



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

Certified Public Accountants and Consultants

August 14, 2009

Ms. Carol Waller Pope  
Chairman  
Federal Labor Relations Authority  
1400 K Street, NW  
Washington, DC 20424

Dear Ms. Pope:

We have audited the financial statements of the **Federal Labor Relations Authority** (the **FLRA**) for the year ended **September 30, 2008**, and have issued our report thereon dated July 9, 2009. Professional standards require that we provide you with the following information related to our audit.

#### **Our Responsibility under U.S. Generally Accepted Auditing Standards**

As indicated in our agreement with the **FLRA**, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve management of their responsibilities.

#### **Planned Scope and Timing of the Audit**

Although we properly planned the scope and timing of the audit in accordance with our agreement, our audit was unable to be completed timely due to the late receipt of the complete Performance Accountability Report.

#### **Significant Accounting Policies**

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the **FLRA** are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended September 30, 2008. We noted no transactions entered into by the Authority during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were the following estimates on accounts payable and property and equipment.

Management's estimate of accounts payable is based on estimates determined by the Accounting Department. We evaluated the key factors and assumptions used to develop the payables in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate of the useful life of property and equipment is based on reviews of contracts and historical data. We evaluated the key factors and assumptions used to develop the assets in determining that it is reasonable in relation to the financial statements taken as a whole.

#### **Difficulties Encountered in Performing the Audit**

Other than not receiving the Performance Accountability Report on time, we encountered no significant difficulties in dealing with management in performing and completing our audit.

#### **Corrected and Uncorrected Misstatements**

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. All material adjustments that we proposed were reflected in the final financial statements. We reviewed other immaterial misstatements with FLRA financial management. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

#### **Disagreements with Management**

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

#### **Management Representation**

We have requested certain representations from management that are included in the management representation letter dated July 9, 2009.

## Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the agency's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

## Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the agency's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

We have issued a separate management letter dated July 9, 2009, with recommendations designed to strengthen internal controls.

This information is intended solely for the use of the members and management of the **Federal Labor Relations Authority** and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,



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

**FEDERAL LABOR RELATIONS AUTHORITY**

**MANAGEMENT LETTER**

**September 30, 2008 and 2007**



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

Certified Public Accountants and Consultants

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.

Ms. Carol Waller Pope  
Federal Labor Relations Authority  
July 9, 2009

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 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.

Ms. Carol Waller Pope  
Federal Labor Relations Authority  
July 9, 2009

#### 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."

Ms. Carol Waller Pope  
Federal Labor Relations Authority  
July 9, 2009

### 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<sup>1</sup> 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.

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<sup>1</sup>Per 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."



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Federal Labor Relations Authority  
July 9, 2009

**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.

Ms. Carol Waller Pope  
Federal Labor Relations Authority  
July 9, 2009

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*

**FEDERAL LABOR RELATIONS AUTHORITY**

**OPINION REPORT**

**For Fiscal Years September 30, 2008 and 2007**



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

Certified Public Accountants and Consultants

Ms. Carol Waller Pope  
Chairman  
Federal Labor Relations Authority

In accordance with the Office of Management and Budget (OMB) Bulletin No. 07-04, "Audit Requirements for Federal Financial Statements" as amended, we are responsible for conducting audits of the financial statements of the Federal Labor Relations Authority (FLRA). In our audits of the FLRA for the fiscal years September 30, 2008 and 2007, we found

- the financial statements are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America;
- no material weaknesses in internal control over financial reporting (including safeguarding assets) and compliance with laws and regulations; and
- a reportable noncompliance with laws and regulations we tested.

The following sections discuss in more detail (1) these conclusions, (2) our conclusions on Management's Discussion and Analysis and other supplementary information, and (3) our audit objectives, scope, and methodology, and (4) agency comments and our evaluation.

### **Opinion on Financial Statements**

The financial statements including the accompanying notes present fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America, Federal Labor Relations Authority's assets, liabilities, and net position as of September 30, 2008 and 2007; and net costs; changes in net position; and budgetary resources for the fiscal years then ended.

### **Consideration of Internal Control**

In planning and performing our audit, we considered the FLRA's internal control over financial reporting and compliance. We did this to determine our procedures for auditing the financial statements and to comply with OMB audit guidance, not to express an opinion on internal control. Accordingly, we do not express an opinion on internal control over financial reporting and compliance or on management's assertion on internal control included in Management's Discussion and Analysis. However, for the controls we tested, we found no material weaknesses

in internal control over financial reporting (including safeguarding assets) and compliance. A material weakness is a control deficiency that results in more than a remote likelihood that the design or operation of one or more internal controls will not allow management or employees, in the normal course of performing their duties, to promptly detect or prevent errors, fraud, or noncompliance in amounts that would be material to the financial statements. Our internal control work would not necessarily disclose all deficiencies in internal control that might be material weaknesses or other significant deficiencies.

### **Compliance With Laws and Regulations**

Our tests of the FLRA's compliance with selected provisions of laws and regulations for fiscal year 2008 disclosed no material weaknesses in compliance with laws and regulations, with a material weakness being 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. However, our audit did result in one instance of noncompliance that we find is reportable under United States generally accepted government auditing standards or OMB audit guidance:

#### **Non-compliance to OMB Circular No. A-136, "Financial Reporting Requirements"**

The FLRA's Performance and Accountability Reports (PARs) for fiscal years 2007 and 2008 were not submitted to the Office of Management and Budget (OMB) and Congress by the required deadline. Also, the 2007 PAR did not contain the required letter from the Chief Financial Officer (CFO).

The Accountability of Tax Dollars Act of 2002 extended the requirements of the Chief Financial Officer's Act to the FLRA and requires the FLRA to prepare and submit annual audited financial statements to Congress and OMB. As such, the FLRA is subject to OMB Circular No. A-136, "Financial Reporting Requirements". Under OMB Circular No. A-136, the 2007 PAR was due on November 15, 2007 and the 2008 PAR was due on November 17, 2008. Also, 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 (Management Discussion and Analysis).

In regard to PAR deadlines and PAR content, we recommend that the FLRA management ensure that all future PARs adhere to OMB Circular No. A-136's "Financial Reporting Requirements".

Except as noted above, our tests for compliance with selected provisions of laws and regulations disclosed no other instances of noncompliance that would be reportable under United States generally accepted government auditing standards or OMB audit guidance.

The objective of our audit was not to provide an opinion on overall compliance with laws and regulations. Accordingly, we do not express such an opinion.

