

**FEDERAL MEDIATION AND CONCILIATION SERVICE  
AUDIT REPORT  
SEPTEMBER 30, 2014**



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**FEDERAL MEDIATION AND CONCILIATION SERVICE  
AUDIT REPORT  
SEPTEMBER 30, 2014**

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## Independent Auditors' Report

The Director  
Federal Mediation and Conciliation Service

We have audited the accompanying consolidated balance sheet of the Federal Mediation and Conciliation Service (FMCS) as of September 30, 2014, and the related consolidated statements of net cost, changes in net position, and combined statement of budgetary resources for the year then ended (hereinafter referred to as "consolidated financial statements"). The objective of our audits was to express an opinion on the fair presentation of these consolidated financial statements. In connection with our fiscal year 2014 audit, we also considered FMCS's internal controls over financial reporting and tested FMCS's compliance with certain provisions of applicable laws and regulations that could have a direct and material effect on these consolidated financial statements.

### Summary

As stated in our opinion of the consolidated financial statements, we concluded that FMCS consolidated financial statements as of and for the years ended September 30, 2014, are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles.

Our consideration of internal controls over financial reporting resulted in identifying deficiencies that we considered to be significant, as defined in the *Consideration of Internal Control* section of this report. We did not identify any deficiencies in internal control over financial reporting we considered to be material weaknesses as defined in the *Consideration of Internal Control* section of this report.

Our test of compliance with certain provisions of laws and regulations did not disclose any instances of non compliance.

The following sections discuss our opinion on FMCS consolidated financial statements; our considerations of FMCS internal control over financial reporting; our tests of FMCS compliance with certain provisions of applicable laws and regulations; and management's and our responsibilities.

### **Opinion on the Financial Statements**

We have audited the accompanying consolidated balance sheets of FMCS as of September 30, 2014, and related consolidated statements of net costs and changes in net position, and combined statements of budgetary resources for the years then ended. The financial statements of FMCS as of September 30, 2013 were audited by other auditors whose report, dated December 16, 2013, expressed an unqualified opinion on those statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of FMCS as of September 30, 2014, and its net costs, changes in net position, and budgetary resources for the year then ended in conformity with U.S. general accepted accounting principles.

The information in the *Supplemental Information* section of this report is not a required part of the basic financial statements, but is supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of this information. However we did not audit this information and, accordingly, we express no opinion on it.

### **Consideration of Internal Control**

A control deficiency in internal control 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 and correct misstatement on a timely basis. 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the *Responsibilities* section of this report and was not designed to identify all deficiencies in internal control over financial reporting that might be a control deficiency, significant deficiency, or material weakness. In our fiscal year 2014 audit, we did not identify any deficiencies in internal control over financial reporting that we considered to be a material weakness, as defined above. However we identified two control deficiencies in internal control over financial reporting described in Exhibit I that we consider to be a significant deficiency in internal control over financial reporting. A significant deficiency is a control deficiency or a combination of control deficiencies, that adversely affects FMCS'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 FMCS's financial statements that is more than inconsequential will not be prevented or detected.

Exhibit II presents the status of prior year significant deficiencies.

We noted certain additional matters that we have reported to FMCS management in a separate letter dated November 17, 2014.

### **Compliance with Applicable Laws and Regulations**

The results of our tests of compliance as described in the Responsibilities section of this report, disclosed no instances of noncompliance or other matters that are required to be reported herein under Government Auditing Standards or OMB Bulletin No. 14-02.

### **Responsibilities**

**Management Responsibilities:** Management is responsible for the consolidated financial statements; establishing and maintaining effective internal control over financial reporting; and complying with laws and regulations applicable to FMCS.

**Auditors' Responsibilities:** Our responsibility is to express an opinion on the fiscal year 2014 consolidated financial statements of FMCS based on our audits. We conducted our audit in accordance with *Government Auditing Standards*, auditing standards generally accepted in the United States, and OMB Bulletin No. 14-02, *Audit Requirements for Federal Financial Statements*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes the consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for expressing an opinion on the effectiveness of FMCS internal control over financial reporting. Accordingly, we express no such opinion.

An audit also includes:

- Examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements.
- Assessing the accounting principles used and significant estimates made by management; and
- Evaluating the overall financial statement presentation.

We believe that our audits provide a reasonable basis for our opinion.

In planning and performing our fiscal year 2014 audit, we considered FMCS's internal control over financial reporting by obtaining an understanding of FMCS'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 consolidated financial statements, but not to provide an opinion on the effectiveness of FMCS internal control over financial reporting. Accordingly we do not express an opinion on FMCS's internal controls over financial reporting. We limited internal control testing to those necessary to achieve the objectives described in OMB Bulletin No. 14-02. We did not test all internal control relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act of 1982.

As part of obtaining reasonable assurance about whether FMCS's fiscal year 2014 consolidated financial statements are free of material misstatements, we performed test of FMCS's compliance with certain provisions of laws and regulations, which noncompliance with could have a direct and material effect on the determination of the consolidated financial statement amounts, and certain provisions of other laws specified in OMB Bulletin 14-02.

This report is intended solely for the information of FMCS 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*

November 17, 2014

## **Deficiencies in the Design and Operations of Information Technology General Controls**

During fiscal year 2014, we noted continued deficiencies in the design and/or operations of FMCS's Information Technology (IT) general controls pertaining to Security Management and Access Controls. The details of the weaknesses notes are as follows:

### **Security Management**

Although FMCS made progress in implementing its security awareness training program during fiscal year 2014 and requires employees and contractor personnel to complete both initial and annual refresher security awareness training, the program had not been fully implemented. We noted 176 of 231 FMCS employees had not completed the required security awareness training in FY 2014.

