

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



For the year ended September 30, 2010



December 16, 2010

To the U.S. 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 (FLRA). 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, 2010. In addition, the recommendations communicated to the FLRA within the Evaluation of the Federal Labor Relations Authority Compliance with FISMA FY 2010 Report (No. **ER-11-01**) are an integral part of this communication with those charged with governance.

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 inform FLRA management that the identification of a deficiency in internal control as a significant deficiency or material weakness involves auditor judgment as well as quantitative results; and one of the conditions or events identified in SAS 109 "*Understanding the Entity and Its Control Environment and Assessing the Risks of Material Misstatement*" that may indicate the existence of risks of material misstatement is "weaknesses in internal control, especially those not addressed by management."

Finally, 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.

I. Quality Control Procedures Over Financial Statements

FLRA's quality control procedures over the compilation and presentation of financial statements and related footnote disclosures need improvement to ensure detection of errors, omissions, and inconsistencies in the reported information. During our review of the FY 2010 financial statements and PAR, we identified the following:

- Mathematical errors were noted in footnote amounts.
- Information reported in the footnotes did not agree to the trial balance.
- The PAR was not adequately reviewed prior to being submitted for audit. Two revised versions of the PAR were submitted within two days of receiving the original document.

These deficiencies were corrected after auditors brought them to the attention of management. However, it is the responsibility of the reporting agency, not the external auditor, to ensure that information reported in the financial statements is accurate, complete, and presented in accordance with applicable guidelines.

OMB Circular A-127, *Federal Financial Systems*, Section 6 – Policy, states that federal financial systems “...shall provide complete, reliable, consistent, timely, and useful management information...”

Recommendation:

We recommend that FLRA management:

- Improve quality control procedures for reviewing and documenting the review of audited versions of the financial statements and related footnotes to ensure that financial information to be reported in the PAR is complete, accurate, consistent, and timely.

II. SAS 70 Client Control Considerations

During the course of our test work, through discussions and interviews with members of management, and through procedures performed to complete our testing, we noted that we were not able to review sufficient documentation to determine whether the required client control considerations in the Federal Personnel/Payroll System (FPPS) SAS 70 were reviewed and put in place by FLRA management.

FPPS Report on Controls Placed in Operation and Test of Operating Effectiveness (SAS 70) for the Period July 1, 2009 – June 30, 2010, page 38, provides the following guidance:

“FPPS mainframe general information technology and payroll operations controls at the NBC were designed with the assumption that certain controls would be implemented by clients of the NBC. The application of such controls by the client organizations is necessary to achieve certain controls objectives included in this report.”

Recommendations:

We recommend FLRA management:

- Establish a policy that requires the system owner to review the service provider SAS 70 (or equivalent) report.
- Implement and document the implementation of all applicable client control considerations provided by the service provider. The documentation should be readily available for review and shared with all relevant FLRA offices.