### **Consistency of Other Information**

The FLRA's Management's Discussion and Analysis, required supplementary information, and other accompanying information contain a wide range of information, some of which is not directly related to the financial statements. We do not express an opinion on this information. However, we compared this information for consistency with the financial statements and discussed the methods of measurement and presentation with the FLRA's officials. Based on this limited work, we found no material inconsistencies with the financial statements, accounting principles generally accepted in the United States of America, or OMB guidance.

### **Objectives, Scope, and Methodology**

Federal Labor Relations Authority's management is responsible for (1) preparing the financial statements in conformity with accounting principles generally accepted in the United States of America, (2) establishing, maintaining, and assessing internal control to provide reasonable assurance that the broad control objectives of the Federal Managers' Financial Integrity Act are met, and (3) complying with applicable laws and regulations.

We are responsible for obtaining reasonable assurance about whether the financial statements are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America. We are also responsible for (1) obtaining a sufficient understanding of internal control over financial reporting and compliance to plan the audit, (2) testing compliance with selected provisions of laws and regulations that have a direct and material effect on the financial statements and laws for which OMB audit guidance requires testing, and (3) performing limited procedures with respect to certain other information appearing in the Annual Financial Statement.

In order to fulfill these responsibilities, we

- examined, on a test basis, evidence supporting the amounts and disclosures in the financial statements;
- assessed the accounting principles used and significant estimates made by management;
- evaluated the overall presentation of the financial statements;
- obtained an understanding of the entity and its operations, including its internal control related to financial reporting (including safeguarding assets), and compliance with laws and regulations (including execution of transactions in accordance with budget authority);
- tested relevant internal controls over financial reporting, and compliance, and evaluated the design and operating effectiveness of internal control;

- considered the design of the process for evaluating and reporting on internal control and financial management systems under the Federal Managers' Financial Integrity Act; and
- tested compliance with selected provisions of laws and regulations, with the following laws or regulations disclosing an instance of non-compliance, as noted in a preceding paragraph:
  - Accountability of Tax Dollars Act of 2002;
  - Government Performance and Results Act; and the guidance used to abide by these acts,
  - OMB Circular A-136, "Financial Reporting Requirements".

We did not evaluate all internal controls relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act, such as those controls relevant to preparing statistical reports and ensuring efficient operations. We limited our internal control testing to controls over financial reporting and compliance. Because of inherent limitations in internal control, misstatements due to error or fraud, losses, or noncompliance may nevertheless occur and not be detected. We also caution that projecting our evaluation to future periods is subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with controls may deteriorate. In addition, we caution that our internal control testing may not be sufficient for other purposes.

We did not test compliance with all laws and regulations applicable to the Federal Labor Relations Authority. We limited our tests of compliance to selected provisions of laws and regulations that have a direct and material effect on the financial statements and those required by OMB audit guidance that we deemed applicable to the FLRA's financial statements for the fiscal year ended September 30, 2008. We caution that noncompliance may occur and not be detected by these tests and that such testing may not be sufficient for other purposes.

We performed our audit in accordance with United States generally accepted government auditing standards and OMB audit guidance.

#### Agency Comments and Our Evaluation

Since the agency Executive Director concurred with the facts and conclusions in this report, there were no further comments received from the agency in response to the draft of this report.

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

*Rockville, Maryland  
July 9, 2009*

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#### **Difficulties Encountered in Performing the Audit**

Other than not receiving the Performance Accountability Report on time, we encountered no significant difficulties in dealing with management in performing and completing our audit.

#### **Corrected and Uncorrected Misstatements**

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. All material adjustments that we proposed were reflected in the final financial statements. We reviewed other immaterial misstatements with FLRA financial management. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

#### **Disagreements with Management**

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

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We have requested certain representations from management that are included in the management representation letter dated July 9, 2009.



### Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the agency's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

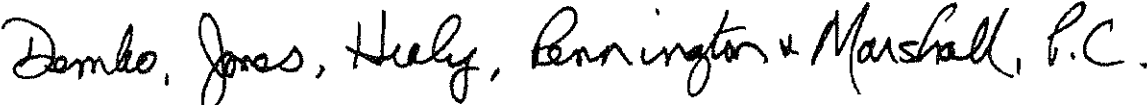
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This information is intended solely for the use of the members and management of the **Federal Labor Relations Authority** and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,



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

**FEDERAL LABOR RELATIONS AUTHORITY**  
1400 K Street, NW  
Washington D.C. 20424-0001

**DATE:** September 24, 2009

**TO:** Francine Eichler  
Inspector General

**FROM:** Sonna Stampone *Sonna Stampone*  
Executive Director

**SUBJECT:** Agency Response to Fiscal Year 2008 Financial Statements Audit

We have reviewed the Audit Report submitted by Dembo, Jones, Healey Pennington & Marshall, P.C on August 25, 2009. We are pleased with the reports' findings that: (1) the FLRA's financial statements are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America; and (2) there are no material weakness in internal controls over financial reporting (including safeguarding assets). We have reviewed the report and, moving forward, will address the recommendations.

With respect to the single non-compliance finding in the report concerning OMB Circular No, A-136 "Financial Reporting Requirements," which required that the FLRA 2008 Annual Financial Report (AFR) be submitted to the Office of Management and Budget and the Congress on November 17, 2008, and include a signed letter from the FLRA CFO addressing specific requirements. The FLRA agrees that neither requirement was met.

In accordance with the auditor's recommendation, FLRA management has taken steps to ensure that all future Performance and Accountability Reports (PASs) adhere to OMB Circular A-136's "Financial Reporting Requirements". These steps include hiring staff critical to support and preparation of the PAR and Financial Statements, clarity around roles and responsibilities in support of the PAR, and an agency wide calendar of management activities to include the PAR. Among the clarifications made with respect to roles and responsibilities is that of the CFO. The CFO will submit a signed letter with the 2009 PAR which addresses the requirements of OMB A-136 and the recommendations of the audit report.

