

**Management Letter
for the
U.S. Federal Labor Relations Authority**



For the year ended September 30, 2009



HARPER, RAINS, KNIGHT
& COMPANY

*Certified Public Accountants
A Professional Association*

November 15, 2009

To the Federal Labor Relations Authority
Washington, D.C.

We present, for your consideration, our comments and recommendations regarding internal controls and other matters. These comments and recommendations are intended to improve the internal control structure or to result in other operating efficiencies for the Federal Labor Relations Authority. The factual accuracy of our comments has been reviewed with management so as to obtain their concurrence prior to the development of our recommendations for improvement. Matters commented upon represent findings during the audit and have not been reviewed subsequent to November 15, 2009.

Although the Federal Labor Relations Authority financial management system has many positive attributes, a management letter is critical by nature because its purpose is to identify areas where improvements can be made. It is also important to understand that it is generally not practical to achieve ideal internal control in the complex governmental accounting environment.

We would like to acknowledge the courtesy and assistance extended to us by FLRA and National Business Center personnel during the course of our audit.

Sincerely

Harper, Rains, Knight & Company, P.A.

**U.S. Federal Labor Relations Authority
2009 Management Letter**

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FLRA Considerations

Payroll

User Control Considerations of a Third Party Service Organization Client

The USDA National Business Center's 'Federal Personnel and Payroll System (FPPS) Report on Controls Placed in Operation and Tests of Operating Effectiveness (SAS 70) for the Period of July 1, 2008 – June 30, 2009', dated July 10, 2009, expresses an opinion that the controls described therein present fairly, in all material respects, the relevant aspects of the NBC's controls that had been placed in operation within the period reported on. In regards user control considerations by clients of NBC, the report states, in summary:

Federal Personnel and Payroll System (FPPS) general information technology and payroll operations controls at the National Business Center (NBC) were designed with the assumption that certain controls would be designed and implemented by user organizations, in this case the Federal Labor Relations Authority (FLRA). The following internal controls are the responsibility of FLRA:

- 1. Controls to provide reasonable assurance that physical and logical access to NBC applications, using computer terminals at client locations, is restricted to authorized individuals.*
- 2. Controls to provide reasonable assurance that designated FPPS Security Points of Contacts (SPOC) and Quicktime Master (and local) Administrators ensure that the client's employees and contractors adhere to rules of behavior with respect to the use and protection of the NBC-managed computer systems and applications, based on applicable government security guidelines and recommendations.*
- 3. Controls to provide reasonable assurance that audit reports made available by the NBC are reviewed and any appropriate actions are taken.*
- 4. Controls to provide reasonable assurance that Computer Incident Response procedures for NBC-managed systems have been developed in coordination with the NBC.*
- 5. Controls to provide reasonable assurance that the NBC is provided prompt written notification of changes for individuals who are authorized to add, change, and delete user access to FPPS application production regions (i.e., SPOC).*
- 6. Controls to provide reasonable assurance that user access to FPPS payroll and personnel functions is properly authorized and assigned, segregation of duties is properly maintained, and separating employees and contractors' access to NBC applications is timely removed.*

7. *Controls to provide reasonable assurance that Labor Cost Files are reconciled for accuracy.*
8. *Controls to provide reasonable assurance that payroll transactions, including pay adjustments and T&A corrections, are timely provided to the NBC for input into FPPS.*
9. *Controls to provide reasonable assurance that payroll transactions provided to the NBC are complete, accurate, and appropriately authorized and approved.*
10. *Controls to provide reasonable assurance that personnel transactions are properly authorized and input into FPPS.*
11. *Controls to provide reasonable assurance that the requirements detailed in the “National Business Center (NBC) Information Technology (IT) Security Services Advisory (SSA) For All NBC IT Customers” are met. The SSA is part of a customer’s Interagency Agreement with NBC.*
12. *Controls to provide reasonable assurance that access to Quicktime is restricted to properly authorized users and duties are properly segregated.*

During the course of our test work, through discussions and interviews with members of management, and through procedures performed to complete our testing, we determined that of the twelve preceding user control considerations, all were applicable to the operations of FLRA. Of the twelve user control considerations, we noted that we were able to confirm that seven were performed by management at FLRA. However, we were not able to review sufficient documentation to determine whether the remaining five were performed.

Our recommendation to FLRA is that they develop a consolidated policy manual to address the user control considerations brought forward in the NBC FPPS SAS 70. This process could be accomplished in a relatively short time period, and would strengthen documentation of control documentation within the organization, so that they may more adequately comply with oversight related to controls, such as OMB Circular No. A-123, Appendix A.

The Federal Labor Relations Authority is not required to adhere to OMB Circular No. A-123, Appendix A, which details specific requirements for management’s assessment of the effectiveness of internal control over financial reporting within their agency. However, an effective internal control structure minimizes the control risk of material misstatement of accounting transactions, which lowers overall audit risk, allowing for a higher reliance on documented controls and lowered levels of substantive testing by the auditor, creating a less invasive audit for the agency.

NBC Considerations

Imputed Financing Sources and Costs

Retroactive Application of Current Year Cost Factors to Quarterly Ledger Entries

During the course of our test work over imputed financing sources and costs we noted that instead of recording imputed cost annually, NBC records it, on behalf of FLRA, on a quarterly basis. In FY 2009, it was recorded at the prior year's cost factors for the first three quarters. Prior to recording the 4th Quarter amount of imputed financing sources and costs, the annual Administrative Benefits letter from OPM was published, changing the cost factors from those of the previous year. We noted that the 4th quarter was recorded at the correct percentage. However, previous quarters were not adjusted to reflect the cost factors for FY 2009.

We believe that NBC should continue to record imputed financing sources and costs on a quarterly basis. However, we believe that any changes to OPM cost factors contained in the current year's letter should result in an adjustment of prior quarter amounts of imputed financing sources and costs in the general ledger.