PRIVACY AND CIVIL LIBERTIES OVERSIGHT BOARD

Fiscal Year 2019 Financial Statement Audit

Financial Statement Report

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Independent Auditor's Reports

Castro & Company
Auditors ✓ Advisors

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Independent Auditor's Report on the Financial Statements

To the Chairman and Board of the Privacy and Civil Liberties Oversight Board

We have audited the accompanying balance sheet of the Privacy and Civil Liberties Oversight Board (PCLOB) as of September 30, 2019 and the related statements of net cost, changes in net position, and budgetary resources for the fiscal year then ended, and the related notes to the financial statements.

Further, we were engaged to audit the accompanying balance sheet of the PCLOB as of September 30, 2018 and the related statements of net cost, changes in net position, and budgetary resources for the fiscal year then ended, and the related notes to the financial statements. Because of the matters discussed in our Independent Auditor's Report dated February 25, 2019, we were unable to express an opinion on the balance sheet as of September 30, 2018, and the related statements of net cost, changes in net position and budgetary resources for the fiscal year then ended.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. Except as explained in the Basis for Disclaimer of Opinion on the FY 2018 Financial Statements paragraph, we conducted our audit 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. 19-03, *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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the agency's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the agency's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on the balance sheet as of September 30, 2019 and the statements of net cost, changes in net position, and budgetary resources for the fiscal year then ended.

Basis for Disclaimer of Opinion on the FY 2018 Financial Statements
We were unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the FY 2018 financial statements. PCLOB was unable to assert that the financial statements were presented in accordance with accounting principles generally accepted in the United States of America for that period. We were unable to obtain sufficient appropriate evidential matter to enable us to perform audit procedures to support the completeness and accuracy of the financial statements as of September 30, 2018 in accordance with accounting principles generally accepted in the United States of America.

The effects of the conditions as described in detail in the Independent Auditor's Report dated February 25, 2019, and summarized in the preceding section could not be fully quantified, nor was it practical, given the available information, to extend audit procedures to sufficiently determine the extent of the misstatements to the financial statements for that period. The effects of the conditions discussed in the preceding section and overall challenges in obtaining sufficient audit evidence also made it impractical to execute all planned audit procedures for FY 2018. As a result of these matters, we were unable to determine whether any adjustments might have been found necessary for the elements making up the PCLOB financial statements as of and for the year ended September 30, 2018.

Disclaimer of Opinion on the FY 2018 Financial Statements
Because of the significance of the matter described in the Basis for Disclaimer of Opinion Paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the FY 2018 financial statements. Accordingly, we do not express an opinion on the balance sheet as of September 30, 2018 and the related statements of net cost, changes in net position, and budgetary resources for the fiscal year then ended.

Opinion on the Financial Statements
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the PCLOB as of September 30, 2019, and the related statements of net cost, changes in net position, and budgetary resources for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by Government Auditing Standards
In accordance with U.S. *Government Auditing Standards* and OMB Bulletin No. 19-03, we have also issued our reports dated April 3, 2020, on our consideration of PCLOB's internal control over financial reporting and the results of our tests of its compliance with certain provisions of laws, regulations, and other matters that are required to be reported under *Government Auditing Standards*. The purpose of those reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with U.S. *Government Auditing Standards* and OMB Bulletin 19-03 in considering the PCLOB's internal control and compliance and should be read in conjunction with this report in considering the results of our audit.

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

Castro & Company, LLC
Alexandria, VA
April 3, 2020

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Independent Auditor's Report on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

To the Chairman and Board of the Privacy and Civil Liberties Oversight Board

We have audited the financial statements of the Privacy and Civil Liberties Oversight Board (PCLOB), which comprise the balance sheet as of September 30, 2019, and the related statements of net cost, changes in net position, and budgetary resources for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated April 3, 2020. We conducted our audit 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. 19-03, *Audit Requirements for Federal Financial Statements*.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements as of and for the year ended September 30, 2019, we considered PCLOB's internal control over financial reporting by obtaining an understanding of the design effectiveness of PCLOB's internal control, determining whether controls had been placed in operation, assessing control risk, and performing tests of PCLOB's controls as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not to express an opinion on the effectiveness of PCLOB's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of PCLOB's internal control over financial reporting. We limited our internal control testing to those controls necessary to achieve the objectives described in the OMB Bulletin No. 19-03. 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.

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 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 financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a 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.

Our consideration of internal control over financial reporting was for the limited purposes described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We consider the following deficiencies in internal control, described below, to be significant deficiencies.

PCLOB's Response to Findings
PCLOB's response to the findings identified in our audit is described in the accompanying Audit Response Letter. PCLOB's response was not subject to auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

We noted less significant matters involving internal control and its operations which we have reported to PCLOB management in a separate letter dated April 3, 2020.

Purpose of this Report
The purpose of this report is solely to describe the scope of our testing of internal control and the results of that testing, and not to provide an opinion on the effectiveness of PCLOB's internal control. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering PCLOB's internal control. Accordingly, this communication is not suitable for any other purpose.

This report is intended solely for the information and use of the management and PCLOB board members, OMB, the Government Accountability Office, and Congress, and is not intended to be and should not be used by anyone other than these specified parties.

Castro & Company, LLC
Alexandria, VA
April 3, 2020

SIGNIFICANT DEFICIENCIES

I- Inadequate Entity-Level Internal Control Environment

During our audit procedures performed over PCLOB's internal control environment, Castro & Company (Castro & Co) noted that PCLOB did not establish an adequate process for risk assessment and evaluation of its systems of internal accounting and administrative controls in accordance with the Federal Managers' Financial Integrity Act of 1982[1] throughout the fiscal year. Although PCLOB began drafting certain manuals regarding its internal controls, it did not have detailed desk procedures in place during FY 2019 to allow PCLOB Chief Financial Officer (CFO) office personnel to properly perform their accounting and oversight functions.