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

PRINCIPAL FINANCIAL STATEMENTS

Federal Labor Relations Authority Balance Sheet  
as of September 30, 2008 and 2007  
dollars in thousands)

	2008	2007
<b>ASSETS</b>		
<b>Intragovernmental Assets:</b>		
Fund Balance with Treasury	\$ 10,214	\$10,780
Other:		
<b>Total Intragovernmental Assets</b>	<b>10,214</b>	<b>10,780</b>
Accounts Receivable, Net	10	19
General Property, Plant and Equipment, Net	692	787
<b>TOTAL ASSETS</b>	<b>\$10,916</b>	<b>\$11,586</b>
<b>LIABILITIES</b>		
<b>Intragovernmental Liabilities:</b>		
Accounts Payable	\$158	\$226
Other		
Unfunded FECA Liability	263	243
<b>Total Intragovernmental Liabilities</b>	<b>421</b>	<b>469</b>
Accounts Payable	297	157
Federal Employee Benefits - FECA Actuarial Liability	1,093	1,068
Other		
Unfunded Annual Leave	1,250	1,290
Accrued Payroll and Benefits	1,001	806
Contingent Liabilities	-	150
<b>TOTAL LIABILITIES</b>	<b>4,062</b>	<b>3,940</b>
<b>Net Position</b>		
Unexpended Appropriations	8,779	9,623
Cumulative Results of Operations	(1,925)	(1,977)
<b>TOTAL LIABILITIES AND NET POSITION</b>	<b>\$10,916</b>	<b>\$11,586</b>

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



**Federal Labor Relations Authority**  
**Statements of Net Cost of Operations**  
**for the Fiscal Years Ended September 30, 2008 and 2007**  
**(dollars in thousands)**

	<u>2008</u>	<u>2007</u>
<b>Program Cost</b>		
Intragovernmental gross costs	\$6,162	\$ 8,010
Public Cost	17,911	16,022
<b>Net Cost of Operations</b>	<u>\$ 24,073</u>	<u>\$24,032</u>

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

Federal Labor Relations Authority  
 Statements of Changes in Net Position  
 for the Fiscal Years Ended September 30, 2008 and 2007  
 (dollars in thousands)

	2008	2007
<b>CUMULATIVE RESULTS OF OPERATIONS</b>		
<b>Beginning Balance</b>	\$(1,977)	\$(1,763)
<b>Budgetary Financing Sources</b>		
Appropriations-Used	22,883	22,451
<b>Other Financing Sources</b>		
Imputed Financing from Costs Absorbed by Others	1,242	1,367
<b>Total Financing Sources</b>	24,125	23,818
<b>Net Cost of Operations</b>	(24,073)	(24,032)
<b>Net Change</b>	52	(214)
<b>Ending Balance - Cumulative Results of Operations</b>	\$(1,926)	\$(1,977)
<b>UNEXPENDED APPROPRIATIONS</b>		
<b>Beginning Balance</b>	\$9,623	\$7,544
<b>Budgetary Financing Sources</b>		
Appropriations Received	23,641	25,372
Appropriations-Used	(22,883)	(22,451)
Other Adjustments	(1,602)	(842)
<b>Net Change</b>	(844)	2,079
<b>Ending Balance - Unexpended Appropriations</b>	\$8,780	\$9,623
<b>TOTAL NET POSITION</b>	\$6,854	\$7,646

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

**Federal Labor Relations Authority**  
**Statement of Budgetary Resources**  
**for the Fiscal Years Ended September 30, 2008 and 2007**  
(dollars in thousands)

	2008	2007
<b>Budgetary Resources:</b>		
Unobligated balance, beginning of Fiscal Year	\$ 8,364	\$ 5,420
Recoveries of prior year unpaid obligations	432	1,592
Budget Authority		
Appropriation	23,641	25,372
Spending authority from offsetting collections		
Earned		
Collected	-	2
Change in receivables from Federal sources	(24)	(8)
Total Budget Authority	23,617	25,366
Permanently not available	(1,602)	(842)
<b>Total Budgetary Resources</b>	<b>\$ 30,811</b>	<b>\$ 31,536</b>
<b>Status of Budgetary Resources:</b>		
Obligations incurred		
Direct	\$ 22,847	\$ 23,171
Unobligated balance available		
Apportioned	2,452	3,630
Unobligated balance not available	5,512	4,735
<b>Total Status of Budgetary Resources</b>	<b>\$ 30,811</b>	<b>\$ 31,536</b>
<b>Obligated Balance:</b>		
Obligated balance, net		
Unpaid obligations, brought forward, beginning of Fiscal Year	\$ 2,440	\$ 3,533
Less: Uncollected customer payments from Federal sources, brought forward, beginning of Fiscal Year	(24)	(32)
Total unpaid obligated balances, net, beginning of Fiscal Year	2,416	3,501
Obligations incurred, net	22,847	23,171
Less: Gross outlays	(22,605)	(22,673)
Less: Recoveries of prior year unpaid obligations, actual	(432)	(1,592)
Change in uncollected customer payments from Federal sources	24	8
<b>Total, unpaid obligated balance, net, end of period</b>	<b>\$ 2,250</b>	<b>\$ 2,415</b>
<b>Obligated Balance, net, end of period - by component:</b>		
Unpaid obligations	2,250	2,439
Less: Uncollected customer payments from Federal sources	-	(24)
<b>Total, unpaid obligated balance, net, end of period</b>	<b>\$ 2,250</b>	<b>\$ 2,415</b>
<b>Net Outlays:</b>		
Net Outlays		
Gross outlays	22,605	22,673
Less: Offsetting collections	-	(2)
<b>Net Outlays(Receipts)</b>	<b>\$ 22,605</b>	<b>\$ 22,671</b>

The accompanying notes are an integral part of these financial statements

## NOTES TO PRINCIPAL FINANCIAL STATEMENTS

### NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### *(a) Reporting Entity*

The Federal Labor Relations Authority (FLRA) is an independent administrative Federal agency created by Title VII of the Civil Service Reform Act of 1978 (the Statute) with a mission to carry out five statutory responsibilities: (1) determining the appropriateness of units for Labor organization representation; (2) resolving complaints of unfair labor practices; (3) adjudicating exceptions to arbitrators' awards; (4) adjudicating legal issues relating to duty to bargain; and (5) resolving impasses during negotiations. All work throughout the agency is undertaken to support a single program -to administer and enforce the Statute by determining the respective rights of employees, agencies, and labor organizations in their relations with one another.

FLRA's authority is divided by law and by delegation among a three-member Authority and an Office of General Counsel, appointed by the President and subject to Senate confirmation; and the Federal Service Impasses Panel, which consists of seven part-time members appointed by the President.

FLRA does not initiate cases. Proceedings before FLRA originate from filings arising through the actions of Federal employees, Federal agencies, or Federal labor organizations. Nationwide, FLRA includes seven Regional Offices, one satellite office, and a Headquarters site in Washington, D.C.

