FEDERAL MEDIATION AND CONCILIATION SERVICE

AUDIT REPORTS
IN ACCORDANCE WITH THE REPORTING REQUIREMENTS OF THE FEDERAL ACCOUNTING STANDARDS ADVISORY BOARD

For the Years Ended September 30, 2012 and 2011

Walker & Co., LLP
Assurance, Business and Advisory Services

FEDERAL MEDIATION AND CONCILIATION SERVICE

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Walker & Co., LLP
Assurance, Business and Advisory Services

REPORT OF INDEPENDENT AUDITORS

Director
Federal Mediation and Conciliation Service

We have audited the accompanying balance sheets of the Federal Mediation and Conciliation Service (FMCS) as of September 30, 2012 and 2011 and the related statements of net cost, changes in net position and budgetary resources for the years then ended. These financial statements are the responsibility of the FMCS's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements,* as amended. 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of FMCS as of September 30, 2012 and 2011, and its net cost, changes in net position and budgetary resources for the years then ended in conformity with accounting principles generally accepted in the United States.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The information in the Required Supplementary Information section is not a required part of the basic financial statements, but is supplementary information required by OMB Circular A-136, *Financial Reporting Requirements.* We have applied certain limited procedures to such information, which consisted principally of inquires of management regarding the methods of measurement and presentation of the supplementary information. We also reviewed such information for consistency with the related information presented in FMCS financial statements. We did not audit this information and, accordingly, express no opinion on it.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our fiscal year 2012 audit, we considered FMCS internal control over financial reporting by obtaining an understanding of the design effectiveness of FMCS internal controls; determined whether internal controls had been placed in operation; assessed control risk; and performed tests of controls in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements. 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 (FMFIA)*, such as those controls relevant to ensuring efficient operations. The objective of our audit was not to provide assurance on internal control. Consequently, we do not provide an opinion on internal control.

Our consideration of internal control over financial reporting was for the limited purposes described in the preceding paragraphs and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses.

A 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 misstatements on a timely basis. A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. Our consideration of internal control over financial reporting resulted in identifying a deficiency that we considered to be significant deficiency. The deficiency and FMCS's response is described in Appendix I.

We identified certain other deficiencies that are not considered material or significant deficiencies. These deficiencies are reported to management of FMCS in a separate management letter.

Status of Prior Year's Findings

As required by United Stated generally accepted government auditing standards and OMB Bulletin No. 07-04, as amended, We have reviewed the status of the FMCS's corrective actions with regards to prior year's findings and recommendations included in the September 30, 2011 Independent Auditors Report dated November 14, 2011. Appendix II summarizes the status of the two significant deficiencies reported in the prior year's audit report.

COMPLIANCE WITH LAWS, REGULATIONS AND OTHER MATTERS

Management of FMCS is responsible for complying with laws, regulations and other matters applicable to the Agency. As part of obtaining reasonable assurance about whether FMCS fiscal year 2012 financial statements are free of material misstatements, we performed tests of its compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts, and certain other laws and regulations specified in OMB Bulletin No. 07-04, as amended, including requirements referred to in the Federal Financial Management Improvement Act (FFMIA) of 1996. We limited our tests of compliance to these provisions, and we did not test compliance with all laws and regulations applicable to FMCS. Providing an opinion on compliance with laws, regulations, contracts, and grants agreements was not an objective of our audit and, accordingly, we do not express such an opinion.

Under OMB Bulletin No. 07-04, as amended, and FFMIA, we are required to report whether FMCS financial management systems substantially comply with: (1) federal financial management systems requirements, (2) applicable federal accounting standards, and (3) the United States Government Standard General Ledger (USSGL) at the transaction level. To meet this requirement, we performed tests of compliance with FFMIA Section 803(a) requirements. The results of our tests of compliance disclosed no instances of noncompliance that are required to be reported herein under *Government Auditing Standards* or OMB Bulletin No. 07-04, as amended.

We issued a draft of this report to the FMCS's management and requested its comments. Management replied by indicating its general agreement with the audit results.

This report is intended solely for the information and use of FMCS's management, the Government Accountability Office and the U.S. Congress and is not intended to be, and should not be, used by anyone other than these specified parties.

