FEDERAL LABOR RELATIONS AUTHORITY

MANAGEMENT LETTER

September 30, 2008 and 2007

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Certified Public Accountants and Consultants

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July 9, 2009

Ms. Carol Waller Pope
Chairman
Federal Labor Relations Authority
Washington, DC

We have audited the accompanying balance sheets of the Federal Labor Relations Authority (FLRA) as of September 30, 2008 and 2007, and the related statements of net cost, changes in net position and budgetary resources for the fiscal years then ended, and have issued an unqualified opinion on those statements in our report dated July 9, 2009. In accordance with the requirements of generally accepted auditing standards, the following matters are brought to your attention.

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, 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, 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 provide 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.

Although we noted no matters coming to our attention that were considered a significant deficiency or a material weakness, we did become aware during our audit of certain matters that were either weaknesses in internal control or opportunities for strengthening internal controls and operating efficiency. This letter summarizes our comments and suggestions regarding those matters.

This letter should not be considered as a reflection or criticism of the abilities or integrity of any person at the FLRA. We were in a position to objectively observe the operations of the FLRA and, accordingly, we have developed some suggestions, which may strengthen the system of internal control and make the operations more efficient. Our comments are noted on the following pages.

PRIOR YEAR COMMENTS AND RECOMMENDATIONS

PRIOR YEAR COMMENT: Timely Obligation Recording

The FLRA does not have adequate control established to ensure obligations are recorded timely to the general ledger. During our testing of payments and obligations, we noted obligating documents not recorded in the either the proper fiscal year or the proper fiscal month. All obligations should be recorded within the month of procurement award. Our review of the amount of unrecorded obligations at fiscal year-end concluded that the amount was not material to the financial statements.

The process of communicating approved procurement actions to NBC needs to be more efficient and effective in order to achieve timely recording.

Current Recommendation

We recommend the FLRA examine the procurement process between the FLRA and NBC and ensure the proper policies and procedures are in place to ensure obligations are recorded into the agency accounting records in an accurate and timely manner. In addition, the FLRA should ensure that the policies and procedures include adequate internal control and monitoring.

PRIOR YEAR COMMENT: Dissemination of Agency Performance Information

As of end of the fiscal year, the agency's previous year's Performance Plan, Strategy Plans, and Performance Accountability Report were not available on the agency's web site, nor readily available to the public as required by the Government Results and Performance Act.

Current Recommendation

We recommend the FLRA ensure that the agency's Performance Plan, Strategy Plans, and Performance Accountability Report are readily available to the public by having the documents accessible through the agency's web site.

PRIOR YEAR COMMENT: Timely Performance Accountability Report

A final Performance and Accountability Report (PAR) as required by the Office of Management and Budget (OMB) Circular A-136 ("Financial Reporting Requirements") was not delivered timely in fiscal year's 2004 through 2007.

Current Recommendation

We recommend the **FLRA** ensure that the agency's Performance Accountability Report be complete in final form and submitted by the due date as required in the OMB Circular A-136.

CURRENT YEAR COMMENTS AND RECOMMENDATIONS

1) The Statement of Net Cost can be enhanced with detail

The Government Performance and Results Act (GPRA) requires that the FLRA's statement of net cost detail costs by either major programs or major goals as described in the agency's strategic plan. According to the latest FLRA strategic plan, the Agency had only one strategic goal: to resolve disputes impartially and promptly. Therefore, the FLRA Statement of Net Cost accumulates all agency costs together and reports the cost in total.

However, under statute, the primary statutory responsibilities of the FLRA include: (1) resolving complaints of unfair labor practices, (2) determining the appropriateness of units for labor organization representation, (3) adjudicating exceptions to arbitrator's awards, (4) adjudicating legal issues relating to duty to bargain/negotiability, and (5) resolving impasses during negotiations.

The FLRA may consider that these statutory responsibilities could meet the definition under OMB Circular A-136 of the term "major program" which "may describe an agency's mission, strategic goals, functions, activities, services, projects, processes, or any other meaningful grouping." According to the Circular, "the grouping must be an organized set of activities, directed toward a common purpose or goal, which an entity undertakes, or proposes to undertake, in order to carry out its responsibilities."