**Authority.** The Authority adjudicates appeals filed by either Federal agencies or Federal labor organizations on negotiability issues, exceptions to arbitration awards, appeals of representation decisions, eligibility of labor organizations for national consultation rights, and unfair labor practice complaints.

**Office of the General Counsel.** The General Counsel investigates allegations of unfair labor practices and processes representation petitions. In addition, the General Counsel conducts elections concerning the exclusive recognition of labor organizations and certifies the results of elections.

**Federal Service Impasses Panel.** The Panel resolves labor negotiation impasses between Federal agencies and labor organizations.

The FLRA's financial activity is considered to be in the general government and central personnel management budget function.

#### *(b) Basis of Accounting and Presentation*

The financial statements have been prepared to report the financial position, net cost of operations, changes in net position, and budgetary resources of FLRA in accordance with the Chief Financial Officers Act of 1990, the Government Management Reform Act of 1994 and the Accountability of Tax Dollars Act of 2002. The financial statements have been prepared from FLRA's financial records in accordance with U.S. Generally Accepted Accounting Principles (GAAP) using guidance issued by the Federal Accounting Standards Advisory Board (FASAB) and Office of Management and Budget (OMB) prescribed in OMB Circular A-136, Financial Reporting Requirements. These financial statements include all funds and accounts under the control of FLRA.



The accounting structure of Federal Government agencies is designed to reflect both accrual and budgetary accounting transactions. Under the accrual method of accounting, revenues are recognized when earned and expenses are recognized when incurred, without regard to the receipt or payment of cash. The budgetary accounting principles, on the other hand, are designed to recognize the obligation of funds according to legal requirements, which in many cases occurs before an accrual-based transaction takes place. The recognition of budgetary accounting transactions is essential for compliance with legal constraints and controls over the use of Federal funds. The accompanying financial statements are prepared on the accrual basis of accounting.

The financial statements should be read with the realization that they are for a component of the United States Government, a sovereign entity.

***(c) Budget Authority***

The Congress passes appropriations annually that provide FLRA with authority to obligate funds for necessary expenses to carry out mandated program activities. These funds are available until expended, subject to OMB apportionment and to congressional restrictions on the expenditure of funds. Also, FLRA places internal restrictions on fund expenditures to ensure the efficient and proper use of all funds.

***(d) Fund Balance with Treasury***

FLRA's receipts and disbursements are processed by Treasury. Fund balances with Treasury consist of appropriated funds that are available to pay current liabilities and to finance authorized purchase commitments. No cash is held in commercial bank accounts.

***(e) Accounts Receivable***

Accounts Receivable consists of amounts due from other federal entities and from current and former employees and vendors. Amounts due from the public are stated net of an allowance for uncollectible accounts that is based on an analysis of outstanding receivables balances and past collection experience. No allowance is established for intragovernmental receivables, as they are considered fully collectible from other Federal agencies.

***(f) Property, Plant, and Equipment***

This category consists of equipment, leasehold improvements and internal use software. The basis for recording purchased General Property and Equipment (P&E) is full cost, including all costs incurred to bring FLRA's P&E to and from a location suitable for its intended use. P&E is depreciated using the straight-line method over the estimated useful life of the asset. SFFAS No. 10, *Accounting for Internal Use Software*, provides accounting standards for internal use software used by each agency.

The standards provide for capitalized property to continue to be reported on the Balance Sheets. P&E that are not capitalized-because they are under the capitalization threshold-are expensed in the year of acquisition.

Major alterations and renovations are capitalized, while maintenance and repair costs are charged to expense as incurred. FLRA's capitalization threshold was \$3,500 for individual purchases. Bulk purchases of similar items, which individually are worth less than \$3,500, but collectively are worth more than \$30,000, are also capitalized using the same property and equipment categories and useful lives as capital acquisitions. Service lives are shown below:

<u>Description</u>	<u>Years</u>
Computer equipment	5
Software	3
Office equipment	7
Office furniture	15
Leasehold Improvements	Life of Lease

***(g) Liabilities***

Liabilities represent the amount of monies or other resources likely to be paid by FLRA as a result of transactions or events that have already occurred. No liability can be paid, however, absent an appropriation. Liabilities for which an appropriation has not been enacted are, therefore, classified as not covered by budgetary resources, and there is no certainty that the appropriation will be enacted. Also, the Government, acting in its sovereign capacity, can abrogate liabilities.

Liabilities that are covered by budgetary resources consist of intra-governmental and public accounts payable and accrued funded payroll. Liabilities not covered by budgetary resources consist of unfunded *Federal Employees Compensation Act* (FECA) for 2008 and 2007 as well as unfunded actuarial FECA liabilities. Liabilities not covered by budgetary resources also include unfunded leave.

***(h) FECA Liabilities***

FLRA's FECA Liabilities consist of two factors as defined as follows:

**Accrued FECA Liability**

A liability is recorded for actual and estimated future payments to be made for workers' compensation pursuant to the FECA. The actual costs incurred are reflected as a liability because Agencies will reimburse the Department of Labor (DOL) two years after the actual payment of expenses. Future revenues will be used for their reimbursement to DOL. The liability consists of (1) the net present value of estimated future payments calculated by the DOL, and (2) the un-reimbursed cost paid by DOL for compensation to recipients under the FECA.

**Actuarial FECA Liability**

An estimated actuarial liability for future Workers' Compensation benefits is included. The liability estimate is based on the Department of Labor's FECA actuarial model that takes the amount of benefit payments over the last 9 to 12 quarters and calculates the annual average of payments for medical expenses and compensation. This average is then multiplied by the liabilities to benefits paid ratios for the whole FECA program for FY 2008. The ratios may vary from year to year as a result of economic assumptions and other factors but the model calculates a liability approximately 11 times the annual payments.

***(i) Annual, Sick and Other Leave***

Annual leave is accrued as it is being earned by employees, and this accrual is reduced as leave is taken. Each quarter the balance in the accrued annual leave account is adjusted to reflect current leave balances and pay rates. To the extent that current or prior year appropriations are not available to finance annual leave, future financing sources will be used.

Sick leave and other types of non-vested leave are expensed as taken. Any liability for sick leave that is accrued but not taken by a CSRS-covered employee is transferred to the Office of Personnel Management upon the retirement of that individual. No credit is given for sick leave balances upon the retirement of FERS-covered employees.