Public Law 97-255, *Federal Managers' Financial Integrity Act of 1982,* states,

> "…internal accounting and administrative controls of each executive agency[2] shall be established…to include evaluation by agencies of their systems of internal accounting and administrative control to determine such systems' compliance with the requirements of paragraph (1) of this subsection…the head of each executive agency shall, on the basis of an evaluation conducted in accordance with guidelines prescribed under paragraph (2) of this subsection, prepare a statement -
>
> > '(A) that the agency's systems of internal accounting and administrative control fully comply with the requirements of paragraph (1); or
> > '(B) that such systems do not fully comply with such requirements.
>
> …the head of such agency shall include with such statement a report in which any material weaknesses in the agency's systems of internal accounting and administrative control are identified and the plans and schedule for correcting any such weakness are described…"

Government Accountability Office's (GAO), *Standards for Internal Control in the Federal Government (i.e., Green Book)*, issued 2014 effective 2016, paragraphs 6.02-6.03, 7.08, 10.03, states,

> "Management defines objectives in specific and measurable terms to enable the design of internal control for related risks…Management defines objectives in specific terms, so they are understood at all levels of the entity. This involves clearly defining what is to be achieved, who is to achieve it, how it will be achieved, and the time frames for achievement. All objectives can be broadly classified into one or more of three categories: operations, reporting, or compliance. Reporting objectives are further categorized as being either internal or external and financial or nonfinancial. Management defines objectives in alignment with the organization's mission, strategic plan, and performance goals...

[1] This code provision applies to PCLOB to the extent consistent with its status as an ATDA agency, 31 U.S.C. § 3515, and its modified GPRA compliance.

[2] Appendix C of OMB Bulletin 19-03 (August 27, 2019) lists PCLOB as a "covered executive agency" subject to the ATDA. 31 U.S.C. § 3515(f).

Management designs responses to the analyzed risks so that risks are within the defined risk tolerance for the defined objective. Management designs overall risk responses for the analyzed risks based on the significance of the risk and defined risk tolerance. These risk responses may include the following:

- **Acceptance** - No action is taken to respond to the risk based on the insignificance of the risk.
- **Avoidance** - Action is taken to stop the operational process or the part of the operational process causing the risk.
- **Reduction** - Action is taken to reduce the likelihood or magnitude of the risk.
- **Sharing** - Action is taken to transfer or share risks across…

Management clearly documents internal control and all transactions and other significant events in a manner that allows the documentation to be readily available for examination. The documentation may appear in management directives, administrative policies, or operating manuals, in either paper or electronic form.

Management documents in policies for each unit its responsibility for an operational process's objectives and related risks, and control activity design, implementation, and operating effectiveness. Each unit, with guidance from management, determines the policies necessary to operate the process based on the objectives and related risks for the operational process. Each unit also documents policies in the appropriate level of detail to allow management to effectively monitor the control activity."

Recommendations:

1. Establish a structured and documented process for risk assessment and evaluation of PCLOB's systems of internal accounting and administrative controls. This process should also ensure timely self-identification and correction of agency internal control weaknesses needed for an effective ongoing monitoring of its internal control environment.

2. Complete and implement detailed desk procedures to allow PCLOB CFO office personnel to properly perform their accounting and oversight functions.

II- Inadequate Controls over Accounts Payable and Related Accruals

Based on our audit procedures performed related to the current year-end Accounts Payable (AP) balances, PCLOB did not record all its AP transactions as of September 30, 2019.

- We noted that PCLOB did not always have a detailed and documented methodology to accrue for goods/services that were received but not yet paid. Specifically, certain accruals were not recorded for services received prior to the fiscal year end.

PCLOB did not have policies and procedures to perform ongoing recording of accruals, did not have a consistent and routine process in place across all significant transaction classes to document its receipt and acceptance of goods and services via receiving reports, and for posting the related accounting entries to its general ledger.

Statement of Federal Financial Accounting Standards (SFFAS) No. 1, *Accounting for Selected Assets and Liabilities,* paragraphs 74 and 76-77, states,

> "Accounts payable are amounts owed by a federal entity for goods and services received from, progress in contract performance made by, and rents due to other entities… Amounts owed for goods or services received from federal entities represent intragovernmental transactions and should be reported separately from amounts owed to the public. When an entity accepts title to goods, whether the goods are delivered or in transit, the entity should recognize a liability for the unpaid amount of the goods. If invoices for those goods are not available when financial statements are prepared, the amounts owed should be estimated."

SFFAS No. 4, *Managerial Cost Accounting Standards and Concepts,* paragraph 15, states,

> "Cost is the monetary value of resources used or sacrificed or liabilities incurred to achieve an objective, such as to acquire or produce a good or to perform an activity or service. Costs incurred may benefit current and future periods. In financial accounting and reporting, the costs that apply to an entity's operations for the current accounting period are recognized as expenses of that period."

GAO's, *Green Book*, paragraph 10.03, states,

> "Transactions are 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 its initiation and authorization through its final classification in summary records. In addition, management designs control activities so that all transactions are completely and accurately recorded…
>
> Management clearly documents internal control and all transactions and other significant events in a manner that allows the documentation to be readily available for examination. The documentation may appear in management directives, administrative policies, or operating manuals, in either paper or electronic form."

Recommendations:

3. Establish, document, and implement policies to ensure accruals are recorded when goods and/or services are received throughout the fiscal year, at least on a quarterly basis, rather than only at year-end. Accruals recorded should be clearly documented with detailed estimation methodologies to support the amounts recorded. The accrual methodologies should be reviewed and approved by appropriate PCLOB personnel who receive the goods and services, with quality control review procedures and approvals performed and documented by PCLOB CFO office personnel.