National Institute of Standards and Technology's (NIST) SP 800-53, Revision 3, *Recommended Security Controls for Information Systems and Organizations*, states:

“The organization ensures all users (including managers and senior executives) are exposed to basic information system security awareness materials before authorizing access to the system and thereafter (that is, at least annually). The organization employs a formal sanctions process for personnel failing to comply with established information security policies and procedures.”

Without the completion of the security awareness training, personnel may be unaware of new risks that may compromise the confidentiality, integrity, and availability of data. As a result, personnel may be unable to recognize and respond appropriately to real and potential security concerns, which could expose FMCS to additional security risks.

### **Access Controls**

Access controls at FMCS enhanced to provide a more secure financial processing and computing environment. Although, FMCS made improvements to its access controls during fiscal year 2014, we continued to note the following access control deficiency:

The Microsoft Windows passwords settings, which are used to authenticate users of the FMCS network, did not adhere to guidance established by NIST United States Government Configuration Baseline (USGCB). Specifically, administrator passwords are configured to expire every 90 days.

According to the *NIST USGCB Windows Settings*, the Microsoft Windows policy settings should be established as follows:

- Minimum password age of 1 day;
- Maximum password age of 60 days,

FMCS configured administrator passwords to expire every 90 days because they are not used as frequently as standard user accounts. Non-compliance with NIST password expiration settings may increase the risk that lost or stolen passwords may be used to gain unauthorized access to the system. Unauthorized access to the system may result in the improper access to and dissemination of confidential data, submission of false transactions and other malicious activities.

## **Recommendation**

### **1. Security Management**

We recommend that FMCS' management continue its efforts to implement security awareness training at all of its district offices. FMCS must also enforce sanctions against personnel who do not successfully complete the security awareness training as required by NIST SP 800-53, Revision 3.

### **2. Access Controls**

We recommend that FMCS configure administrator passwords to expire every 60 days. Alternatively, FMCS could document the rationale behind the current password configuration settings for administrators.

## **Management's Response**

1. FMCS has fully implemented annual security awareness training using the services of KeystoneOnDemand online training. The training was put online in September of 2014 and sent out as an email to complete the training. After the initial email notification of training multiple follow up emails have been sent to the individuals who have not completed the training. As of 11/13/2014 there are currently 47 of 231 users who have not completed the training. This is an 80% completion rate.

As a corrective action a final follow up reminder email for those users who have not completed the training will be sent on 11/14/2014 giving them one week to do so. The supervisors of those individuals who have not completed the training in that time will be contacted and sent an email notifying them that their employee's remote access will be disabled pending their completion of the annual security awareness training.

2. Corrective action has been taken to fully remediate this finding. The maximum password age has been corrected to a maximum of 60 days for Administrative users.



### **Auditor's Response**

We will conduct follow-up procedures in FY 2015 to determine whether corrective actions have been developed and implemented.

### **Improvements needed in FMCS Preparation and Review of Financial Statements**

Improvements are needed in Federal Mediation and Conciliation Services (FMCS) procedures for preparing and reviewing financial statements. During our review of FMCS's 06/30/14 financial statements we identified the following errors:

- The balance for Unexpended Appropriations reported on the Balance Sheet was not in agreement with Unexpended Appropriations reported on the Statement of Changes in Net Position (SCNP).
- Cumulative Results of Operations and Unexpended Appropriations displayed on SCNP did not total correctly, as incorrect signs were used.
- The balances of unexpended appropriations and appropriations used on the Statement of Changes in Net Position were misstated by \$4.9 million. Appropriations used was erroneously double counted for one of FMCS Treasury Account Symbols.

During our review of the 09/30/14 financial statements package we identified the following errors:

- Intragovernmental Accounts Payable reported on the Balance Sheet was not in agreement with FMCS general ledger or the Supplemental Information section of 09/30/14 FMCS financial statement package.
- The portion of the Employer Contributions and Payroll Taxes Payable related to Office of Personnel Management (OPM) was not properly classified as Intragovernmental liability.
- Unexpended Appropriations and Cumulative Results of Operations were misstated by \$70 thousand due to FMCS recognizing the use of appropriations for a prepaid maintenance expense for FY 2015.
- In Note 6, FMCS did not include Actuarial FECA Liabilities as a liability not covered by budgetary resources. This caused liabilities not covered by budgetary resource to be misstated by \$3.1 million in the note disclosure. Also, FMCS did not describe the nature of the liabilities not covered by budgetary resources as required by OMB Circular A-136.

- In Note 8, FMCS incorrectly classified Accounts Payable and Accounts Receivable as Undelivered Orders. This caused Undelivered Orders in Note 14 to be misstated by \$1.1 million.
- In Note 14, Increase in Annual Leave Liability did not agree with FMCS general ledger.

The Government Accountability Office's (GAO) *Standards for Internal Control in the Federal Government*, states "Internal control and all transactions and other significant events need to be clearly documented, and the documentation should be readily available for examination. The documentation should appear in management directives, administrative policies, or operating manuals and may be in paper or electronic form. All documentation and records should be properly managed and maintained."

FMCS does not have documented procedures or specific guidance on the preparation or review of the financial statement package that would guide FMCS management and personnel during the financial reporting process. Also, FMCS does not have an adequate amount of employees with financial statement preparation knowledge and experience to have a preparer of the financial statements and have a reviewer of the financial statements.

FMCS's failure to properly review the financial statements increases the risk for material misstatement being present in the financial statements and notes.

### **Recommendation**

We recommend FMCS:

- Develop and implement policies and procedures to ensure proper preparation of the financial statements.
- Consider training more than one employee on financial statement preparation and require an independent review of the financial statements.
- Develop a checklist and edit checks to ensure that all OMB Circular No. A-136 requirements are met and that all line items that are supposed to equal are in balance.

### **Management Response**

We have reviewed the finding above related to the internal control over financial reporting and concur with your recommendations.

- Management will implement policies and procedures to ensure proper preparation of financial statements.