***(j) Accounts Payable and Other Accrued Liabilities***

Accounts Payable and Accrued Liabilities represents a probable future outflow or other sacrifices of resources as a result of past transactions or events. Liabilities are recognized when they are incurred, regardless of whether they are covered by available budgetary resources. FLRA liabilities cannot be liquidated without legislation that provides resources to do so. Since the FLRA is a component of the U.S. Government, a sovereign entity, payments of all liabilities other than contracts can be abrogated by the sovereign entity.

***(k) Net Position***

The components of Net Position are defined as follows:

Unexpended appropriations include undelivered orders and unobligated balances. Unobligated balances are the amount of appropriations or other authority remaining after deducting the cumulative obligations from the amount available for obligation.

Cumulative results of operations represent the net results of operations since inception, the cumulative amount of prior period adjustments, the remaining book value of capitalized assets, and future funding requirements.

***(l) Retirement Plans***

FLRA's employees participate in the Civil Service Retirement System (CSRS) or the Federal Employee's Retirement System (FERS).

**Civil Service Retirement System**

For employees hired prior to January 1, 1984, FLRA withholds 7.0 percent of each employee's salary and contributes 7.0 percent of the employee's basic salary to the CSRS Retirement and Disability Fund. These employees may also contribute, on a tax-deferred basis, to a defined contribution plan - the Thrift Savings Plan (TSP). Starting in 2007, employees were no longer limited to a salary percentage, and the regular IRS limit was \$15,500. In 2008, the regular IRS limit was \$15,500. FLRA is not required to and does not contribute any matching amounts for CSRS employees.

**Federal Employees Retirement System**

FERS was established by enactment of Public Law 99-335. Pursuant to this law, FERS and Social Security automatically cover most employees hired after December 31, 1983. Employees hired before January 1, 1984 elected either to join FERS and Social Security or to remain in CSRS.

FLRA withholds 6.2 percent in an old age survivors and disability insurance up to a specified wage ceiling and 0.8 percent of an employee's gross earnings for retirement. FLRA matches the retirement withholdings with a contribution equal to 11.2 percent of the employee's taxable salaries.

All employees are eligible to contribute to the TSP. For those employees participating in FERS, a TSP account is automatically established. FLRA is required to make a mandatory contribution of 1.0 percent of the base salaries of all employees under FERS. FLRA is required to match the employee's contribution up to a maximum of 5.0 percent of their salaries. Matching contributions are not made to the TSP accounts established by CSRS employees.

FERS employees and certain CSRS reinstatement employees are eligible to participate in the Social Security program after retirement. CSRS Federal employees who are 65 and/or older are eligible for Social Security payments (even if they have not retired). In these instances, FLRA remits the employer's share of the required contribution.

FLRA does not report on its financial statements information pertaining to the retirement plans covering its employees. Reporting amounts such as plan assets, accumulated plan benefits, and related unfunded liabilities, if any, is the responsibility of the Office of Personnel Management (OPM).

***(m) Imputed Financing from Costs Absorbed by Others***

The FASAB's SFFAS Number 5, "Accounting for Liabilities of the Federal Government," requires that employer agencies recognize the full cost of pensions, health, and life insurance benefits, during their employees' active years of service. OPM, as the administrator of the CSRS and FERS plans, the Federal Employees Health Benefits Program and the Federal Employees Group Life Insurance Program, must provide the "cost factors" that adjust the agency contribution rate to the full cost for the applicable benefit programs. An imputed financing source and corresponding imputed personnel cost is reflected in the Statement of Change in Net Position and the Statement of Net Cost, respectively.

***(n) Revenue and Other Financing Sources***

FLRA's revenues are derived from reimbursable agreements and direct appropriation.

***Reimbursable Work Agreements (Exchange)*** — FLRA recognizes reimbursable work agreement revenue when earned, i.e., goods that have been delivered or services rendered. Each reimbursable work agreement specifies the dollar value of the agreement and is based on estimated resources needed to perform the specified services, whether it is personnel services to include base pay, overtime and benefits, or travel and per diem.

***Annual Appropriations (Financing Source) (dollars in thousands)*** — FLRA receives an annual salaries and expenses appropriation from Congress. Annual appropriations are used, within statutory limits, for salaries and administrative expenses and operating and capital expenditures for essential personal property. Appropriations are recognized as non-exchange revenues at the time the related program or administrative expenses are incurred. Appropriations expended for capitalized property and equipment are recognized as expenses when an asset is consumed in operations. The annual appropriation for FY 2007 was \$25,372 and FY 2008 was \$23,641.

***(o) Expired Accounts and Cancelled Authority***

Unless otherwise specified by law, annual authority expires for incurring new obligations at the beginning of the subsequent fiscal year. The account into which the annual authority is placed is called the expired account. For five fiscal years, the expired account is available for expenditure to liquidate valid obligations incurred during the unexpired period. Adjustments are allowed to increase or decrease valid obligations incurred during the unexpired period but not previously reported. At the end of the fifth expired year, the expired account is cancelled and any remaining money is returned to Treasury.

***(p) Transactions with Related Parties***

In the course of its operations, the FLRA has relationships and conducts financial transactions with numerous Federal agencies. The most prominent of these relationships are with the United States Department of the Treasury, the Department of the Interior's National Business Center, Health and Human Services, and the General Services Administration.

***(q) Contingencies***

A contingency is an existing condition, situation or set of circumstances involving uncertainty as to possible gain or loss to the Agency. The uncertainty will ultimately be resolved when one or more future events occur or fail to occur. With the exception of pending, threatened or potential litigation, a contingent liability is recognized when a past transaction or event has occurred, a future outflow or other sacrifice of resources is more likely than not, and the related future outflow or sacrifice of resources is measurable. For pending, threatened or potential litigation, a liability is recognized when a past transaction or event has occurred, a future outflow or other sacrifice of resources is likely, and the related future outflow or sacrifice of resources is measurable.

***(r) 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 liabilities at the date of the financial statements as well as the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

***(s) Advances and Prepayments***

Advance payments are generally prohibited by law. There are some exceptions, such as reimbursable agreements, subscriptions and payments to contractors and employees. Payments made in advance of the receipt and goods of services are recorded as advances or prepayments at the time of the prepayments and recognized as expenses when the related goods and services are received.