4. Train responsible PCLOB personnel who receive the goods and services and CFO office personnel on how to monitor obligations and report accruals on an ongoing basis to enhance compliance with the applicable requirements. As part of the training, consider establishing a process for conducting an AP lookback analysis to systematically quantify and estimate goods and services that PCLOB has received, but for which it did not receive an invoice, and record the AP at the transaction level (e.g., review of subsequent disbursements).

5. Design and implement a process, in coordination with your service provider, to ensure documentation for Undelivered Orders (UDO), AP, and accrual transactions are properly supported and timely recorded, including obligating documents, receiving reports (e.g., whether to post an expense, draw down an advance payment, or capitalize an asset), invoices, and disbursement support.

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Independent Auditor's Report on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

To the Chairman and Board of the Privacy and Civil Liberties Oversight Board

We have audited the financial statements of the Privacy and Civil Liberties Oversight Board (PCLOB), which comprise the balance sheet as of September 30, 2019, and the related statements of net cost, changes in net position, and budgetary resources for the years then ended, and the related notes to the financial statements, and have issued our report thereon dated April 3, 2020. We conducted our audit in accordance with the 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. 19-03, *Audit Requirements for Federal Financial Statements*.

Compliance and Other Matters

The management of PCLOB is responsible for complying with laws and regulations applicable to PCLOB. As part of obtaining reasonable assurance about whether PCLOB's financial statements were free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the financial statements, and certain other laws and regulations specified in OMB Bulletin No. 19-03, including the requirements referred to in the Federal Managers' Financial Integrity Act of 1982 (FMFIA). We limited our tests of compliance to these provisions, and we did not test compliance with all laws and regulations applicable to PCLOB. Providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our testing of compliance with applicable laws and regulations, and government-wide policies described in the preceding paragraph disclosed an instance of reportable noncompliance that is required to be reported under *Government Auditing Standards* or OMB guidance and is described in the following Schedule of Findings.

Schedule of Findings
Noncompliance and Other Matters

The Federal Managers' Financial Integrity Act of 1982

The FMFIA requires agencies to establish a process to document, assess, and assert to the effectiveness of internal control over financial reporting. PCLOB has not established and implemented controls in accordance with standards prescribed by the Comptroller General of the United States, as codified in the Government Accountability Office's (GAO) *Standards for Internal Control in the Federal Government* (the Green Book), as evidenced by the following significant deficiency included in our Independent Auditor's Report on Internal Control:

- Inadequate Entity-Level Control Environment

Additionally, as discussed in the Independent Auditor's Report on Internal Control, the audit identified the following instances of noncompliance with FMFIA. PCLOB did not establish an adequate process for risk assessment and evaluation of its systems of internal accounting and administrative controls; as such, it did not preemptively self-identify auditor identified internal control weaknesses or comply with FMFIA and achieve the GAO-prescribed principles for an effective internal control system. Additionally, PCLOB lacked an established governance structure and financial resources to effectively implement, direct, and oversee the internal control assessment and evaluation process.

PCLOB's Response to Findings
PCLOB's response to the findings identified in our engagement to audit is described in a separate memorandum attached to this report. PCLOB's response was not subjected to auditing procedures applied in our engagement to audit the financial statements; accordingly, we do not express an opinion on it.

Purpose of this Report
The purpose of this report is solely to describe the scope of our testing of compliance and the results of that testing, and not to provide an opinion on PCLOB's compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* and OMB Bulletin 19-03 in considering PCLOB's compliance. Accordingly, this communication is not suitable for any other purpose.

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

Castro & Company, LLC
Alexandria, VA
April 3, 2020

PCLOB Response to Auditor's Reports

PRIVACY AND CIVIL LIBERTIES OVERSIGHT BOARD
WASHINGTON, D.C. 20002

March 27, 2020

Castro & Company, LLC
1635 King Street
Alexandria, VA 22314

Subject: Management's Response to Independent Auditor's Report for Fiscal Year (FY) 2019

We have reviewed your audit report on the Privacy and Civil Liberties Oversight Board (PCLOB)'s financial statements and your related report on internal controls over financial reporting for fiscal year (FY) 2019. We concur with the Independent Public Accountant's conclusions and are very pleased that the results of the audit are an unmodified opinion on the PCLOB's FY 2019 financial statements with zero required audit adjustments, especially since this is only our second year under audit. This is a marked improvement from last year's disclaimer opinion, and we believe it reflects our strong commitment to robust financial reporting and controls. For a microagency with a small staff and limited funds, this is a real accomplishment.

The PCLOB appreciates your recommendations, and we look forward to working with you to continue improving financial management in our Agency. Our response to the two significant deficiencies, which we note were downgraded from material weaknesses, are as follows:

I- Inadequate Entity-Level Internal Control Environment

A. **Establish a structured and documented process for risk assessment and evaluation of PCLOB's systems of internal accounting and administrative controls.**
Management concurs. We were unable to complete this assessment prior to the end of FY 2019, as we were still in the process of finalizing and implementing many new policies and procedures recommended in your FY 2018 audit report. We are pleased to report that as of the date of this letter, the PCLOB has completed its first comprehensive risk assessment and evaluation of the Agency's systems of internal accounting and administrative controls. These actions demonstrate our commitment to strengthening internal controls and improving the Agency's performance.

B. **Complete and implement detailed desk procedures to allow PCLOB CFO office personnel to properly perform their accounting and oversight functions.**
Management concurs. The PCLOB spent the bulk of FY 2019 developing processes for recognizing and recording capital equipment and construction in progress, advances and prepayments, as well as oversight over financial reporting and account reconciliation processes. As we worked to document and implement these procedures, the PCLOB successfully resolved 23 of the 28 prior year findings, successfully lowering remaining deficiencies (noted here) from material weaknesses to significant deficiencies. Further, all planned desk procedures have been finalized

and implemented as of the date of this letter. In FY 2020, we will continue to refine and strengthen these procedures as we transition to a new financial service provider.