- We will have review of the financial statements done internally by competent and trained individuals. We will train more than one employee to prepare the financial statements.
- Develop a checklist and ensure edit and data validation checks are prevalent to ensure that OMB circular no. A-136 requirements are thoroughly met and that all line items in the financial statements are accurate and accurately reflected in the footnotes. We will also make sure we comply with all regulations related to financial reporting requirements as outlined by FASAB, GAO and OMB.

**Auditor's Response**

We will conduct follow-up procedures in FY 2015 to determine whether corrective actions have been developed and implemented.

Exhibit II  
Status of Prior Year Findings and Recommendations

The following table provides the fiscal year (FY) 2014 status of all recommendations included in the Independent Auditors' Report on the Federal Mediation and Conciliation Service's FY 2013 Consolidated Financial Statements (December 16, 2013)

FY 2013 Finding	FY 2013 Recommendation	FY 2014 Status
Security Management	<b>Recommendation:</b> We recommend that FMCS management continue its efforts to implement security awareness training at all of its district offices. FMCS must also enforce sanctions against personnel who do not successfully complete the security awareness training as require by NIST SP 800-53, Revision 3.	Open
Access Control	<b>Recommendation:</b> We recommend that FMCS management update its password policies and procedures for Microsoft Windows to require 60 day maximum password expiration interval established by the United States Government Configuration Baseline (USGCB). FMCS should employ a risk-based decision process for any deviations to stated policies, guidelines, or regulations and document the decisions accordingly.	Open
	We recommend that FMCS management establish policies and procedures to restrict the use of generic user accounts and require unique identifiers for user accounts to ensure individual user accountability in accordance with NIST SP 800-53, Revision 3.	Closed
	We recommend the FMCS management establish policies and procedures to monitor and periodically review user accounts, and remove user accounts that are no longer needed as required by NIST SP 800-53, Revision 3.	Closed

**Federal Mediation and Conciliation Service**

**Fiscal Year 2014  
Financial Statements**



**FEDERAL MEDIATION AND CONCILIATION SERVICES**  
**BALANCE SHEET**  
**AS OF SEPTEMBER 30, 2014 AND 2013**  
(In Dollars)

	2014	2013
<b>Assets:</b>		
Intragovernmental		
Fund Balance with Treasury (Note 2)	\$ 11,017,719	\$ 9,519,068
Accounts Receivable, Net (Note 3)	124,434	25,278
<b>Total intragovernmental assets</b>	<b>\$ 11,142,153</b>	<b>\$ 9,544,346</b>
With the Public		
General property and equipment, net (Note 4)	\$ 408,293	\$ 492,604
Advances to Others	70,000	-
<b>Total Assets</b>	<b>\$ 11,620,446</b>	<b>\$ 10,036,950</b>
<b>Liabilities</b>		
Intragovernmental		
Liabilities for Advances	\$ -	\$ 212,313
Accounts Payable	19,172	27,759
Employer Contributions and Payroll Taxes Payable	166,122	-
Custodial Liability	-	727
Unfunded FECA (Note 5)	665,647	896,773
<b>Total Intragovernmental</b>	<b>\$ 850,941</b>	<b>\$1,137,572</b>
Non Government		
Accounts Payable	\$ 381,685	\$ 414,133
Accrued Payroll and Benefits	714,538	804,435
Actuarial FECA (Note 5)	3,146,768	-
Unfunded Leave (Note 5)	2,665,908	2,824,174
<b>Total Non Government Liabilities</b>	<b>\$ 6,908,899</b>	<b>\$ 4,042,742</b>
<b>Total Liabilities</b>	<b>\$ 7,759,840</b>	<b>\$ 5,180,314</b>
<b>Net Position</b>		
Unexpended Appropriations-Other Funds	\$ 5,593,862	\$ 3,786,340
Cumulative Results of Operations-Other Funds	(1,733,256)	1,070,296
<b>Total Net Position</b>	<b>\$ 3,860,606</b>	<b>\$ 4,856,636</b>
<b>Total Liabilities And Net Position</b>	<b>\$ 11,620,446</b>	<b>\$ 10,036,950</b>

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

**FEDERAL MEDIATION AND CONCILIATION SERVICES**  
**STATEMENT OF NET COST**  
**FOR THE YEARS ENDED SEPTEMBER 30, 2014 AND 2013**  
**( In Dollars)**

	2014	2013
<b>Program Costs:</b>		
Mediation/Representation		
Intragovernmental	\$ 13,052,986	\$ 13,190,430
Less: Governmental Earned Revenue	1,165,228	1,221,583
<b>Total Government Costs</b>	<b>\$ 11,887,758</b>	<b>\$ 11,968,847</b>
With the Public	\$ 36,829,102	\$ 35,897,588
Less: With the Public Earned Revenue	872,395	944,209
<b>Total With the Public Costs</b>	<b>\$ 35,956,707</b>	<b>\$ 34,953,379</b>
Total Gross Program Costs	\$ 49,882,088	\$ 49,088,018
Less: Total Earned Revenues	2,037,623	2,165,792
<b>Net Costs of Operations</b>	<b>\$ 47,844,465</b>	<b>\$ 46,922,226</b>

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

**FEDERAL MEDIATION AND CONCILIATION SERVICES**  
**STATEMENT OF CHANGES IN NET POSITION**  
**FOR THE YEARS ENDED SEPTEMBER 30, 2014 AND 2013**  
**(In Dollars)**