Walker & Co., LLP

November 14, 2012

FEDERAL MEDIATION AND CONCILIATION SERVICE
BALANCE SHEETS

	September 30, 2012	September 30, 2011
ASSETS		
Intragovernmental Assets		
Fund balance with Treasury (Note 3)	$ 13,480,143	$ 12,139,454
Accounts receivable (Note 4)	88,439	14,204
Total intragovernmental assets	13,568,582	12,153,658
General property and equipment, net (Note 5)	524,783	746,118
Total Assets	$ 14,093,365	$ 12,899,776
LIABILITIES		
Intragovernmental Liabilities		
Accounts payable	$ 1,524,402	$ -
Accrued federal employees' compensation act liabilities	720,024	832,429
Advances from others	-	15,943
Other	5,379	71
Total intragovernmental liabilities	2,249,805	848,443
Liabilities with the Public		
Accounts payable	465,926	426,932
Accrued payroll and benefits	2,208,026	2,272,224
Accrued annual and compensatory leave liabilities	2,697,343	2,607,262
Total non-governmental liabilities	5,371,295	5,306,418
Total Liabilities	7,621,100	6,154,861
NET POSITION		
Unexpended appropriations	5,063,976	5,205,078
Cumulative results of operations	1,408,289	1,539,837
Total Net Position	6,472,265	6,744,915
Total Liabilities and Net Position	$ 14,093,365	$ 12,899,776

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

FEDERAL MEDIATION AND CONCILIATION SERVICE

STATEMENTS OF NET COSTS

	Year ended September 30, 2012	2011
Gross Program Costs		
Intragovernmental gross costs	$ 8,303,795	$ 13,225,150
Less: Intragovernmental earned revenue	(1,061,501)	(1,471,038)
Intragovernmental net costs	7,242,294	11,754,112
Gross costs with the public	41,797,574	36,865,528
Less: Earned revenues from the public	(919,686)	(1,009,263)
Net costs with the public	40,877,888	35,856,265
Net Cost of Operations	$ 48,120,182	$ 47,610,377

The accompanying notes are an integral part of these statements.

FEDERAL MEDIATION AND CONCILIATION SERVICE
STATEMENTS OF CHANGES IN NET POSITION

	Year ended September 30, 2012	Year ended September 30, 2011
Unexpended Appropriations		
Beginning balance	$ 5,205,078	$ 4,998,754
Appropriations received	46,250,000	46,652,000
Other adjustments	(265,605)	(192,612)
Appropriations used	(46,125,497)	(46,253,064)
Total Unexpended Appropriations	$ 5,063,976	$ 5,205,078
Cumulative Results of Operations		
Beginning balance	$ 1,539,837	$ 766,625
Appropirations used	46,125,497	46,253,064
Imputed financing	1,868,516	2,130,596
Other revenue	(5,379)	(71)
Net cost of operations	(48,120,182)	(47,610,377)
Total Cumulative Results of Operations	$ 1,408,289	$ 1,539,837
Net Position	$ 6,472,265	$ 6,744,915

The accompanying notes are an integral part of these statements.

FEDERAL MEDIATION AND CONCILIATION SERVICE
STATEMENTS OF BUDGETARY RESOURCES

	Year ended September 30, 2012	Year ended September 30, 2011
Budgetary Resources		
Unobligated balance, beginning of period	$ 6,029,516	$ 5,548,956
Recoveries of prior year obligations	728,914	285,788
Other balances withdrawn	(178,192)	(99,308)
Appropriations	46,162,587	46,558,696
Spending authority from offsetting collections	1,981,352	2,345,276
Total Budgetary Resources	$ 54,724,177	$ 54,639,408
Status of Budgetary Resources		
Obligations incurred	$ 48,608,972	$ 48,609,892
Unobligated balance, end of year	6,115,205	6,029,516
Total Status of Budgetary Resources	$ 54,724,177	$ 54,639,408
Change in Obligated Balance		
Unpaid obligations brought forward October 1	6,124,071	6,126,192
Uncollected customer payments	(14,204)	(23,384)
Unpaid obligated balance brought forward, net	6,109,867	6,102,808
Obligations incurred	48,608,972	48,609,892
Gross outlays	(46,556,131)	(48,326,225)
Change in uncollected customer payments from federal sources	(74,235)	9,180
Recoveries of prior year unpaid obligations, actual	(728,914)	(285,788)
Obligated balance, net - end of period		
Unpaid obligations	7,447,998	6,124,071
Uncollected customer payments from federal sources	(88,439)	(14,204)
Total Obligated Balance, Net, End of Period	$ 7,359,559	$ 6,109,867
Budget Authority		
Budget authority	$ 48,143,939	$ 48,903,972
Offsetting collections	(1,907,117)	(2,354,456)
Change in uncollected customer payments from federal sources	(74,235)	9,180
Budget Authority, Net	$ 46,162,587	$ 46,558,696
Outlays		
Gross outlays	$ 46,556,131	$ 48,326,225
Offsetting collections	(1,907,116)	(2,354,456)
Outlays, net	44,649,015	45,971,769
Distributed offsetting receipts	(5,379)	(71)
Agency Outlay, Net	$ 44,643,636	$ 45,971,698