II- Inadequate Controls over Accounts Payable and Related Accruals

A. **Establish, document, and implement policies to ensure accruals are recorded at least on a quarterly basis, rather than only at year-end.**

Management concurs. As noted above, the PCLOB worked diligently in FY 2019 to develop policies and procedures over its significant processes, to include its accrual process. As of the date of this letter, we have finalized and begun implementation of our accruals procedures, in line with your recommendations.

B. **Train responsible PCLOB personnel on how to monitor obligations and report accruals on an ongoing basis.**

Management concurs. The PCLOB's Office of the Chief Financial Officer (OCFO) is dedicated to full implementation of the Agency's newly developed policies and procedures. As of the date of this letter, we are pleased to report that all members of the OCFO have received adequate training to ensure they have thoroughly reviewed the Agency's new desk guide procedures and are familiar with their expected roles and responsibilities. In FY 2020, as we continue to refine and strengthen these procedures when we transition to a new financial service provider, we plan to schedule training sessions as needed.

C. **Design and implement a process to ensure Undelivered Orders (UDO), Accounts Payable (AP), and Accrual transactions are properly supported and timely recorded.**

Management concurs. As noted above, the PCLOB worked diligently in FY 2019 to develop policies and procedures over its significant processes, to include its processes related to UDOs, AP, and Accruals. Further, we conducted and completed a comprehensive review of our open obligations, UDOs, and Advance Payment balances on a transaction-level basis in FY 2020. As of the date of this letter, we have finalized and begun implementation of our policies and procedures related to these processes, in line with your recommendations.

In closing, I would like to thank your firm for supporting our commitment to the continuous improvement of our financial management activities. We are committed to the continuous improvement of our financial management activities and appreciate your efforts to help us achieve that objective.

Sincerely,

Raheel Baig
Chief Financial Officer
Privacy and Civil Liberties Oversight Board

Principal Financial Statements

PRIVACY AND CIVIL LIBERTIES OVERSIGHT BOARD
BALANCE SHEETS
As of September 30, 2019 and 2018

	2019	Unaudited 2018 (Restated) (Note 13)
Assets (Note 1):		
Intragovernmental:		
Fund Balance With Treasury (Note 2)	$ 22,038,868	$ 24,065,030
Accounts Receivable (Note 3)	360,951	172,972
Other:		
Advances and Prepayments (Note 4)	876,213	602,137
Total Intragovernmental	23,276,032	24,840,139
Accounts Receivable, net (Note 3)	112	-
General Property, Plant and Equipment, Net (Note 5)	2,564,357	2,332,680
Total Assets	**$ 25,840,501**	**$ 27,172,819**
Liabilities (Note 1):		
Intragovernmental:		
Accounts Payable	$ 3,047,945	$ 3,336,027
Other:		
Employer Contributions and Payroll Taxes Payable (Note 7)	37,101	19,133
Total Intragovernmental	3,085,046	3,355,160
Accounts Payable	172,414	54,779
Other:		
Accrued Funded Payroll and Leave (Note 7)	149,907	73,063
Employer Contributions and Payroll Taxes Payable (Note 7)	6,577	3,255
Unfunded Leave (Note 7)	222,915	145,422
Total Liabilities	3,636,859	3,631,679
Net Position:		
Unexpended Appropriations	20,281,842	21,773,636
Cumulative Results of Operations	1,921,800	1,767,504
Total Net Position	22,203,642	23,541,140
Total Liabilities and Net Position	**$ 25,840,501**	**$ 27,172,819**

The accompanying notes are an integral part of these statements.

PRIVACY AND CIVIL LIBERTIES OVERSIGHT BOARD
STATEMENT OF NET COST
For the Years Ended September 30, 2019 and 2018

				Unaudited
		2019		**2018 (Restated) (Note 13)**
Gross Program Costs (Note 9)	$	6,655,691	$	9,926,042
Less: Earned Revenue (Note 9)		187,979		172,972
Net Cost of Operations	**$**	**6,467,712**	**$**	**9,753,070**

The accompanying notes are an integral part of these statements.

PRIVACY AND CIVIL LIBERTIES OVERSIGHT BOARD
STATEMENT OF CHANGES IN NET POSITION
For the Years Ended September 30, 2019 and 2018

	2019	Unaudited 2018 (Restated) (Note 13)
Unexpended Appropriations:		
Beginning Balance	$ 21,773,636	$ 25,351,350
Budgetary Financing Sources:		
Appropriations Received	5,000,000	8,000,000
Other Adjustments	(13,312)	(28,632)
Appropriations Used	(6,478,482)	(11,549,082)
Total Budgetary Financing Sources	(1,491,794)	(3,577,714)
Total Unexpended Appropriations	**20,281,842**	**21,773,636**
Cumulative Results from Operations:	`	
Beginning Balances	1,767,504	(142,578)
Budgetary Financing Sources:		
Appropriations Used	6,478,482	11,549,082
Imputed Financing	143,526	114,070
Total Financing Sources	6,622,008	11,663,152
Net Cost of Operations	6,467,712	9,753,070
Net Change	154,296	1,910,082
Cumulative Results of Operations	**1,921,800**	**1,767,504**
Net Position	**$ 22,203,642**	**$ 23,541,140**

The accompanying notes are an integral part of these statements.