	2014	2013
<b>Cumulative Results of Operations:</b>		
Beginning Balances	\$ 1,070,296	\$ 1,408,289
Beginning Balances, as Adjusted	\$ 1,070,296	\$ 1,408,289
Budgetary Financing Sources		
Appropriations Used	42,957,525	44,696,008
Other Financing Sources		
Imputed Financing (Note 9)	2,083,388	1,888,953
Other Revenue		(727)
Total Financing Sources	45,040,913	46,584,234
Net Cost of Operations	(47,844,465)	(46,922,226)
Net Change	(2,803,552)	(337,993)
Cumulative Results of Operations	\$ (1,733,256)	\$ 1,070,296
<b>Unexpended Appropriations:</b>		
Beginning Balances	\$ 3,786,341	\$ 5,063,976
Beginning Balances, as Adjusted	\$ 3,786,341	\$ 5,063,976
<b>Budgetary Financing Sources:</b>		
Appropriations Received	45,149,000	46,162,588
Other Adjustments	(383,954)	(2,744,215)
Appropriations Used	(42,957,525)	(44,696,008)
Total Budgetary Financing Resources	1,807,521	(1,277,635)
Total Unexpended Appropriations	\$ 5,593,862	\$ 3,786,341
Net Position	\$ 3,860,606	\$ 4,856,637

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



**FEDERAL MEDIATION AND CONCILIATION SERVICES**  
**STATEMENT OF BUDGETARY RESOURCES**  
**FOR THE YEARS ENDED SEPTEMBER 30, 2014 AND 2013**  
(In Dollars)

	2014	2013
<b>Budgetary resources:</b>		
Unobligated balance brought forward, October 1	\$ 6,410,142	\$ 6,115,205
Recoveries of prior year unpaid obligations	502,164	554,251
Other changes in unobligated balance	(383,954)	(2,744,215)
Unobligated balance from prior year budget authority, net	\$ 6,528,352	\$ 3,925,241
Appropriations (discretionary and mandatory)	45,149,000	46,162,588
Spending authority (discretionary and mandatory)	1,882,088	2,391,503
<b>Total budgetary resources</b>	<b>\$ 53,559,440</b>	<b>\$ 52,479,332</b>
<b>Status of budgetary resources:</b>		
Obligations incurred (Note 6):	\$ 46,272,864	\$ 46,069,190
Unobligated balance, end of year:		
Apportioned	1,770,788	816,383
Unapportioned	5,515,788	5,593,759
Total unobligated balance, end of year	\$ 7,286,576	\$ 6,410,142
<b>Total status of budgetary resources</b>	<b>\$ 53,559,440</b>	<b>\$ 52,479,332</b>
<b>Change in obligated balance:</b>		
<b>Unpaid obligations:</b>		
Unpaid obligations, brought forward, October 1 (gross)	\$ 3,085,977	\$ 7,447,998
Obligations incurred	46,272,864	46,069,190
Outlays (gross)	(45,048,600)	(49,876,960)
Recoveries of prior year unpaid obligations	(502,164)	(554,251)
Unpaid obligations, end of year (gross)	\$ 3,808,077	\$ 3,085,977
<b>Uncollected payments:</b>		
Uncollected customer payments from Federal Sources, brought forward, October 1	(25,278)	(88,439)
Adjustments to uncollected pymts, Fed sources, start of year	-	-
Change in uncollected payments from Federal sources	(99,156)	63,160
<b>Obligated Balance, End of Year</b>	<b>\$ 3,683,643</b>	<b>\$ 3,060,699</b>
Obligation Start of Year	\$ 3,060,699	\$ 7,359,560
Obligation End of Year	\$ 3,683,643	\$ 3,060,699
<b>Budget Authority and Outlays, Net</b>		
Budget authority, gross	\$ 47,031,088	\$ 46,139,510
Actual offsetting collections	(1,782,932)	(2,502,165)
Change in uncollected customer payments from Federal sources	(99,156)	63,160
<b>Budget authority, net</b>	<b>\$ 45,149,000</b>	<b>\$ 43,700,505</b>
Outlays, gross	\$ 45,048,600	\$ 49,876,960
Actual offsetting collections	(1,782,932)	(2,502,165)
Outlays, net	\$ 43,265,668	\$ 47,374,795
Distributed offsetting receipts	-	(727)
<b>Agency outlays, net</b>	<b>\$ 43,265,668</b>	<b>\$ 47,374,068</b>

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

**FEDERAL MEDIATION AND CONCILIATION SERVICE**  
**Notes to Principal Financial Statements**  
**As of September 30, 2014 and 2013**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Reporting Entity**

FMCS is an independent Federal agency whose primary mission is to prevent or minimize labor-management disputes affecting interstate commerce by providing mediation, conciliation, and voluntary arbitration. These activities are performed in both the private and public sectors, except for the railroad and airline industries, which are covered by the Railway Labor Act and the National Mediation Board, respectively.

At September 30, 2014, FMCS consisted of a national office, ten district offices, and 58 field offices.

**B. Basis of Presentation**

These financial statements have been prepared from the books and records of FMCS to report the financial position and results of operations of the Federal Mediation and Conciliation Service (FMCS) as required by the Government Management Reform Act of 1994, Public Law 103-356, 108, Stat. 3515 in accordance with accounting principles generally accepted in the United States (GAAP), and the form and content for entity's financial statements specified by the Office of Management and Budget (OMB) in OMB Circular No. A-136, *Financial Reporting Requirements*, as revised. GAAP for federal entities are standards prescribed by the Federal Accounting Standards Advisory Board (FASAB), which has been designated the official accounting standards-setting body for the federal government by the American Institute of Certified Public Accountants (AICPA).

OMB Circular No. A-136 requires agencies to prepare basic financial statements, which include a Balance Sheet, Statement of Net Cost, Statement of Changes in Net Position and a Statement of Budgetary Resources. The Balance Sheets present, as of September 30, 2014 and 2013, amounts of future economic benefits owned or managed by the FMCS (assets), amounts owed by the FMCS (liabilities) and amounts which comprise the difference (net position). The Statements of Net Cost report the full cost of the Agency's program, both direct and indirect costs of the output, and the costs of the identifiable supporting services provided by other segments within the FMCS. The statement of Budgetary Resources reports the FMCS's budgetary activity.

