

NATIONAL MEDIATION BOARD

ANNUAL PERFORMANCE
AND ACCOUNTABILITY
REPORT FY2012

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL

BOARD MEMBERS

National Mediation Board

We audited the accompanying balance sheet of the National Mediation Board (NMB) as of September 30, 2012, and the related statements of net cost, changes in net position, budgetary resources, and financing for the year then ended (the principal financial statements) and issued our report thereon, dated October 26, 2012. We conducted our audit in accordance with *Government Auditing Standards*, auditing standards generally accepted in the United States, and Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*.

In planning and performing our audit, we considered NMB's internal control over financial reporting by obtaining an understanding of NMB's internal control, determining whether internal control had been placed in operation, assessing control risk, and performing tests of control to determine auditing procedures for the purpose of expressing our opinion on the principal financial statements. We limited internal control testing to that necessary to achieve the objectives described in OMB Bulletin No. 07-04. We did not test all internal control relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act of 1982, such as the internal control relevant to ensuring efficient operations. The objective of our audit was not to provide assurance on internal control. Consequently, we do not express an opinion on internal control.

With respect to internal control related to performance measures reported in NMB management's overview, we obtained an understanding of the design of significant internal control relating to the existence and completeness assertions, as required by OMB Bulletin 07-04. We also assessed control risk relevant to NMB intra-agency transactions and balances. Our procedures were not designed to provide assurance on internal control over reported performance measures, and accordingly, we do not express an opinion on such control.

Our consideration of internal control over financial reporting would not necessarily disclose all matters that might be reportable conditions. Under standards issued by the American Institute of Certified Public Accountants, control deficiencies exist 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 NMB'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 NMB's financial statements that is more than inconsequential will not be prevented or detected.

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. Because of inherent limitations in internal control, misstatements, losses, or noncompliance may nevertheless occur and not be detected.

In our fiscal year 2012 audit, we noted, one matter described in Exhibit I that we considered to be a significant deficiency. This control weakness was considered to be a material in the FY 2011 audit.

We issued a draft of this report to NMB management and requested its comments. Management replied by indicating its general agreement with the audit results. This report is intended solely for the information of NMB management, OMB, and Congress. This report is not intended to be and should not be used by anyone other than these specified parties.



ALLMOND & COMPANY, LLC
October 26, 2012
Landover, Maryland

EXHIBIT I

SIGNIFICANT DEFICIENCY

Improvements Were Needed in Recording Obligations Related to Arbitration Services

National Mediation Board (NMB) experienced significant issues related to recording obligations for arbitration services in the general ledger when they are incurred (once an arbitrator is assigned to a case) during both fiscal year (FY) 2010 and 2011. During FY 2012, NMB made substantial improvements to their procedures for recording obligations related to arbitration services as a result of the implementation of the Arbitration Workspace (AWS). These improvements included (1) obligating the full cost of the obligation when an arbitrator is assigned to a case; (2) tracking of all cost associated with an arbitrator rendering an award on a case; and (3) documenting the approval to assign an arbitrator to hear a case or group of cases.

Although improvements have been made by NMB to arbitration procedures, we continued to identify weaknesses in recording obligations related to arbitration services in the general ledger. Specifically, the following weaknesses were identified during our interim and year-end procedures over obligations related arbitration services (1) Office of Administration was not always timely notified when an arbitrator has been assigned to hear a case (obligation was incurred); (2) Arbitration obligations recorded in AWS were not always in agreement with obligations recorded in the general ledger related to arbitration services.; and (3) the general ledger was not always timely updated when more information about the status of a case became available in AWS.

Government Accountability Office (GAO) Standards on Internal Control in the Federal Government states “Transactions should be promptly recorded to maintain their relevance and value to management in controlling operations and making decisions. This applies to the entire process or life cycle of a transaction or event from the initiation and authorization through its final classification in summary records. In addition, control activities help to ensure that all transactions are completely and accurately recorded.”

NMB had not fully implemented internal control procedures that would allow the arbitration obligations recorded in AWS to agree with the obligations recorded in the general ledger related to arbitration services until the last two months of FY 2012. As a result, Accounts Payable was overstated by \$156,582 at September 30, 2012.

We recommend NMB management do the following to address the issues noted above:

- 01 Office of Administration and Arbitration reconcile the status of obligations established in the general ledger to the amount of cases assigned to an arbitrator per the Arbitration Workspace.
- 02 Monitoring activities be performed monthly by Office of Administration and Office of Arbitration over the funds that remain available for obligation related to arbitration services.
- 03 Continue to develop a mechanism to estimate and update obligations related to arbitration in the general ledger as more information about the status of the case becomes available.

MANAGEMENT RESPONSE

NMB Management has reviewed the recommendations identified above and notes that with the full implementation of the arbitration workspace with the operations of the Office of Administration in August 2012, these recommendations have been addressed.

The Office of Administration and Office of Arbitration Service now reconciles the status of the arbitration workspace and the obligated balance in the accounting system on a monthly basis. If any adjustments are necessary, they are made at that time. This process was followed during the last two months of the fiscal year. This shows that the NMB is on the right track for fiscal accountability over Section III funding.