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

NOTE 1 ORGANIZATION AND PURPOSE

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 services. 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.

For the year ended September 30, 2012, FMCS operated a national office, ten district offices, and 57 field offices.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of significant accounting policies utilized in the preparation of the financial statements is as follows:

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 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, 2012 and 2011, 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 identifiable supporting services provided by other segments within the FMCS. The statement of budgetary resources reports the FMCS's budgetary activity.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Earmark fund

By Government Accountability Office's (GAO) definition of Earmark Funds, FMCS does not have any funds earmarked for a specific purpose.

Basis of accounting

The 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 American Institute of Certified Public Accountant (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.

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

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of estimates (continued)

date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Fund balance with Treasury

The FMCS maintains its available funds with the Department of the Treasury (Treasury). The fund 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 3, Fund Balance with Treasury, provides additional information.

Accounts receivable

Accounts receivable consist of the amounts owed to the 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.

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.

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 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

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued

Liabilities (continued)

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.

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.

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.

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.

Federal employee benefits

With few exceptions, employees hired before January 1, 1984, are covered by the Civil Service Retirement System (CSRS), a defined benefit plan, and employees hired after December 31, 1983, are covered by the Federal Employees Retirement Systems (FERS), a defined benefit and contribution plan. For employees covered

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Federal employee benefits (continued)

under CSRS, the FMCS withholds 7.0% of each employee's salary and contributes a matching amount to the Civil Service Retirement and Disability Fund (the fund). CSRS covered employees are not subject to 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% OSADI + 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 0.8% from each employee's basic earnings for a retirement annuity. FMCS makes contributions to the plan at an established rate by the U.S. Office of Personnel Management (OPM) which was 11.9% and 11.7% for 2012 and 2011, respectively. Under FERS, employees also receive retirement benefit from Social Security and benefits from a defined contribution plan known as the Thrift Savings Plan (TSP). Under the TSP, 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 TSP. For FERS employees who do contribute their own money to the TSP, FMCS matches the amount dollar-for-dollar on the first 3% and 50 cents on the dollar for the remaining 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 TSP, 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 plan to have the maximum in "regular" TSP deductions during the tax year. There is no match on the catch-up contributions.

The U.S. Office of Personnel 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.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Actuarial liabilities

The Federal Employees' Compensation Act (FECA) provides wage loss benefits, medical benefits and vocational rehabilitation to covered Federal civilian employees injured on the job, employees who have incurred a work-related occupational disease, and survivor benefits to eligible dependents of injured workers whose death is attributable to a job-related injury or occupational disease. Claims incurred for benefits of 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 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 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 statements, if such amounts are material. The FECA actuarial data is for financial statements 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.

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.

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.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenues and other financing sources (continued)

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.

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. 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 3 FUND BALANCE WITH TREASURY

The fund balance with the Treasury as reported in the September 30, 2012 and 2011 financial statements represents the unexpended cash balance on FMCS books for all FMCS Treasury Symbols and custodial liability of $5,379 and $71, respectively. The balances were comprised of the following at September 30:

	2012	2011
Fund balance with Treasury		
Appropriated S&E Funds	$ 9,113,278	$ 7,774,699
Labor Mgmt Coop Project	4,366,865	4,364,755
Total	$ 13,480,143	$ 12,139,454
Status of fund balance with Treasury		
Unobligated balance		
Available	$ 667,538	$ 783,339
Unavailable	5,447,667	5,246,177
Obligated balance not yet disbursed	7,364,938	6,109,938
Total	$ 13,480,143	$ 12,139,454

In fiscal years 2012 and 2011, FMCS cancelled its FY 2007 and 2006 annual appropriation and returned $178,192 and $99,308, respectively, to the Treasury. In addition, the current fiscal year appropriation was rescinded by $87,413.