Net Position, shown on the Balance Sheet, is composed of unexpended appropriations and cumulative results of operations. Unexpended appropriations are appropriated funds obligated during the period when they were available for obligation. Those goods and services to be provided to FMCS that have not been completely received at the end of the

fiscal year will be delivered in a subsequent year. Funds to cover the cost of those goods and services are carried forward after fiscal year end close. “Cumulative results of operations” is the account to which revenues and expenses are closed.

**C. Dedicated Collections**

FMCS has no funds from dedicated collections as described by the Statement of Federal Financial Accounting Standards (SFFAS) 43.

**D. Basis of Accounting**

FMCS prepares financial statements to report its financial position and results of operations pursuant to the requirements of 31 U.S.C. 3515(b), the Chief Financial Officers Act of 1990 (P.L. 101-576), as amended by the Government Management Reform Act of 1994, and in accordance with the requirements in OMB Circular No. A-136, as revised. These statements have been prepared from the FMCS’ financial records using the accrual basis in conformity with GAAP. GAAP for federal entities are the standards prescribed by the FASAB and recognized by the AICPA as federal GAAP.

Transactions are recorded on the accrual and budgetary bases of accounting. According to the accrual basis of accounting, revenues are recognized when earned, and expenses are recorded when resources are consumed, without regard to the payment of cash. Budgetary accounting principles, on the other hand, are designed to recognize the obligation of funds according to legal requirements, which in many cases is prior to the occurrence of accrual based transactions. The recognition of budgetary accounting transactions is essential for compliance with legal constraints and controls over the use of federal funds. The FMCS uses the cash basis of accounting for some programs with accrual adjustments made by recording year-end estimates of unpaid liabilities.

**E. 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 assets and liabilities, at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

**F. Funds Balances with U.S. Department of the Treasury and Cash**

FMCS maintains its available funds with the Department of the Treasury (Treasury). The funds balance with Treasury is available to pay current liabilities and finance authorized purchases. Cash receipts and disbursements are processed by Treasury and reconciled with those of Treasury on a regular basis. Note 2, Funds Balance with Treasury, provide additional information.

### **G. Accounts Receivable**

Accounts receivable consist of the amounts owed to FMCS as the result of the provision of goods and services. Intra-governmental accounts receivable generally arise from the provision of reimbursable services to other federal agencies and no allowance for uncollectible accounts is established as those accounts are considered to be fully collectible.

### **H. General Property and Equipment**

General property and equipment (P&E) consists of software and equipment used for operations. The basis for recording purchased P&E is acquisition cost, which includes all costs incurred to bring the P&E to its intended use. All P&E with initial acquisition cost of \$5,000 or more and estimated useful lives of two years or more are capitalized except for internal use software discussed below.

The P&E is depreciated using the straight-line method over the estimated useful lives of assets. Maintenance and repair costs are expensed as incurred.

### **I. Liabilities**

Liabilities represent the amount of monies or other resources that are likely to be paid by FMCS as a result of a transaction or event that has already occurred. Since FMCS is a component of the U.S. Government, a sovereign entity, its liabilities cannot be liquidated without legislation providing resources to do so. Liabilities for which an appropriation has not been enacted are classified as unfunded liabilities and there is no certainty that corresponding future appropriations will be enacted. Liabilities arising from other than contracts can be abrogated by the Government, acting in its sovereign capacity. Since liabilities are only those items that are present obligations of the government. The FMCS's liabilities are classified as covered by budgetary resources or not covered by budgetary resources.

*Liabilities Covered by Budgetary Resources* include: (1) new budget authority, (2) spending authority from offsetting collections, (3) recoveries of expired budget authority, (4) unobligated balances of budgetary resources at the beginning of the year, and (5) permanent indefinite appropriations or borrowing authority. *Liabilities Not Covered by Budgetary Resources* represent liabilities where funding has not yet been made available through Congressional appropriations or current earnings. The major liabilities in this category include employee annual leave earned but not taken. *Liabilities Covered by Budgetary Resources and Liabilities Not Covered by Budgetary Resources* are combined on the balance sheets.

### **J. Accounts Payable**

Accounts payable primarily consist of amounts due for goods and services received, progress on contract performance, interest due on accounts payable and other miscellaneous payables.

**K. Accrued Payroll and Benefits**

Accrued payroll and benefits consist of salaries, wages, leave and benefits earned but not taken or disbursed as of year end. Annual and compensatory leave is expended with an offsetting liability as it is earned and the liability is reduced as leave is taken. Each year, the balance in the accrued annual leave liability account is adjusted to reflect current pay rates. To the extent current or prior year appropriations are not available to fund annual and compensatory leave earned but not taken; funding will be obtained from future financing resources. Sick leave and other types of non-vested leave are expended as taken.

**L. Interest on Late Payments**

Pursuant to the Prompt Payment Act, 31 U.S.C. 3901-3907, Federal agencies must pay interest on payments for goods and services made to business concerns after the due date. The due date is generally 30 days after receipts of a proper invoice or acceptance of the goods or services and 15 days for Small Businesses.

**M. Federal Employee Benefits**

With a few exceptions, employees hired before January 1, 1984, are covered by the Civil Service Retirement System (CSRS) and employees first hired after December 31, 1983, are covered by the Federal Employees Retirement System (FERS). Employees hired on or after January 1, 2013, are covered by the FERS-RAE (Revised Annuity Employee). Those hired on or after January 1, 2014 are covered under FERS-FRAE (Further Revised Annuity Employee).

For employees covered under CSRS, the FMCS withholds 7.0% of each employee's salary and contributes a matching amount to the fund. CSRS covered employees do not have FICA withholdings and, thus do not accrue Social Security benefits. However, 1.45% for Medicare is withheld and matched.