PRIVACY AND CIVIL LIBERTIES OVERSIGHT BOARD
STATEMENT OF BUDGETARY RESOURCES
For the Years Ended September 30, 2019 and 2018

	2019	Unaudited 2018
Budgetary Resources:		
Unobligated Balance From Prior Year Budget Authority, Net (Discretionary and Mandatory)	$ 22,601,143	$ 13,257,174
Appropriations (Discrectionary and Mandatory)	5,000,000	8,000,000
Spending Authority From Offsetting Collections (Discretionary and Mandatory)	187,979	181,270
Total Budgetary Resources	**$ 27,789,122**	**$ 21,438,444**
Status of Budgetary Resources:		
New Obligations and Upward Adjustments (Total) (Note 10)	$ 9,579,971	$ 7,594,230
Unobligated Balance, End of Year:		
Apportioned, Unexpired Accounts	5,077,538	11,689,138
Unapportioned, Unexpired Accounts	420	-
Unexpired Unobligated Balance, End of Year	5,077,958	11,689,138
Expired Unobligated Balance, End of Year	13,131,193	2,155,076
Unobligated Balance, End of Year (Total)	18,209,151	13,844,214
Total Budgetary Resources	**$ 27,789,122**	**$ 21,438,444**
Outlays, Net:		
Outlays, Net (Total) (Discretionary and Mandatory)	$ 7,012,850	$ 9,371,453
Agency Outlays, Net (Discretionary and Mandatory)	**$ 7,012,850**	**$ 9,371,453**

The accompanying notes are an integral part of these statements.

Notes to the Principal Statements

PRIVACY AND CIVIL LIBERTIES OVERSIGHT BOARD

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Privacy and Civil Liberties Oversight Board ("PCLOB" or the "Board") was created upon the recommendation of the 9/11 Commission, whose 2004 report firmly declared that preventing terrorism does not require sacrificing the values that make us strong. Congress established the Board in 2007 as an independent agency within the executive branch led by a bipartisan, five-member Board, comprised of a full-time chairman and four part-time Board members, all of whom are appointed by the President, with the advice and consent of the Senate, for staggered six-year terms. No more than three of the five Board members may be from the same political party, and the President must consult with the congressional leadership of the opposing party before appointing members who are not from the President's political party.

Although PCLOB was formally created as an independent agency in 2007, it did not come into existence until August 2012 when the Board's four part-time members were confirmed by the Senate, providing the Board with a quorum to begin the activity. The Board did not have the ability to become fully functioning until May 2013, when the Board's first chairman was confirmed, enabling the Board to become truly operational for the first time.

Since then, the Board has been establishing itself as a functioning independent agency while simultaneously pursuing its statutory mission — to ensure that the federal government's efforts to prevent terrorism are balanced with the need to protect privacy and civil liberties. By offering its independent but informed views and analyses, PCLOB assists the executive branch in formulating policy regarding counterterrorism efforts and it adds an important voice to broader discussions involving lawmakers and the public about striking the right balance between liberty and security in those efforts.

B. Basis of Presentation

The financial statements have been prepared to report the financial position and results of operations of PCLOB. The balance sheet presents, as of September 30, 2019 and 2018, amounts of future economic benefits owned or managed by the Board (assets), amounts owed by the Board (liabilities), and amounts that comprise the difference (net position). The Statement of Net Cost reports the full cost of the Board's operations, which includes costs of identifiable supporting services provided by other federal agencies. The Statement of Changes in Net Position explains how the net cost of the agency's operations was funded and reports other changes in the equity that are not included in the Statement of Net Cost. The Statement of Budgetary Resources provides information about how the budgetary resources were made available as well as their status at the end of the period.

These financial statements have been prepared from, and are fully supported by, the books and records of the Board in accordance with the hierarchy of accounting principles generally accepted in the United States of America ("GAAP"), standards issued by the Federal Accounting Standards Advisory Board ("FASAB"), Office of Management and Budget ("OMB") Circular A-136, *Financial Reporting Requirements*, as amended, and PCLOB's accounting policies which are summarized in this note. These statements, with the exception of the Statement of Budgetary Resources, are different from financial management reports, which are also prepared pursuant to OMB directives that are used to monitor and control PCLOB's use of budgetary resources. The financial statements and associated notes are presented on a comparative basis. Unless specified otherwise, all amounts are presented in dollars.

C. Basis of Accounting

Transactions are recorded on both an accrual accounting basis and a budgetary basis. Under the accrual method, revenues are recognized when earned, and expenses are recognized when a liability is incurred, without regard to receipt or payment of cash. Budgetary accounting facilitates compliance with legal requirements on the use of federal funds.

D. Budgets and Budgetary Accounting

The Board follows standard federal budgetary accounting policies and practices in accordance with OMB Circular A-11, *Preparation, Submission, and Execution of the Budget*. Budgetary accounting facilitates compliance with legal constraints and controls over the use of federal funds.

Congress annually passes multi-year appropriations that provide the agency with authority to obligate funds over a two-year period for necessary expenses to carry out operations. After the right to create new obligations has expired, this two-year budget authority is available for five additional years for adjusting obligations and for completing the liquidation of open obligations, advances, and receivables. After the five-year period, all open transactions for the respective fiscal year will be canceled and funds will be returned to the U.S. Department of Treasury ("Treasury"). Any valid claims associated with these funds after closure must be processed against current year appropriations.

E. Revenues and Other Financing Sources

The Board receives the funding needed to support its operating costs and program expenses through appropriations which are used exclusively for operational costs of the Board, such personnel costs, office rent, telephones, and service agreements with other federal agencies for administrative support, publications, and supplies. For financial statement purposes, appropriations are recorded as a financing source and reported on the Statement of Changes in Net Position at the time they are recognized as expenditures.

In certain instances, operating costs of the Board are paid out of funds appropriated to other federal agencies. In accordance with Statement of Federal Financial Accounting Standards (SFFAS) No. 5, *"Accounting for Liabilities of the Federal Government*," all expenses of a federal entity should be reported by that agency regardless of whether the agency will ultimately pay those expenses. Amounts for certain expenses of the Board, which will be paid by other federal agencies, are recorded in the Statement of Net Cost.