NOTE 4 ACCOUNTS RECEIVABLE

Accounts receivable consist primarily of amounts due from federal government departments and other agencies. Since these receivables are from other government agencies, management believes these receivables are fully collectable.

The receivable balance consisted of the following at September 30:

	2012	2011
Accounts Receivable		
Intra-governmental	$ 88,439	$ 14,204

NOTE 5 GENERAL PROPERTY AND EQUIPMENT

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

	2012	2011
Equipment, Furniture and Hardware	$ 1,701,961	$ 1,683,914
ADP Software	22,377	22,377
Total	1,724,338	1,706,291
Less: Accumulated depreciation and amortization	(1,199,555)	(960,173)
Net Book Value	$ 524,783	$ 746,118

Depreciation expense for the fiscal years ended September 30, 2012 and 2011, was $262,272 and $281,999, respectively. During fiscal years 2012 and 2011, FMCS disposed of property and equipment totaling $22,889 and $71,038, respectively and reduced its cost and accumulated depreciation by this amount.

NOTE 6 LIABILITIES NOT COVERED BY BUDGETARY RESOURCES

Liabilities not covered by budgetary resources include liabilities for which congressional action is needed before budgetary resources can be provided.

Liabilities covered by budgetary resources as of September 30, 2012 and 2011, were respectively comprised of accounts payable of $465,926 and $426,932, advances from others of $0 and $15,943 and accrued funded payroll and leave of $2,208,026 and $2,272,224.

NOTE 6 LIABILITIES NOT COVERED BY BUDGETARY RESOURCES (Continued)

The FMCS future funding requirements were comprised of the following at September 30:

	2012	2011
Unfunded annual leave liability	$ 2,697,343	$ 2,607,262
Unfunded FECA liability	720,024	832,429
Total liabilities not covered by budgetary resources	$ 3,417,367	$ 3,439,691

Change in liability not covered by budgetary resources:

	2012	2011	Change
Unfunded leave liability	$ 2,697,343	$ 2,607,262	$ 90,081
Unfunded FECA liability	720,024	832,429	(112,405)
	$ 3,417,367	$ 3,439,691	$ (22,324)

NOTE 7 APPORTIONMENT CATEGORIES OF OBLIGATIONS INCURRED: DIRECT VS. REIMBURSABLE OBLIGATIONS

Direct vs. Reimbursable Obligations incurred have the following apportionment categories for the fiscal years ended September 30:

	2012	2011
Direct Obligations (Category A)	$ 47,228,548	$ 46,605,586
Direct Obligations - Grants (Category A)	-	750,000
Reimbursable Obligations (Category A)	1,380,424	1,254,306
Total	$ 48,608,972	$ 48,609,892

NOTE 8 UNDELIVERED ORDERS AT THE END OF THE PERIOD

The Unpaid Obligated Balances of $7,359,560 and $6,109,867 for the fiscal years ended September 30, 2012 and 2011, represented obligations relating to Undelivered Orders (goods and services contracted for but not yet received at year end), Accounts Payable (amounts owed at year end for goods and services received) and Accounts Receivable (amounts owed to FMCS at year end for goods and services provided).

NOTE 9 BUDGETARY RESOURCES

FMCS maintains unobligated balances in annual appropriations. The remaining unobligated balances in annual appropriations are no longer available for obligation, except for upward and downward adjustments of the balance. Annual

NOTE 9 BUDGETARY RESOURCES (Continued)

funds are primarily for salaries and operating expenses. FMCS monitors its budget execution at the individual appropriation level. The amount of budgetary resources obligated for undelivered orders at September 30, 2012 and 2011, was \$3,249,644 and \$3,424,914, respectively, which is included in the unpaid obligations balance on the statements of budgetary resources.