**NOTE 2 – FUND BALANCE WITH TREASURY**

Fund balances with Treasury consisted of the following at September 30, 2008 and 2007:

	(dollars in thousands)	
<b>Fund Balances:</b>	<b>2008</b>	<b>2007</b>
Appropriated Funds (general)	\$ 10,214	\$ 10,780
<b>Total Fund Balance with Treasury</b>	<b>\$ 10,214</b>	<b>\$ 10,780</b>
<b>Status of Fund Balance with Treasury</b>		
Unobligated Balance:		
Available	\$ 2,452	\$ 3,629
Unavailable	5,512	4,735
Obligated Balance Not Yet Disbursed	2,250	2,416
<b>Total Fund Balance with Treasury</b>	<b>\$ 10,214</b>	<b>\$ 10,780</b>

U.S. Government cash is accounted for on an overall consolidated basis by Treasury. The amounts shown on the Balance Sheets represent FLRA's right to draw on Treasury for valid expenditures. The fund balance as shown on FLRA's records is reconciled monthly with Treasury's records.

**NOTE 3 – ACCOUNTS RECEIVABLE**

The reported amount for accounts receivable consists of amounts owed to FLRA by other Federal agencies (intragovernmental) or by the public. A summary of accounts receivable from the public follows:

(dollars in thousands)	2008	2007
<b>Accounts Receivable from the Public:</b>		
Billed:		
Current	\$ 10	\$ 29
Total Accounts Receivable	10	29
Allowance for Uncollectible Accounts	-	(10)
Accounts Receivable from the Public, Net	\$ 10	\$ 19

**NOTE 4 – PROPERTY AND EQUIPMENT**

Capitalized property and equipment, net of accumulated depreciation, consisted of the following as of September 30, 2008 and 2007:

(dollars in thousands)	Service Life	Acquisition Value	Accumulated Depreciation	2008 Net Book Value	2007 Net Book Value
Construction in Progress		\$ 102	\$ -	\$ 102	
Computer Equipment	5 yrs	404	(264)	\$ 140	\$ 210
Office Equipment	7 yrs	338	(198)	\$ 140	169
Office Furniture	15 yrs	526	(233)	\$ 293	325
Software	3 yrs	259	(242)	\$ 17	38
Leashold Improvements	Life of Lease	227	(227)	\$ -	45
<b>Total</b>		<b>\$ 1,856</b>	<b>\$ (1,164)</b>	<b>\$ 692</b>	<b>\$ 787</b>

**NOTE 5 – LIABILITIES NOT COVERED BY BUDGETARY RESOURCES**

*(a) Intragovernmental and with the Public*

(dollars in thousands)	2008	2007
Intragovernmental:		
Unfunded Payroll Liabilities	\$ 263	\$ 243
Total Intragovernmental	263	243
Federal Employee Benefits - FECA Actuarial Liability	1,093	1,068
Unfunded Annual Leave	1,250	1,290
Total Liabilities Not Covered by Budgetary Resources	\$ 2,606	\$ 2,601
Total Liabilities Covered by Budgetary Resources	1,456	1,339
Total Liabilities	\$ 4,062	\$ 3,940

*(b) Other Information (dollars in thousands)*

Unfunded Payroll Liabilities consists of workers' compensation claims payable to the Department of Labor (DOL), which will be funded in a future period, and an unfunded estimated liability for future workers' compensation claims based on data provided from the DOL. Unfunded FECA liabilities for 2008 and 2007 were \$263 and \$243, respectively. The actuarial calculation is based on benefit payments made over 12 quarters, and calculates the annual average of payments. The actuarial FECA liabilities for 2008 and 2007 were \$1,093 and \$1,068, respectively. For medical expenses and compensation this average is then multiplied by the liability-to-benefit paid ratio for the whole FECA program.

Unfunded Annual Leave represents a liability for earned leave and is reduced when leave is taken. Quarterly, the balance in the accrued annual leave account is adjusted to reflect the liability at current pay rates and leave balances. Accrued annual leave is paid from future funding sources and, accordingly, is reflected as a liability not covered by budgetary resources. Sick and other leave is expensed as taken.

**All other liabilities** are considered to be covered by budgetary resources.

## NOTE 6 – OPERATING LEASES

FLRA has operating leases for rental of office space and office equipment. As a Federal Agency, the FLRA is not liable for any lease terms beyond one year. FLRA anticipates that space levels consistent with FY 2008 will be required for the next five years.

Future minimum lease payments due under leases of government-owned property as of September 30, 2008, are as follows:

(dollars in thousands)		
<b>Fiscal Year</b>	<b>Building</b>	<b>Total</b>
2009	\$ 2,119	\$ 2,119
2010	1,968	1,968
2011	1,861	1,861
2012	1,692	1,692
2013	722	722
Thereafter	120	120
<b>Total Future Lease Payments</b>	<b>\$ 8,482</b>	<b>\$ 8,482</b>

## NOTE 7 – COMMITMENTS

FLRA is a party in various administrative proceedings, legal actions, and claims brought by or against the agency. In the opinion of FLRA management, the ultimate resolution of proceedings, actions, and claims, will not materially affect financial position or results of operations of the FLRA. The FLRA has examined its obligations related to cancelled FY 2003 authority and believes that it has no outstanding commitments that will require future resources.

## NOTE 8– APPORTIONMENT CATEGORIES OF OBLIGATIONS INCURRED

Obligations incurred reported on the Statement of Budgetary Resources in 2008 and 2007 consisted of the following:

(dollars in thousands)	<b>2008</b>	<b>2007</b>
Direct Obligations:		
Category A	\$ 22,847	\$ 23,171

## NOTE 9 – UNDELIVERED ORDERS AT THE END OF THE PERIOD

(Dollars in thousands)

The amount of budgetary resources obligated for undelivered orders at the end of September 30, 2008 and 2007, is \$794 and \$1,251, respectively.



**NOTE 10 -- EXPLANATION OF DIFFERENCES BETWEEN THE SBR AND  
THE BUDGET OF THE U.S. GOVERNMENT**

Statement of Federal Financial Accounting Standards No. 7, Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting, calls for explanations of material differences between amounts reported in the Statement of Budgetary Resources (SBR) and the actual balances published in the Budget of the United States Government (President's Budget). However, the President's budget that will include FY08 actual budgetary execution information has not yet been published. The President's Budget is scheduled for publication in February 2009 and can be found at the OMB website: <http://www.whitehouse.gov/omb>.

A comparison of FY 2007 Statement of Budgetary Resources to the President's Budget is shown in the following table.