Employees covered under CSRS Offset have 0.8% of their basic pay withheld from their salaries biweekly. FMCS contributes 7% of their basic salaries to CSRS and 7.65%

(6.2% OASDI + 1.45% Medicare) of their gross pay to Social Security biweekly. If an employee reaches the annual Social Security wages maximum and withholding stop for OASDI tax, the CSRS withholding increases to 7% (0.8% + 6.2%).

For employees covered under FERS, in addition to FICA withholdings, FMCS withholds approximately 0.8% from employees' basic earnings for a retirement annuity. FMCS makes contributions to the plan at an established rate by OPM which was 11.9% and 11.7% for 2014 and 2013, respectively. Under FERS, employees also receive retirement benefits from Social Security and benefits from a defined contribution plan called Thrift Savings Plan. Under the thrift plan, an employee may contribute up to the annual IRS limit to a tax deferred investment fund. FMCS contributes 1% of salary for FERS

employees, whether or not they contribute their own money to the Thrift Savings Plan. For FERS employees who do contribute their own money to the Thrift Savings Plan, FMCS matches the amount dollar-for-dollar on the first 3% and 0.50 cents on the dollar for each of the next 2%. The combined automatic and matching portion of FMCS' contribution cannot exceed 5% of salary. Those employees who elected to remain under CSRS after December 31, 1983 and those covered by CSRS offset, continue to receive benefits in place, and may also contribute (tax deferred) up to the annual IRS limit to the thrift plan, but with no matching amount contributed by FMCS. CSRS, CSRS Offset and FERS employees are eligible to contribute an additional tax deferred amount to TSP for a "TSP Catch-Up" if they are over age 50 and have contributed the maximum in "regular" TSP deductions during the tax year. There is no match on the catch-up contributions.

For employees covered under FERS-RAE, in addition to FICA withholdings, FMCS withholds 3.1% from employees' basic earnings for a retirement annuity. For employees covered under FERS-FRAE, in addition to FICA withholdings, FMCS withholds 4.4% from employee's basic earnings for a retirement annuity. FMCS makes contributions to the plan at an established rate by OPM of 9.6% through September 30<sup>th</sup>, 2014 and 11.1% after October 1<sup>st</sup>, 2014. Otherwise, the same information regarding FERS employees is the same as above.

The U.S. Office of Personnel and Management administers these benefit plans and, thus, report CSRS or FERS assets, accumulated plan benefits or unfunded liabilities applicable to federal employees. Therefore, the FMCS financial statements do not recognize any liability on its balance sheets for pension, other retirement benefits and other post employment benefits.

#### **N. Actuarial Liabilities**

The Federal Employees' Compensation Act (FECA) provides wage loss benefits, medical benefits, and vocational rehabilitation to cover Federal civilian employees injured on the job, employees who have incurred a work-related occupational disease, and survivor benefits to eligible dependants of injured workers whose death is attributable to a job-related injury or occupational disease. Claims incurred for benefits for FMCS employees under FECA are administered by the Department of Labor (DOL) and are ultimately paid by FMCS. The future workers' compensation liability has two components, (1) unpaid billings, and (2) an amount of estimated unbilled claims. The unbilled claims are estimated by applying actuarial procedures. The DOL calculated the liability of the Federal Government for future compensation benefits, which includes the expected liability for death, disability, medical, and miscellaneous costs for approved compensation costs. The liability was determined using the paid-losses extrapolation method patterns related to a specific incurred period to predict the ultimate payments related to that period. The projected annual benefit payments were discounted to present value. The resulting Federal Government liability was then distributed by agency.

In accordance with Office of Management and Budget (OMB) guidance, each reporting entity preparing financial statements under the Chief Financial Officers Act and the Government Management Reform Act should include its respective portion of the

actuarial liability for workers' compensation benefits as a liability in its financial statement, if such amounts are material. The FECA actuarial data is for financial statement presentation only and should not be used as a standard for incorporating actuarial liabilities in fees, prices, and reimbursements. This liability constitutes an extended future estimate of cost, which will not be obligated against budgetary resources until the fiscal year in which the cost is actually billed to FMCS.

**O. Comparative Data**

Comparative data for the prior year have been presented in order to provide an understanding of changes in the financial position and operations of FMCS.

**P. Revenues and other Financing Sources**

FMCS receives the majority of the funding needed to support its operations through appropriations. The Agency receives annual appropriations that may be used, within statutory limits, for operating expenditures. Additional amounts are obtained from fees reimbursed for alternative dispute resolution and arbitration services provided to the federal, public and private sectors.

Appropriations are recognized as other financing sources when used and fees for services are recognized as revenues at the time they are earned and the related program or administrative expenses are incurred. Appropriations accrued for property and equipment are recognized as expenses when the asset is consumed in operations.

**Q. Contingencies and commitments**

FMCS leases various facilities accounted for as operating leases. Assets held under these leases consist primarily of offices and parking facilities. All of the space occupied by FMCS is leased by the General Services Administration (GSA). The space is assigned to FMCS by GSA based on FMCS' square footage requirements. The rent charged by GSA is based on approximate commercial rates for commercial space and actual rates for private buildings. FMCS may terminate the leases with GSA; however, it is anticipated that FMCS will continue to occupy and lease space from GSA in future years.