NOTE 10 OPERATING LEASES

The FMCS has several operating leases with the General Services Administration (GSA), for office space at its headquarters operations in Washington, D.C. and for district and field operations. The lease agreements expire at various dates, the latest being 2022. The GSA charges rent that is intended to approximate commercial rental rates. The FMCS has estimated its future minimum liability on GSA operating leases by adding inflationary adjustments to the FY 2012 lease rental expense.

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

2013	\$ 5,666,000
2014	5,666,000
2015	5,986,000
2016	6,385,000
2017	6,695,000
Thereafter	4,389,000
Total	\$34,787,000

Rent expense totaled \$5,436,621 and \$5,329,675 for the fiscal years ended September 30, 2012 and 2011, respectively.

NOTE 11 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.

The 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

NOTE 11 PENSIONS, OTHER RETIREMENT BENEFITS, AND OTHER POST RETIREMENT BENEFITS (Continued)

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 benefit plan and the employer's total benefit expense and the employees' contribution. For the years ended September 30, 2012 and 2011, the Normal Cost, employers total pension expense, employees' contribution and imputed financing amounts were as follows:

Employee Benefit Type	Normal Cost	Withholding	Contribution	Employers Imputed Financing Expense
2012				
CSRS	$ 681,548	$ 160,095	$ 160,095	$ 361,358
CSRS-Offset	147,285	5,323	44,440	97,522
FERS	3,206,440	187,237	2,785,156	234,047
Total	$ 4,035,273	$ 352,655	$ 2,989,691	$ 692,927
Health insurance				1,170,671
Life insurance				4,917
Total life and health insurance cost				1,175,588
Total Imputed Financing Cost				$ 1,868,515
2011				
CSRS	$ 912,267	$ 212,155	$ 212,155	$ 487,957
CSRS-Offset	146,211	4,977	43,552	97,682
FERS	3,183,995	184,579	2,699,474	299,942
Total	$ 4,242,473	$ 401,711	$ 2,955,181	$ 885,581
Health insurance				1,240,055
Life insurance				4,960
Total life and health insurance cost				1,245,015
Total Imputed Financing Cost				$ 2,130,596

NOTE 12 STATEMENT OF BUDGETARY RESOURCES COMPARISONS TO THE BUDGET OF THE UNITED STATES GOVERNMENT

The Budget of the United States Government with actual amounts for the year ended September 30, 2012, 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, 2011, 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 2013.

	Budgetary Resources	Obligations Incurred	Distributed Offsetting Receipts	Net Outlays
Statement of Budgetary Resources	$ 54	$ 48	$ -	$ 46
Expired Funds	(1)	-	-	-
Budget of the United States	$ 53	$ 48	$ -	$ 46

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 2011 Budget of the United States Government but not in the Statement of Budgetary Resources.

NOTE 13 SUBSEQUENT EVENTS

In preparing these financial statements, FMCS has evaluated events and transactions through November 14, 2012, the date the financial statements were issued, for potential recognition or disclosure in the financial statements for the year ended September 30, 2012.

NOTE 14 CONTINGENT LIABILITIES

The FMCS is a party to various administrative proceedings, legal actions and claims that may eventually result in the payment of claims to third parties. In fiscal years 2012 and 2011, FMCS has not recorded a liability against these claims, since the outcomes of such proceedings are not probable and measureable.

NOTE 15 RECONCILIATION OF NET COST OF OPERATIONS (PROPRIETARY) TO BUDGET

	2012	2011
Resources Used to Finance Activities		
Budgetary resources obligated		
Obligations incurred	$ 48,608,972	$ 48,609,892
Less: Spending authority from offsetting collections and recoveries	(2,710,266)	(2,631,064)
Obligations net of offsetting collections and recoveries	45,898,706	45,978,828
Less: Distributed offsetting receipts	(5,379)	(71)
Net obligations	45,893,327	45,978,757
Other resources		
Imputed financing from costs absorbed by others	1,868,516	2,130,596
Total Resources Used to Finance Activities	47,761,843	48,109,353
Resources Used to Finance Items Not Part of the Net Cost of Operations		
Change in budgetary resources obligated for goods, services, and benefits ordered but not yet provided	(161,326)	(1,392,171)
Resources that fund expenses recognized in prior periods	112,405	62,585
Resources that finance the acquisition of assets	40,937	375,334
Total Resources Used to Finance Items not Part of the Net Cost of Operations	(7,984)	(954,252)
Total Resources Used to Finance the Net Cost of Operations	47,753,859	47,155,101
Components of Net Cost of Operations That Will Not Require or Generate Resources in the Current Period		
Components requiring or generating resources in future periods:		
Increase in annual leave liability	90,081	180,540
Total Components of Net Cost of Operations That Will Require or Generate Resources in Future Periods	90,081	180,540
Components Not Requiring or Generating Resources:		
Depreciation and amortization	262,272	281,999
Other adjustments	13,970	(7,263)
Total Components of Net Cost of Operations That Will Not Require or Generate Resources in the Current Period	366,323	455,276
Net Cost of Operations	$ 48,120,182	$ 47,610,377