	Amount per Statement of Budgetary Resources	Amount per President's Budget	Difference	Explanation
<b>Budgetary Resources:</b>				
Unobligated balance, beginning of Fiscal Year	\$ 5,420	\$ -	5,420	A, B
<b>Status of Budgetary Resources:</b>				
Obligations incurred				
Direct	\$ 23,171	\$ 22,000	1,171	A, D
Unobligated balance available				
Apportioned	3,630			
Unobligated balance not available	4,735			
<b>Total Unobligated balance available &amp; unavailable</b>	<b>8,365</b>	<b>4,000</b>	<b>4,365</b>	<b>A, C</b>
<b>Total Status of Budgetary Resources</b>	<b>\$ 31,536</b>	<b>\$ 26,000</b>		
<b>Obligated Balance:</b>				
Obligations incurred, net	23,171	22,000	1,171	A, D

Following is an explanation of those reason codes from the table above:

Rounding differences as a result of the President's Budget being rounded in millions of dollars while the Statement of Budgetary Resources is rounded in thousands of dollars.

Unobligated balance, beginning of Fiscal Year amounts incorrect in the President's Budget. on the Statement of Budgetary Resources matches the final SF132, Apportionment and Reapportionment Schedule.

Line items are not reported on the President's Budget.

Expired accounts are in the Statement of Budgetary Resources, but not in the President's Budget.

**NOTE 11 – RECONCILIATION OF NET COST OF OPERATIONS  
(PROPRIETARY) TO BUDGET (FORMERLY THE STATEMENT OF  
FINANCING)**

In fiscal year 2006 this reconciliation was presented as a fifth statement, the Statement of Financing. In accordance with OMB Circular A-136, revised June 2007, presentation requirement for this information is now a note to the Financial Statements. Details of the relationship between budgetary resources obligated and the net costs of operations for the fiscal years ending September 30 are as follows:

**Reconciliation of Net Cost of Operations (Proprietary) to Budget**

	2008	2007
<b>Resources Used to Finance Activities</b>		
Budgetary Resources Obligated		
Obligations Incurred	\$ 22,847	\$ 23,171
Budgetary Resources from Offsetting Collections		
Spending Authority from Offsetting Collections Earned		
Change in Receivable from Federal Sources	(24)	(1,585)
Recoveries of Prior Year Unpaid Obligations	(432)	
Other Financing Resources		
Imputed Financing Sources	1,242	1,366
<b>Total Resources Used to Finance Activity</b>	<b>23,633</b>	<b>22,952</b>
<b>Resources Used That Do Not Fund Net Cost of Operations</b>		
Budgetary Obligations and Resources not in the Net Cost of Operations		
Net Decrease in Unliquidated Obligations	457	834
Assets Capitalized	(102)	255
Other Resources/Adjustments that do not Affect Net Cost of Operations		223
<b>Components of the Net Cost of Operations which do not Generate or Use Resources in the Reporting Period</b>		
<b>Revenues without Current Year Budgetary Effect</b>		
Other Financing Sources Not in the Budget	(1,242)	(1,366)
<b>Costs without Current Year Budgetary Effect</b>		
Depreciation and Amortization	196	(227)
Future Funded Expenses	(170)	
Imputed costs	1,242	1,366
Bad Debt Expense	10	
Other Expenses Not Requiring Budgetary Resources	48	(5)
<b>Net Cost of Operations</b>	<b>\$ 24,072</b>	<b>\$ 24,032</b>

## OTHER ACCOMPANYING INFORMATION

### **2008 Management Challenges**

*As required by OMB Circular A-136, the agency Inspector General (IG,) Ms. Francine Eichler, provided the following summary listing what the IG considers the most serious management and performance challenges facing the agency, including a brief assessment of the agency's progress in addressing those challenges. The agency head may comment on, but not modify the IG statement.*

As reported by the Federal Labor Relations Authority (FLRA) Inspector General in FY 2007 to the Chairman of the Inspector General PCIE /ECIE Committee, The Government Relations Executive Committee, Office of Personnel Management, General Services Administration, and the Project on Government Oversight the mismanagement of the Senior Executives of the FLRA severely diminished the FLRA. This continued during FY 2008 until the Chairman, Executive Director, General Counsel resigned from their jobs. A new republican Chairman of the FLRA, appointed by President Bush on October 14, 2009 immediately started focusing on re-establishing the diminished FLRA. The new democratic Chairman of the FLRA was designated Acting Chairman by President Obama on February 19, 2009. She was later designated as Chairman on March 25, 2009. She is also completely focused on improving the FLRA with whatever guidance, strategies and employee assistance is necessary.

The Management Challenges noted in 2007 and 2008 by the FLRA Inspector General involved:

-Congressional requirement from Federal Agency Management to provide their responses to Inspector General Findings and recommendations from 1998-2007. With the exception of a few responses to findings and recommendations relating to the Office of General Counsel after appointment, previous management did not respond to the extensive list of findings and recommendations until Congress made this request.

- In FY 2008, OMB and GSA conducted agency surveys and affirmed that the FLRA was one of the worst Federal Agencies to work for. Previous management did state they would begin to focus on trying to improve the negative FLRA environment in 2008 but they resigned from the FLRA.

-Initially in FY 2008, the FLRA did not have a Chief Financial Officer, Chief Information Officer, Security Officer, Contracting Officer or Human Resource Specialist / employees. Management did hire a Chief Financial Officer who also acted as the Acting Chief Information Office and focused on improving the FLRA's administrative requirements before he left the FLRA at the end of the fiscal year. Once again, management has to focus on hiring the employees stated in the first statement of this paragraph as well as increase administrative and mission related employees.

-An additional challenge will be for FLRA to provide training and create new FLRA program instructions and meetings to help employees function properly.

-In 2008, the former FLRA Executive to provided operational support including budget and finance, human resources, procurement, administrative services and information technology management and was totally responsible for developing the FLRA Strategic Plan. The current FLRA Chairman has reinstated both mission related and administrative authority to the proper FLRA managers. The challenge definitely relates to properly rebuilding the FLRA agency programs.

- Since 2006, the Department of Interior National Business Center handled most of FLRA's financial responsibilities. No material weaknesses were noted in 2007 and the FLRA Financial Statement Auditors affirmed that several previous financial findings and recommendations were addressed. The challenge still remains for the FLRA to address remaining Financial Statement findings and recommendations and focus extremely on preparing the Performance Administrative Report (or Financial Performance Report) on time.