A related amount is recognized in the Statement of Changes in Net Position as an imputed financing source. The Board records imputed expenses and financing sources for employee retirement plan contributions, group term life insurance, and health benefit costs, which are paid by the Office of Personnel Management ("OPM").

F. Personnel Compensation and Benefits

Salaries and wages of employees are recognized as accrued payroll expenses and related liabilities as earned. These expenses are recognized as a funded liability when accrued.

Annual leave is accrued as it is earned by employees and is included in personnel compensation and benefit costs. An unfunded liability is recognized for earned but unused annual leave since from a budgetary standpoint, this annual leave will be paid from future appropriations when employees use the leave. The amount accrued is based upon current pay rates for employees. Sick leave and other types of leave that are not vested are expensed when used and no future liability is recognized for these amounts.

The Board's employees participate in one of two retirement programs, either the Civil Service Retirement System ("CSRS") or the Federal Employees Retirement System ("FERS"), which became effective on January 1, 1987. The Board and its employees both contribute to these systems. Although the Board funds a portion of the benefits under CSRS and FERS and makes the necessary payroll withholdings, it does not report assets associated with these benefit plans in accordance with SFFAS 5.

For CSRS employees, the Board contributes an amount equal to 7 percent of the employees' basic pay to the plan. For FERS employees covered under FERS prior to January 1, 2013, the Board contributes an amount equal to 13.2 percent of the employees' basic pay to the plan. FERS employees covered under FERS-RAE or FRAE hired on or after January 1, 2013, pay a higher percentage of their pay for their retirement, and thus the Board contributes only 11.1 percent of each employee's basic pay to the plan.

Both CSRS employees and FERS employees are eligible to participate in the Thrift Savings Plan ("TSP"). The TSP is a defined contribution retirement plan intended to supplement the benefits provided under CSRS and FERS. For FERS employees, the Board contributes an amount equal to 1 percent of the employee's basic pay to the TSP and matches employee contributions up to an additional 4 percent. CSRS employees receive no matching contribution from the Board.

OPM is responsible for reporting assets, accumulated plan benefits, and unfunded liabilities, if any, applicable to CSRS participants and FERS employees government-wide, including the Board's employees. The Board has recognized an Imputed Cost and Imputed Financing Source for the difference between the estimated service cost and the contributions made by the Board and its covered employees. The estimated cost of pension benefits is based on rates issued by OPM.

Employees are entitled to participate in the Federal Employees Group Life Insurance ("FEGLI") Program. Participating employees can obtain "basic life" term life insurance, with the employee paying two-thirds of the cost and the Board paying one-third. Additional coverage is optional, to be paid fully by the employee. The basic life coverage may be continued into retirement if certain requirements are met.

OPM administers the FEGLI program and is responsible for the reporting of related liabilities. Each fiscal year, OPM calculates the U.S. Government's service cost for the post-retirement portion of basic life coverage. Because the Board's contributions to the basic life coverage are fully allocated by OPM to the pre-retirement portion of coverage, the Board has recognized the entire service cost of the post-retirement portion of basic life coverage as an Imputed Cost and Imputed Financing Source.

G. Intragovernmental Assets and Liabilities

Intra-governmental assets and liabilities arising from transactions between the Board and other Federal entities. Funds with Treasury comprise the majority of assets on the Board's balance sheet. All other assets result from activity with non-federal sources. Liabilities represent amounts that are likely to be paid by the Board as a result of transactions that have already occurred. The accounts payable portion of liabilities consists of amounts owed to federal agencies and commercial vendors for goods, services, and other expenses received but not yet paid. Liabilities covered by budgetary or other resources are those liabilities of the Board for which Congress has appropriated funds, or funding is otherwise available to pay amounts due.

H. Fund Balance with Treasury

Treasury processes the Board's receipts and disbursements. The Fund Balance with Treasury ("FBwT") is the aggregate amount of the agency's accounts with Treasury for which the agency is authorized to liquidate obligations, pay funded liabilities, and make expenditures. The fund balance is increased through the receipt of non-expenditure Treasury warrants for appropriations, positive non-expenditure transfers, and other expenditure inflows of funds. FBwT is reduced through non-expenditure Treasury Warrants for rescissions, negative non-expenditure transfers, disbursements, and other expenditure cash outflows of funds.

The Board's funds with Treasury are cash balances from appropriations as of the fiscal year-end from which the Board is authorized to make expenditures and pay liabilities resulting from operational activity.

I. Advances and Prepayments

Advances are cash outlays made as required by reimbursable agreements to cover the Board's anticipated expenses or as advance payments for the costs of goods and services acquired by a contracted agency. Prepayments are payments made by PCLOB to cover certain periodic expenses before those expenses are incurred.

As goods and services are received, advanced and prepaid amounts are expensed. Any fees charged for related contracting services are considered administrative overhead costs and are expensed when paid.

J. General Property, Plant, and Equipment, Net

Property, plant, and equipment (PP&E) represents furniture, fixtures, equipment, and information technology hardware and software which are recorded at original acquisition cost, which includes all costs incurred to bring the item to a form and location suitable for its intended use (e.g., transportation, contract price, contract fee, installation/labor, etc.). Major alterations and renovations are capitalized, while maintenance and repair costs are expensed as incurred.

PCLOB's capitalization threshold is $5,000 for individual purchases and bulk purchases. Property, equipment, and software acquisitions that do not meet the capitalization criteria are expensed upon receipt. Applicable standard governmental guidelines regulate the disposal and convertibility of agency property, equipment, and software. All property (real and personal) is in PCLOB's possession and there is nothing held by others (see Note 5).