Deficiencies in the Design and Operations of Information Technology General Controls

During fiscal year 2012, 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 these conditions are as follows:

Security Management

FMCS' security management program needs improvement. Although FMCS made progress in the development of its security awareness program during fiscal year 2012, the program had not yet been implemented.. As a result, employees and contractor personnel were not required to complete both initial and annual refresher security awareness training. Without the completion of initial and annual refresher 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.

Access Controls

Access controls at FMCS require strengthening in order to provide a more secure financial processing and computing environment. Although FMCS improved its access controls during fiscal year 2012, we noted several access controls that continue to need improvement:

a. The Microsoft Windows password settings, which are used to authenticate users to the FMCS network, did not adhere to the guidelines established by the National Institute of Standards and Technology's (NIST) United States Government Configuration Baseline (USGCB)[1]. Most notably, the minimum password age and maximum password age policy settings were less restrictive than the USGCB's recommended settings.

b. User account management controls were not implemented to ensure user accountability and reduce the risk of unauthorized access. We observed the following control exceptions:

    - Two (2) Microsoft Active Directory (AD) user accounts had not logged onto the network for over 90 days.
    - Twelve (12) Microsoft AD user accounts had not logged onto the network for over 120 days.
    - Thirty-eight (38) Microsoft AD user accounts had not logged onto the network for over 200 days.

[1] NIST United States Government Configuration Baseline Windows Settings, September 21, 2011.

- Generic user accounts existed, including six (6) generic user accounts that had not been used for over 120 days, and four generic user accounts that had never logged onto the network.
- The Microsoft AD and Virtual Private Network (VPN) user accounts belonging to a retired employee remained active.
- The password expiration interval of one (1) Microsoft AD user account belonging to an FMCS employee and six (6) Microsoft AD user accounts belonging to contractors was set to never expire.

Access controls should provide reasonable assurance that computer resources (data files, application programs, and computer-related facilities and equipment) are protected against unauthorized access, modification, disclosure, loss, or impairment. Without more stringent user account management controls, unauthorized use of user accounts and thus, the risk of unauthorized access to systems increases significantly. Unauthorized access to systems may result in the submission of false transactions, improper access to and dissemination of confidential data, and other malicious activities.

In regard to security awareness, NIST Special Publication (SP) 800-53, Revision 3, *Recommended Security Controls for Information Systems and Organizations*,[2] 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.

Office of Management and Budget (OMB) Circular No. A-130, *Management of Federal Information Resources*, Revised, Appendix III,[3] states:

> Agencies shall implement and maintain a program to assure that adequate security is provided for all agency information collected, processed, transmitted, stored, or disseminated in general support systems and major applications. "Adequate security" means security commensurate with the risk and magnitude of the harm resulting from the loss, misuse, or unauthorized access to or modification of information. This includes assuring that systems and applications used by the agency operate effectively and provide appropriate confidentiality, integrity, and availability, through the use of cost-effective management, personnel, operational, and technical controls.

According to the NIST USGCB Windows Settings,[4] the Microsoft Windows policy settings should be established as follows:

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[2] NIST SP 800-53, Revision 3, *Recommended Security Controls for Information Systems and Organizations,* August 2009 (updated through September 14, 2009).

[3] OMB Circular No. A-130 Revised, *Management of Federal Information Resources,* Appendix III, "Security of Federal Automated Information Resources," November 28, 2000.