-The reduction of long term employees has caused the remaining employees to work very hard and conduct actions often at a much higher level then their job. FLRA management needs to review employee's jobs, make sure their performance plans are correct, and provide bonuses to those who are performing several jobs.

- FLRA management must focus on updating FLRA's information security program including creating an electronic system and should appoint a Security Officer for the Information Resource Management program.

- FLRA management must focus on the proper spending of the FLRA's budget to rebuild the agency.

-FLRA management must continue to focus on addressing FLRA Inspector General Findings and recommendations from 1998 to the present.

Conclusion:

It has been almost 9 months since the new administration has been instituted, and the FLRA has completely focused on improving the agency, union and all employees. Almost all FLRA managers and employees feel many actions have been positively addressed by management. However there are some who still have some concerns. All employees and many parties appreciate the comeback of the FLRA. The current, new FLRA Chairman is heading the FLRA in the right direction. Current FLRA management and employees are dedicated to updating and improving the FLRA. Management has re-involved the FLRA Union in the decision making process and there is an effort going to make a job career ladder. Funding for almost everything has been approved and travel restrictions have been dropped. The relationship between the FLRA management and its employees also helps improve the Government as well as the FLRA. FLRA's customers already appreciate the more interactive FLRA approach with them. The recreation of the FLRA is as important as the substantive work of various agencies and our agency, the FLRA, already is helping to make the Government more productive.

**Summary of Financial Statement Audit and Management Assurances**

**TABLE I - Summary of Financial Statement Audit**

**FY 2007 Audit Opinion:** Unqualified  
**Restatement:** No

	<b>Beginning Balances</b>	<b>New</b>	<b>Resolved</b>	<b>Consolidated</b>	<b>Ending Balances</b>
<b>Material Weaknesses</b>					
<i>Financial Statements:</i>					
<i>Internal Controls:</i>					
Inadequate oversight of financial accounting and reporting	✓		✓		
The Executive Director did not sign the management representation letter	✓		✓		
Delay in submitting the FY 06 Performance and Accountability Report	✓		✓		
Inadequate review and analyses of unliquidated obligations.	✓		✓		
Inadequate review of subsidiary supporting detail	✓		✓		
Weaknesses identified in FY 2005 Management Letter were not responded to by management	✓		✓		
<i>Compliance with Laws and Regulations:</i>					
FY 06 IG semi-annual reports to Congress were not timely reported	✓		✓		
Management did not properly assess the adequacy of internal control in programs and operations	✓		✓		
Ineffective environment for setting a positive and supportive attitude toward internal control and conscientious management	✓		✓		
OIG's request for independent FISMA evaluation was not approved	✓		✓		
Financial Section of FY 05 PAR was incomplete	✓		✓		
<b>Total Material Weaknesses</b>	<b>11</b>		<b>11</b>	<b>0</b>	<b>0</b>

**FY 2008 Audit Opinion:** Unqualified  
**Restatement:** No

	<b>Beginning Balances</b>	<b>New</b>	<b>Resolved</b>	<b>Consolidated</b>	<b>Ending Balances</b>
<b>Material Weaknesses</b>					
None noted					
<b>Total Material Weaknesses</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

**TABLE II - Summary of Management Assurances**

**Section 1 - Effectiveness of Internal Control over Financial Reporting**

FY 07 Statement of Assurance	Qualified			Consolidated	Reassessed	Ending Balances
	Beginning Balances	New	Resolved			
<i>Material Weaknesses:</i>						
Inadequate oversight of financial accounting and reporting	✓		✓			
The Executive Director did not sign the management representation letter	✓		✓			
Delay in submitting the FY 06 Performance and Accountability Report	✓		✓			
Inadequate review and analyses of unliquidated obligations.	✓		✓			
Inadequate review of subsidiary supporting detail for propriety	✓		✓			
Weaknesses identified in FY 2005 Management Letter were not responded to by management	✓		✓			
FY 06 IG semi-annual reports to Congress were not timely reported	✓		✓			
Management did not properly assess the adequacy of internal control in programs and operations	✓		✓			
Ineffective environment for setting a positive and supportive attitude toward internal control and conscientious management	✓		✓			
OIG's request for independent FISMA evaluation was not approved	✓		✓			
Financial Section of FY 06 PAR was incomplete	✓		✓			
<b>Total Material Weaknesses</b>	<b>11</b>	<b>0</b>	<b>11</b>			<b>0</b>
FY 08 Statement of Assurance	Unqualified			Consolidated	Reassessed	Ending Balances
	Beginning Balances	New	Resolved			
<i>Material Weaknesses:</i>						
<b>Total Material Weaknesses</b>	<b>0</b>	<b>0</b>				<b>0</b>

**Section 2 - Effectiveness of Internal Control Over Operations**

<b>FY 07 Statement of Assurance</b>		Unqualified				
<i>Material Weaknesses:</i>	Beginning Balances	New	Resolved	Consolidated	Reassessed	Ending Balances
	0	0				0
<b>Total Material Weaknesses</b>						

<b>FY 08 Statement of Assurance</b>		Unqualified				
<i>Material Weaknesses:</i>	Beginning Balances	New	Resolved	Consolidated	Reassessed	Ending Balances
	0	0				0
<b>Total Material Weaknesses</b>						

**Section 3 - Conformance with Financial Management System Requirements**

<b>FY 07 Statement of Assurance</b>		Systems conform to financial management system requirements				
<i>Non-Conformances:</i>	Beginning Balances	New	Resolved	Consolidated	Reassessed	Ending Balances
	0	0	0	0	0	0
<b>Total Non-Conformances</b>						

<b>FY 08 Statement of Assurance</b>		Systems conform to financial management system requirements				
<i>Non-Conformances:</i>	Beginning Balances	New	Resolved	Consolidated	Reassessed	Ending Balances
	0	0	0	0	0	0
<b>Total Non-Conformances</b>						

**Section 4 - Compliance with Federal Financial Management Improvement Act**

<b>FY 07 Overall Substantial Compliance</b>	Agency	Auditor
1. System Requirements	Yes	Yes or No
2. Accounting Standards	Yes	
3. USSGL at Transaction level	Yes	
<b>FY 08 Overall Substantial Compliance</b>	Agency	Auditor
1. System Requirements	Yes	Yes or No
2. Accounting Standards	Yes	
3. USSGL at Transaction level	Yes	