**NOTE 2: FUND BALANCE WITH THE U.S. TREASURY**

The Fund Balance with the U.S. Treasury as reported in the financial statements represents the unexpended cash balance on the FMCS books for all FMCS Treasury Symbols and custodial liability. The balances were comprised of the following at September 30:

<b>A. Fund Balance:</b>	<b>2014</b>	<b>2013</b>
General Funds	\$ 11,017,719	\$9,519,068
<b>Total Fund Balance with Treasury</b>	<b>\$ 11,017,719</b>	<b>\$9,519,068</b>
<b>B. Status of Fund Balance with Treasury</b>		
Unobligated Balance:		
Available	\$ 1,770,788	\$ 816,383
Unavailable	5,515,788	5,641,259
Obligated Balance Not Yet Disbursed	3,731,143	3,061,426
<b>Total Status of Fund Balance with Treasury</b>	<b>\$ 11,017,719</b>	<b>\$9,519,068</b>

**NOTE 3 ACCOUNTS RECEIVABLE**

Accounts receivable consist primarily of amounts due from federal government departments and other agencies. Since these receivable are from other government agencies, management believes these receivables are fully collectable. The receivable balance consisted of the following at September 30:

	<b>2014</b>	<b>2013</b>
Accounts Receivable (Gov)	\$ 124,434	\$25,278
Accounts Receivable (NonGov)	-	-
<b>Total Accounts Receivable</b>	<b>\$ 124,434</b>	<b>\$25,278</b>

**NOTE 4: GENERAL PROPERTY AND EQUIPMENT**

Property and equipment owned by FMCS are all classified as equipment and consisted of the following at September 30:

	<b>2014</b>	<b>2013</b>
Equipment, Furniture and Hardware	\$ 2,040,068	\$ 1,881,499
ADP Software	22,377	22,377
<b>Total</b>	<b>2,062,445</b>	<b>1,903,876</b>
Less: Accumulated depreciation on Equipment and Furniture	(1,631,775)	(1,388,895)
Less: Accumulated amortization on ADP Software	(22,377)	(22,377)
<b>Net Book Value</b>	<b>\$ 408,293</b>	<b>\$ 492,604</b>



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

The liabilities on FMCS's Balance Sheet as of September 30, 2014 and 2013 include liabilities not covered by budgetary resources for which congressional action is needed before budgetary resources can be provided. Although future appropriations to fund these liabilities are likely and anticipated, it is not certain that appropriations will be enacted to fund these liabilities.

**A. Intragovernmental and Public Liabilities**

	<u>2014</u>	<u>2013</u>
Intragovernmental:		
Unfunded FECA Liability	\$ 665,647	\$ 896,773
Total Intragovernmental	665,647	896,773
Public Liabilities:		
Actuarial FECA	\$ 3,146,768	\$ -
Unfunded Annual Leave	2,665,908	2,824,174
Total Liabilities Not Covered by Budgetary Resources	6,478,323	3,720,947
Total Liabilities Covered by Budgetary Resources	1,281,517	1,459,367
Total Liabilities	<u>\$ 7,759,840</u>	<u>\$ 5,180,314</u>

**B. Other Information**

Unfunded Payroll Liabilities consists of workers' compensation claims payable to the Department of Labor, 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. The actuarial calculation is based on benefit payments made over 12 quarters, and calculates the annual average of payments. For medical expenses and compensation, this average is then multiplied by the liability-to-benefit paid ratio for the whole FECA program.

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

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

**NOTE 6: Apportionment Categories of Obligations Incurred: Direct vs. Reimbursable Obligations**

Direct vs. Reimbursable Obligations incurred had the following apportionment categories:

	<u>2014</u>	<u>2013</u>
Direct Obligations (Category A)	\$ 44,996,450	\$ 44,523,263
Reimbursable Obligations (Category A)	<u>1,276,414</u>	<u>1,545,927</u>
Total	<u>\$ 46,272,864</u>	<u>\$ 46,069,190</u>

**Note 7: Undelivered Orders at the End of the Period**

The amount of budgetary resources obligated for undelivered orders at September 30, 2014 and 2013 is \$2,596,558 and \$1,839,650 respectively.

**NOTE 8: OPERATING LEASES**

FMCS leases office space for headquarters operations in Washington, D.C. and for district and field operations. The lease agreements expire at various dates, the latest being 2023. Assets held under these leases consist primarily of offices. All office space occupied by FMCS is leased by the General Services Administration.

Future estimated minimum lease payments for the fiscal years ended September 30 are as follows:

<u>Schedule of Future Minimum Lease Payments</u>	
2015	\$ 5,766,000
2016	5,969,541
2017	6,180,267
2018	6,398,432
2019	<u>6,624,298</u>
Total Future Minimum Lease Payments	<u>\$ 30,938,538</u>

Rent expense totaled \$5,569,399 and \$5,211,825 for fiscal years September 30, 2014 and 2013 respectively.

**NOTE 9: PENSIONS, OTHER RETIREMENT BENEFITS, AND OTHER POST RETIREMENT BENEFITS**

The FMCS reports the full cost of employee pensions, other retirement benefits, and other post-employment benefits in accordance with SFFAS No. 5, *Accounting for Liabilities of the Federal Government*. Although the FMCS funds a portion of the benefits under FERS and CSRS relating to its employees and withholds the necessary payroll deductions, a portion of the Normal Pension Cost remains unpaid. SFFAS No. 5 requires the recognition of this remaining cost as imputed financing.

FMCS also funds a portion of the benefits for health and life insurance relating to its employees and withholds the necessary premiums as established annually by the Office of Personnel management. The FMCS portion of the health insurance premium is determined by the Office of Personnel Management and is based upon the plan under which the employee is enrolled. The FMCS portion of the basic life insurance coverage is 2/3 of the premium. The premium is determined by the employee’s annual salary rounded to the next \$1,000, plus \$2,000.

Pension and other retirement benefit expenses are calculated using cost factors determined by actuaries at the Office of Personnel Management. These cost factors are calculated based on economic and demographic assumptions. The cost factor is multiplied by the basic pay in order to obtain the Normal Cost for the accounting period. This Normal Cost is the present value of the projected benefits of each employee allocated on a level basis over the service of the employee between entry age and assumed exit age.

The imputed financing amount represents the difference between normal cost of the benefit plan and the employer’s total pension expense and the employers contribution.