PCLOB's PP&E is depreciated or amortized using the straight-line method over the assets' estimated useful lives. The useful life classifications for capitalized assets are as follows:

Description	Useful Life (years)
Leasehold Improvements	Lease Term
Office Furniture	15 years
General Equipment	5 years
IT System/Network	5 years
Internal Use Software (IUS)	3 years

K. Accounts Payable and Other Liabilities

Liabilities represent amounts expected to be paid as the result of a transaction or event that has already occurred. Liabilities covered by budgetary resources are liabilities incurred which are covered by realized budgetary resources as of the balance sheet date. Available budgetary resources include new budget authority, spending authority from the offsetting collections, recoveries of unexpired budget authority through downward adjustments of prior year obligations, and unobligated balances of budgetary resources at the beginning of the year. Unfunded liabilities are not considered to be covered by such budgetary resources.

Examples of unfunded liabilities are actuarial liabilities for future Federal Employees' Compensation Act payments and annual leave. The Government, acting in its sovereign capacity, can abrogate liabilities arising from other than contracts.

L. Net Position

Net position consists of unexpended appropriations and cumulative results of operations. Unexpended appropriations represent amounts of budget authority to include unobligated or obligated balances not rescinded or withdrawn. Cumulative results of operations are comprised of the following: (1) the difference between revenues and expenses, (2) the net amount of transfers of assets in and out without reimbursement, and (3) donations, all since inception of the fund(s).

M. Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make certain estimates and assumptions. These estimates and assumptions affect the reported amounts of assets, liabilities (including contingent liabilities), revenues, financing sources, expenses and obligations incurred during the reporting period. These estimates are based on management's best knowledge of current events, historical experience and other assumptions that are believed to be reasonable under the circumstances. Estimates are subject to a wide range of variables, including assumptions on future economic and financial events. Accordingly, actual results may differ from those estimates.

N. Classified Activities

Accounting standards require all reporting entities to disclose that accounting standards allow certain presentations and disclosures to be modified, if needed, to prevent the disclosure of classified information.

NOTE 2 – FUND BALANCE WITH TREASURY

The Board's funds with the U.S. Treasury consist only of appropriated funds to a general fund operating under a single program. The status of these funds as of September 30, 2019, and 2018 is as follows:

	2019	Unaudited 2018
Fund Balance with Treasury		
Appropriated General Fund	$ 22,038,868	$ 24,065,030
Status of Fund Balance with Treasury		
Unobligated Balance		
Available	5,077,538	11,689,137
Unavailable	13,131,613	2,155,076
Obligated Balance not yet Disbursed	4,198,966	10,402,086
Change in Uncollected Payments	(369,249)	(181,269)
Total	**$ 22,038,868**	**$ 24,065,030**

Unused funds in expired appropriations are returned to Treasury at the end of the fiscal year.

NOTE 3 – ACCOUNTS RECEIVABLE

Accounts Receivable from Federal sources represent the portion of reimbursable agreements that are earned but not yet reimbursed. Accounts Receivable from Non-Federal sources represents the gross amount of monies owed to the Board by associate claims. The Board has historically collected any receivables due and thus has not established an allowance for uncollectible accounts.

	2019	Unaudited 2018
Accounts Receivable		
Claims - Associates	$ 112	$ -
Accounts Receivable - Reimbursable	360,951	172,972
Total Account Receivable	**$ 361,063**	**$ 172,972**

NOTE 4 – ADVANCES AND PREPAYMENTS

Advances and prepayments were $876,213 and $602,137 as of September 30, 2019 and 2018, respectively. All advance payments and prepayments as of September 30, 2019 and 2018 represent cash outlays made entirely to federal entities for future goods and/or services.

NOTE 5 - GENERAL PROPERTY, PLANT, AND EQUIPMENT, NET

The Board's total cost, accumulated depreciation, and net book value for property, plant, and equipment (PP&E) for the year ending September 30, 2019 and 2018 is as follows:

	2019	Unaudited 2018
Equipment:		
Cost	$ 632,358	$ 330,137
Accumulated Depreciation	(59,660)	(13,756)
Book Value	$ 572,698	$ 316,381
Leasehold Improvements:		
Cost	$ 2,312,104	$ 1,697,493
Accumulated Depreciation	(320,445)	(90,935)
Book Value	$ 1,991,659	$ 1,606,558
Construction-in-Progress:		
Cost	$ -	$ 409,741
Property, Plant, and Equipment, Net	$ 2,564,357	$ 2,332,680

No impairment losses were recognized in 2019 or 2018.

PCLOB's 2018 construction-in-progress related to a bulk purchase of IT-related equipment that had been physically received and substantially, but not yet fully, installed and placed into service. As of September 30, 2019, all of this bulk-purchased asset had been received, placed into service, and converted into leasehold improvements.

NOTE 6 – LIABILITIES NOT COVERED BY BUDGETARY RESOURCES

The Balance Sheet as of September 30, 2019, and 2018, includes some liabilities not covered by current budgetary resources. Such liabilities require congressional action prior to budgetary resources being provided. Although future appropriations to fund these liabilities are likely and anticipated, it is not certain that appropriations will be enacted to fund them.

Liabilities covered and not covered by budgetary resources as of September 30, 2019, and 2018, are as follows:

	2019	Unaudited 2018
Intragovernmental		
Employer Contributions & Payroll Taxes	$ 37,101	$ 19,133
Accounts Payable	3,047,945	3,336,027
Total Intragovernmental	3,085,046	3,355,160
With the Public		
Accounts Payable	172,414	54,779
Accrued Funded Payroll & Leave	149,907	73,063
Employer Contributions & Payroll Taxes	6,577	3,255
Unfunded Leave	222,915	145,422
Total With the Public	551,813	276,519
Total Liabilities	$ 3,636,859	$ 3,631,679
Total liabilities not covered by budgetary resources	222,915	145,422
Total liabilities covered by budgetary resources	3,413,944	3,486,257
Total Liabilities	$ 3,636,859	$ 3,631,679

Unfunded leave represents a liability for earned leave and is reduced when leave is taken. The balance in the accrued annual leave account is reviewed quarterly and adjusted as needed to accurately reflect the liability at current pay rates and leave balances. Accrued annual leave is paid from future funding sources and, accordingly, is reflected as a liability not covered by budgetary resources. Sick and other leave is expensed as taken.

