2007.

### **2007 CURRENT STATUS:**

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



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

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

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

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

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

**MANAGEMENT'S 2006 RESPONSE**

Response from FLRA Chairman Cabaniss:

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

## MANAGEMENT'S 2006 RESPONSE (continued)

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

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

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

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

- FLRA management has taken steps to ensure all agency policies and procedures are current, including retiring obsolete instructions and creating new instructions, where appropriate. To that end, in September 2006, the FLRA awarded a contract to *Grant Thornton* for the purpose of reviewing, updating, and creating, as needed, all agency instructions to policies excluding human resources (addressed by a different contract), including management controls, internal controls, procurement, financial systems, budgeting, travel, and records management. FLRA management advised the OIG of this initiative and requested the OIG put her internal "review" of agency instructions in abeyance until the completion of the contract. This comprehensive activity will be completed during FY 2007.
- The Executive Director attended **A-123 training**, sponsored by Potomac Forum, LTd, and has cascaded a requirement for such training to budget/finance staff.

## MANAGEMENT'S 2006 RESPONSE (continued)

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

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

## AUDITOR'S 2006 RESPONSE

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

### 2007 CURRENT STATUS:

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

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

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

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

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

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

## **Noted in 2006 (continued)**

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

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

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

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

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

### **MANAGEMENT'S 2006 RESPONSE**

Response from FLRA Chairman Cabaniss:

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

### **AUDITOR'S 2006 RESPONSE**

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

## **2007 CURRENT STATUS:**

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

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

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

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

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

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

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

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

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

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

## **MANAGEMENT'S 2006 RESPONSE**

Response from FLRA Chairman Cabaniss:

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

## **AUDITOR'S 2006 RESPONSE**

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

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

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

**2007 CURRENT STATUS:**

In part due to delays from the financial statement preparer, a completed and accurate PAR was not presented to us in early November, in order for us to complete our audit by November 15, 2007. We met with management in December 2007, and provided them with a list of items that needed correction or improvement. We were presented with a revised PAR in late January 2008. As a result, this finding remains open. Management is committed to providing us an accurate and complete PAR in October 2008, so we can issue audit opinions by November 15, 2008.

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

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

February 8, 2008