Recommendation

Although we understand that it is management's discretion to define the program structure, we suggest management consider enhancing the agency's level of detail for the Statement of Net Cost so as to provide more information concerning either the agency's mission, strategic goals, functions, activities, services, projects, processes, or other meaningful grouping.

2) No Subsidiary Accounts Payable Ledger

The accounting system used by the United States Department of Interior's National Business Center (NBC) for the accounting of the Federal Labor Relations Authority (FLRA) does not provide a subsidiary ledger report to support the general ledger balances of accounts payable.

The Government Accountability Office's (GAO) Core Financial System Requirements Checklist for Reviewing Systems under the Federal Financial Management Improvement Act[1] recommends the core financial system have the capability to provide SGL (Standard General Ledger) control accounts for detailed subsidiary accounts in the core system. In addition, the GAO Checklist recommends that, to support the general ledger analysis and reconciliation process, the core financial system provide the capability to compare amounts in the general ledger accounts with the amounts in the related subsidiary records and create reports for those accounts that are out of balance.

We believe that a subsidiary ledger is a necessary report and function for internal control over accounts payable. However, the Oracle Federal Financials did not include this feature upon conversion from the previously used accounting system.

Therefore, we believe management cannot readily monitor which payables are yet to be paid, nor can management determine the aging of the payables that are currently recorded on the general ledger. For the accounts payable that are recorded on the general ledger, management cannot readily determine who is to be paid what amount and for what invoice. However, the amount as of September 30, 2008 recorded onto the accounts payable general ledger account, that was not a direct result of year-end accruals, totaled an immaterial $16,866.

Recommendation

We recommend that the FLRA obtain a subsidiary ledger report to support the general ledger balance of accounts payable.

1Per GAO, "this checklist, reflects JFMIP's revised Core Financial System Requirements (JFMIP-SR-02-01, November 2001), to assist (1) financial systems analysts, systems accountants, systems developers, program managers, and others who design, develop, implement, operate, or maintain financial management systems and (2) management and auditors in reviewing agency core systems to determine if the systems substantially comply with FFMIA."

3) Not all supporting detail reconciled and agreed to general ledger account balances

General ledger accounts did not always have supporting detailed schedules that agreed with the general ledger balances. We noted that the supporting detail initially received for the following general ledger account balances was materially not in agreement to the general ledger balance:

- General Ledger Account #211001, Accounts Payable, with a balance initially presented of $455,248 at September 30, 2008
- The four budgetary accounts comprising undelivered orders, with a combined balance initially presented of $943,793 at September 30, 2008

As a result of the audit, journal entries of approximately $165,000 needed to be posted to properly state the affected balances and adjustments to supporting schedules needed to be corrected.

The process of reviewing general ledger accounts and reconciling their balance to the subsidiary detail that comprises the balance is a necessary component element of strong internal control over financial statement reporting. Accounting tasks such as monthly reconciliations, cross checks, and reviews play a key role in proving the accuracy of accounting data and financial information that comprise interim and year-end financial statements.

Per the United States Governmental Accountability Office (GAO)'s Internal Control Management and Evaluation Tool issued in August 2001, common controls implemented for management review at the functional or activity level include 'appropriate control activities being employed, such as reconciliations of summary information to supporting detail'.

We believe that the policies and procedures for reviewing and reconciling general ledger account balances to their subsidiary supporting detail has not been properly established for all applicable general ledger accounts. Complete and accurate supporting detailed schedules are necessary internal controls for complete and accurate general ledger balances.

Recommendation

The policies and procedures for reviewing and reconciling general ledger account balances to their subsidiary supporting detail should be strengthened to improve the effectiveness of ensuring both proper statement of general ledger balances and proper detailed support of those balances.

4) Improper Payments Information Act Compliance

The Improper Payments Information Act (IPIA) of 2002 requires Federal agencies to identify the program and activities that may be susceptible to significant improper payments and estimate the amount of the improper payments.

Recommendation

Although the FLRA does very little payments to commercial entities, the FLRA needs to implement the requirements of IPIA and estimate improper payments.

We will be pleased to discuss these comments in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

We wish to thank everyone involved for their support and assistance during our audit.

This report is intended for the information and use of the management of the Federal Labor Relations Authority. However, this report is a matter of public record and its distribution is not limited.

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

Rockville, Maryland