

INDEPENDENT AUDITORS' REPORT

BOARD MEMBERS

National Mediation Board

We have audited the accompanying consolidated balance sheet of the National Mediation Board (NMB) as of September 30, 2014 and 2013, 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 NMBs' internal controls over financial reporting and tested NMBs' 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 NMB consolidated financial statements as of and for the years ended September 30, 2014 and 2013, 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 a deficiency 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 NMB consolidated financial statements; our considerations of NMB internal control over financial reporting; our tests of NMB 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 NMB as of September 30, 2014 and 2013, and related consolidated statements of net costs and changes in net position, and combined statements of budgetary resources for the years then ended.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of NMB as of September 30, 2014 and 2013, 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 Management and Discussion Analysis 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 a deficiency 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 NMBs' ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the NMB's financial statements that is more than inconsequential will not be prevented or detected.

We noted certain additional matters that we have reported to NMB management in a separate letter dated November 14, 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 NMB.

Auditors' Responsibilities: Our responsibility is to express an opinion on the fiscal year 2014 and 2013 consolidated financial statements of NMB 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 NMB internal control over financial reporting. Accordingly, we express no such opinion.

Responsibilities (Continued)

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 NMB's internal control over financial reporting by obtaining an understanding of NMB's internal control, determining whether internal control had been placed in operation, assessing control risk, and performing tests of control to determine auditing procedures for the purpose of expressing our opinion on the consolidated financial statements, but not to provide an opinion on the effectiveness of NMB internal control over financial reporting. Accordingly we do not express an opinion on NMB'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 NMBs' fiscal year 2014 consolidated financial statements are free of material misstatements, we performed test of NMBs' 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.

NMB written responses to the findings identified in our audit and presented in Exhibit I were not subjected to the auditing procedures applied in the audit of NMBs' consolidated financial statements and, accordingly, we express no opinion on them.

This report is intended solely for the information of NMB management, OMB, and Congress. This report is not intended to be and should not be used by anyone other than these specified parties.

Allmond & Company, LLC

ALLMOND & COMPANY, LLC

November 14, 2014

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EXHIBIT I SIGNIFICANT DEFICIENCY

Improvements Were Needed in Recording Obligations Related to Arbitration Services

National Mediation Board (NMB) experienced significant issues related to recording obligations for arbitration services in the general ledger when they are incurred (once an arbitrator is assigned to a case) during fiscal years (FY) 2010, 2011, 2012, and 2013. Over the years, NMB has made substantial improvements to their procedures for recording obligations related to arbitration services. These improvements included (1) obligating the full cost of the obligation when an arbitrator is assigned to a case; (2) tracking of all cost associated with an arbitrator rendering an award on a case; and (3) documenting the approval to assign an arbitrator to hear a case or group of cases.

Although improvements have been made by NMB to arbitration procedures, we continued to identify weaknesses in recording obligations related to arbitration services in the general ledger. Specifically, the following weaknesses were identified during our audit procedures over obligations related arbitration services:

- NMB internal control procedure to reconcile Arbitrators Workspace System (AWS) obligations to those obligations recorded in the general ledger related to arbitration services was not in operation during FY 2014;
- For 3 of the 37 arbitration obligations reviewed we noted NMB instructed their service provider to pay an invoice received from an arbitrator with an obligation that was not related to the group of cases included on the invoice received.

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

GAO Standards on Internal Control in the Federal Government also states "Transactions and other significant events should be authorized and executed only by persons acting within the scope of their authority. This is the principal means of assuring that only valid transactions to exchange, transfer, use, or commit resources and other events are initiated or entered into. Authorizations should be clearly communicated to managers and employees."

Office of Administration (OA) staff was unable to produce a report from the AWS with the level of detail necessary to reconcile the AWS obligations to general ledger obligations on a monthly basis. Also, OA staff who instructed the service provider to make payments was unaware of the potential implications of paying invoices from obligations in which they are not related or an obligation has not been established.

These control weaknesses increases the risk of activity related to arbitrators assigned to a case (i.e. expenses, obligations) not being recorded in the general ledger in a timely manner. Furthermore, paying invoices not related to established obligations may lead to NMB expending more than what was available to obligate.

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

1. Continue to work with NMBs' Chief Information Officer to develop a report at the level of detail necessary to reconcile AWS obligations to general ledger obligations.
2. Office of Administration staff or service provider reconciles the status of obligations established in the general ledger to the amount of cases assigned to an arbitrator per the Arbitration Workspace on a monthly basis.
3. Record an upward adjustment to existing arbitrator obligations when an invoice is received and not enough monies are remaining on the obligation to pay the invoice.
4. Provide training to OA staff responsible for advising the service provider on which obligation is to be liquidated to pay invoices received from arbitrators.
5. Monitoring activities be performed monthly by Office of Administration and Office of Arbitration over the funds that remain available for obligation related to arbitration services.
6. Continue to develop a mechanism to estimate and update obligations related to arbitration in the general ledger as more information about the status of the case becomes available.

NMB MANAGEMENT RESPONSE

The National Mediation Board agrees with finding number one (1). NMB internal control procedures to reconcile the Arbitrator Work Space (AWS) obligations to those obligations recorded in the general ledger related to arbitration services were not in operation during fiscal year FY 2014. The NMB was making major changes to the Arbitrator Work Space during that period of time.

The NMB acknowledges finding number two (2). For 3 of the 37 arbitration obligations reviewed the auditors noted that NMB instructed the service provider to pay an invoice received from an arbitrator with an obligation that was not related to the group of cases included on the invoice received. However these three examples occurred prior to the implementation of improved internal controls and the three examples are not indicative of a current systemic problem. It is also noted that during this period the NMB implemented accounting controls to ensure that arbitrator payments and obligations are in agreement. These controls have been successful: auditors have not found any examples since the NMB implemented these internal controls.

In response to audit findings, the NMB already has implemented the six audit recommendations. In addition, the Office of Administration now has a staff member assigned as the Arbitrator Liaison to ensure that obligations and payment disbursement are accurate. The Arbitrator Liaison is the NMB travel and payment specialist for all arbitrators. The Arbitrator Liaison provides support for all arbitrators and is responsible for making sure all travel requirements are met, travel regulations are followed, and travel reimbursements are paid in a timely manner. The Arbitrator Liaison is responsible for making sure payments for arbitrator work performed are accurate, processed and submitted to the Bureau of the Fiscal Service (BFS) in a timely manner.

AUDITORS' RESPONSE

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