- Minimum password age of 1 day;[4]
- Maximum password age of 60 days, and

NIST SP 800-53, Revision 3,[5] states that the organization manages information system accounts, including establishing, activating, modifying, disabling, and removing accounts, authorizing and monitoring the use of guest/anonymous and temporary accounts, deactivating temporary accounts that are no longer required and accounts of terminated or transferred users, and reviewing accounts.

[4] Ibid.
[5] Ibid.

Recommendations:

We recommend that FMCS strengthen its IT general controls as follows:

1. Security Management

a. We recommend that FMCS management update its Information Technology Policy requiring all personnel to attend initial and refresher security awareness training and enforce consequences of non-compliance for personnel who do not successfully complete the security awareness training, as required by NIST SP 800-53, Revision 3.

2. Access Controls

a. We recommend that FMCS management update its password policies and procedures for Microsoft Windows, inclusive of the minimum password and maximum password age in accordance with the guidelines established by NIST and USGCB.
b. 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.
c. We recommend that 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.

Management's Response:

The IT department will continue to update our processes and procedures in an effort to fully meet the criteria for all items listed.

Auditor's Response:

Management has provided a corrective action plan to address our recommendation. Our fiscal year 2013 audit procedures will determine whether the recommendation has been adequately addressed and considered closed.

FEDERAL MEDIATION AND CONCILIATION SERVICE
STATUS OF PRIOR YEAR'S SIGNIFICANT DEFICIENCIES
September 30, 2012

Issue Area	Summary of Control Issue	Fiscal Year 2012 Status
Controls over the Contracting and Procurement Functions	• Misuse of Contracting and Procurement Authority	FMCS has made substantial progress and implemented changes to its policies and procedures in this area. Accordingly, this condition is no longer considered a significant deficiency.
Financial Management Information Systems	• FMCS has not established a security awareness training program. As a result, employees and contractor personnel were not required to complete both initial and annual refresher security awareness training.	Certain progress noted, certain issues need continued focus. Modified Repeat Condition (See Appendix I)
	• Access to the GLOWS accounting system was not adequately restricted.	Status closed
	• The Microsoft Windows password settings, which are used to authenticate users to the FMCS network, did not adhere to the guidelines established by the National Institute of Standards and Technology's (NIST) United States Government Configuration Baseline.	Certain progress noted, certain issues need continued focus. Modified Repeat Condition (See Appendix I)
	• User account management controls were not implemented to ensure user accountability and reduce the risk of unauthorized access.	Certain progress noted, certain issues need continued focus. Modified Repeat Condition (See Appendix I)

SUPPLEMENTAL INFORMATION

INTRA-GOVERNMENTAL BALANCES BY TRADING PARTNER:

Intra-governmental Assets by Trading Partner:

Trading Partner	Fund Balance with Treasury	Accounts Receivable	Other Assets
Library of Congress (03)	$ -	$ -	$ -
Government Printing Office (04)	-	-	-
General Accounting Office (05)	-	-	-
U.S. Capitol Police (09)	-	-	-
U.S. Postal Service (18)	-	-	-
Department of State (19)	-	-	-
Department of Treasury (20)	14,480,143	-	-
Office of Personnel Management (24)	-	-	-
General Services Administration (47)	-	-	-
National Science Foundation (49)	-	-	-
Department of Transportation (69)	-	-	-
Treasury General Fund (99)	-	-	-
Other Material Agency (Please List)	-	-	-
Others - Immaterial Agencies (Please List)	-	-	-
Total	$ 14,480,143	$ -	$ -
Total Intra-governmental Assets	$ 14,480,143	$ -	$ -

Intra-governmental Liabilities by Trading Partner:

Trading Partner	Accounts Payable	Other Liabilities
Library of Congress (03)	$ -	$ -
Government Printing Office (04)	-	-
General Accounting Office (05)	-	-
U.S. Capitol Police (09)	-	-
U.S. Postal Service (18)	-	-
Department of State (19)	-	-
Department of Treasury (20)	-	-
Office of Personnel Management (24)	-	-
General Services Administration (47)	-	-
Department of Transportation (69)	-	-
Other Material Agency (Please List)	-	-
Others - Immaterial Agencies (Please List)	-	-
Total	$ -	$ -
Total Intra-governmental Liabilities	$ -	$ -