Imputed financing sources in 2014 and 2013 consists of the following:

	<u>2014</u>	<u>2013</u>
Office of Personnel Management	\$ 2,083,388	\$ 1,888,953
Total Imputed Financing Sources	<u>\$ 2,083,388</u>	<u>\$ 1,888,953</u>

**Note 10: Statement of Budgetary Resources vs. Budget of the United States Government**

The Budget of the United States Government with actual amounts for the year ended September 30, 2014, has not been published as of the issue date of these financial statements. A reconciliation of budgetary resources, obligations incurred and net outlays (in millions), as presented in the Statement of Budgetary Resources, to amounts included in the Budget of the United States Government for the year ended September 30, 2013, is shown below. The Federal Mediation and Conciliation Services Budget Appendix can be found on the OMB website (<http://www.whitehouse.gov/omb/budget>) and will be available in early February 2015.

(In millions)

	Budgetary Resources	Obligations Incurred	Distributed Offsetting Receipts	Net Outlays
Statement of Budgetary Resources	\$ 52	\$ 46	\$ -	\$ 47
Difference-Expired Appropriations	(1)	-	-	-
Budget of the U.S. Government	\$ 51	\$ 46	\$ -	\$ 47

The difference between the Statement of Budgetary Resources and the Budget of the U.S. Government is due to Expired Unobligated Balances being reported in the FY 2013 Statement of Budgetary Resources but not in the Budget of the United States Government.

**Note 11: Reconciliation of Net Cost of Operation to Budget (Statement of Financing)**

**FEDERAL MEDIATION AND CONCILIATION SERVICES  
RECONCILIATION OF NET COST OF OPERATIONS (PROPRIETARY) TO BUDGET  
FOR THE YEARS ENDED SEPTEMBER 30, 2014 AND 2013  
(In Dollars)**

	<u>2014</u>	<u>2013</u>
<b>Resources Used to Finance Activities</b>		
Budgetary Resources Obligated:		
Obligations Incurred	\$ 46,272,864	\$ 46,069,190
Less: Spending Authority from Offsetting Collections and Recoveries	<u>(2,384,253)</u>	<u>(2,993,257)</u>
Obligations Net of Offsetting Collections and Recoveries	43,888,611	43,075,933
Less: Offsetting Receipts	-	(727)
Net Obligations	<u>43,888,611</u>	<u>43,075,206</u>
Other Resources:		
Imputed Financing from Costs Absorbed by Other	<u>2,083,388</u>	<u>1,888,953</u>
<b>Total Resources Used to Finance Activities</b>	<b><u>\$ 45,971,999</u></b>	<b><u>\$ 44,964,159</u></b>
<b>Resources Used to Finance Items not Part of the New Cost Of Operations</b>		
Change in Budgetary Resources Obligated for Goods, Services and Benefits Ordered but not yet Provided	\$ (969,221)	\$ 1,409,994
Resources that Fund Expenses Recognized in Prior Periods	2,915,642	(126,830)
Resources that Finance the Acquisition of Assets	(158,569)	238,652
Other Resources or Adjustments to New Obligated Resources that do not Affect Net Cost of Operation	-	-
Total Resources Used to Finance Items not Part of the Net Cost of Operations	<u>1,787,852</u>	<u>1,521,816</u>
Total Resources Used to Finance the Net Cost of Operations	\$ 47,759,851	\$ 46,485,975
<b>Components of the Net Cost of Operations That Will Not Require or Generate Resources in the Current Period</b>		
Components Requiring or Generating Resources in Future Periods:		
Increase in Annual Leave Liability	\$ (158,266)	\$ 176,749
<b><u>Components Not Requiring or Generating Resources:</u></b>		
Depreciation and Amortization	242,880	270,831
Revaluation of Assets or Liabilities		
Other	<u>(11,329)</u>	<u>(11,329)</u>
Total Components of Net Cost of Operation that will not Require or Generate Resources in the Current Period	<u>\$ 84,614</u>	<u>\$ 436,251</u>
<b>Net Cost of Operations</b>	<b><u>\$ 47,844,465</u></b>	<b><u>\$ 46,922,226</u></b>

**SUPPLEMENTAL INFORMATION**

**INTRA-GOVERNMENTAL BALANCES BY TRADING PARTNER:**

**Intra-governmental Assets by Trading Partner:**

Trading Partner	ID	Fund Balance with Treasury	Accounts Receivable	Other Assets
				\$
Library of Congress	03	\$ -	\$ 800	-
United States Department of Agriculture	12	-	10,367	-
National Oceanic and Atmospheric Administration	13	-	754	-
Department of Interior	14	-	12,150	-
Department of Labor	16	-	15,343	-
US Marine Corps	17	-	4,428	-
Department of State	19	-	1,800	-
Department of Treasury	20	11,017,719		-
Office of Personnel Management	24	-	17,457	-
Department of Veteran Affairs	36	-	6,544	-
Department of Transportation	69	-	1,800	-
Department of Homeland Security	70	-	17,727	-
US Agency for International Development	72	-	2,700	-
Health and Human Services	75	-	30,375	-
Department of Housing and Urban Development	86	-	1,600	-
US Army	97	-	589	-
Treasury General Fund	99			
				\$
<b>Total Intra-governmental Assets</b>		\$ 11,017,719	\$ 124,434	-

**Intra-governmental Liabilities by Trading Partner:**

Trading Partner	ID	Accounts Payable	Liabilities
Department of Treasury	20	\$ -	\$ -
Office of Personnel Management	24	2,565	-
Department of Veteran Affairs	36	-	-
General Services Administration	47	15,424	-
Department of Transportation	69	-	-
Health and Human Services	75	977	-
Health and Human Services	75	-	-
National Archives	88	206	-
Treasury General Fund	99	-	-
<b>Total Intra-governmental Liabilities</b>		\$ 19,172	\$ -