NOTE 7 – OTHER LIABILITIES

Other liabilities with the public for the year ended September 30, 2019 and 2018 consist of Accrued Funded Payroll and Leave, Employer Contributions and Payroll Taxes Payable, and Unfunded Leave in the amounts shown below. Other Intragovernmental liabilities consist of Employer Contributions and Payroll Taxes Payable.

FY 2019

	Non-Current	Current	Total
Intragovernmental			
Employer Contributions and Payroll Taxes Payable	$ -	$ 37,101	$ 37,101
Total Intragovernmental	-	37,101	37,101
Liabilities with the Public			
Accrued Funded Payroll & Leave	-	149,907	149,907
Employer Contributions and Payroll Taxes Payable	-	6,577	6,577
Unfunded Leave	222,915	-	222,915
Total Liabilities with the Public	222,915	156,484	379,399
Total Other Liabilities	$ 222,915	$ 193,585	$ 416,500

Unaudited FY 2018

	Non-Current	Current	Total
Intragovernmental			
Employer Contributions and Payroll Taxes Payable	$ -	$ 19,133	$ 19,133
Total Intragovernmental	-	19,133	19,133
Liabilities with the Public			
Accrued Funded Payroll & Leave	-	73,063	73,063
Employer Contributions and Payroll Taxes Payable	-	3,255	3,255
Unfunded Leave	145,422	-	145,422
Total Liabilities with the Public	145,422	76,318	221,740
Total Other Liabilities	$ 145,422	$ 95,451	$ 240,873

NOTE 8 – LEASES

PCLOB has an occupancy agreement (OA) with the General Services Agency (GSA) to lease office space located at 800 N. Capitol St., NW, Suite 565, Washington, DC. This OA extends for a period of 120 months, commencing on April 30, 2018 and expiring on April 29, 2028. This OA is cancellable and is accounted for by PCLOB as an operating lease.

Future minimum lease payments due as of September 30, 2019 are as follows:

Fiscal Year		Total
2020	$	900,834
2021		910,796
2022		921,057
2023		950,300
2024		986,887
2025		998,100
2026		1,099,648
2027		1,021,543
2028		574,774
Total Future Minimum Lease Payments	**$**	**8,363,939**

Amounts due may vary due to operating costs escalation and real estate tax escalation clauses.

NOTE 9 – INTRAGOVERNMENTAL COSTS AND EXCHANGE REVENUE

Intragovernmental costs represent the costs of goods and services provided by other federal agencies, while costs of goods and services from outside federal sources are classified as public costs. Intragovernmental revenues represent revenue from services provided to another government agency through reimbursable agreements. No revenues were earned by PCLOB outside of federal sources in 2019 or 2018.

		2019		**Unaudited 2018**
Intragovernmental Costs	$	3,007,516	$	7,838,917
Public Costs		3,648,175		2,087,125
Total Costs		6,655,691		9,926,042
Intragovernmental Earned Revenue	$	187,979	$	172,972
Public Earned Revenue		-		-
Total Revenues		187,979		172,972
Total Net Cost	**$**	**6,467,712**	**$**	**9,753,070**

NOTE 10 – APPORTIONMENT CATEGORIES OF NEW OBLIGATIONS AND UPWARD ADJUSTMENTS: DIRECT VS. REIMBURSABLE OBLIGATIONS

Apportionment is a plan, approved by the OMB, to spend resources provided by one of the annual appropriations acts, a supplemental appropriations act, a continuing resolution, or a permanent law (mandatory appropriations). Resources are apportioned by Treasury Account Fund Symbol ("TAFS"). The apportionment identifies amounts available for obligation and expenditure. It specifies and limits the obligations that may be incurred and expenditures made (or makes other limitations, as appropriate) for specified time periods, programs, activities, projects, objects, or any combination thereof. An apportioned amount may be further subdivided by an agency into allotments, sub-allotments, and allocations.

The Category B obligations incurred are both direct and reimbursable. For the fiscal year ended September 30, 2019, all obligations incurred for the Board were Category B, as defined by OMB Circular A-11, and reported on the Board's latest SF-132. Category A apportionments distribute budgetary resources by fiscal quarters. Category B apportionments typically distribute budgetary resources by activities, projects, objects or a combination of these categories.

	2019	Unaudited 2018
Direct, Category B	$ 9,425,505	$ 7,421,258
Reimbursable, Category B	154,466	172,972
Total New Obligations and Upward Adjustments	**$ 9,579,971**	**$ 7,594,230**

NOTE 11 – UNDELIVERED ORDERS AT THE END OF THE PERIOD

Undelivered orders represent the value of goods and services ordered and obligated that have not been received. This amount includes any orders for which advance payment has been made but for which delivery or performance has not yet occurred.

	2019	Unaudited 2018
Undelivered Orders	$ 429,657	$ 6,915,829
Paid Undelivered Orders	876,213	602,137
Total Undelivered Orders	**$ 1,305,870**	**$ 7,517,966**

NOTE 12 – EXPLANATION OF DIFFERENCES BETWEEN THE SBR AND THE BUDGET OF THE U.S. GOVERNMENT

SFFAS No. 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*, requires an explanation of material differences between budgetary resources available, the status of those resources, and outlays as presented in the Statement of Budgetary Resources to the related actual balances published in the *Budget of the United States Government* (Budget). The Budget that includes FY 2019 actual budgetary execution information was published in February 2020 and is available through OMB's website at http://www.whitehouse.gov/omb.

Balances reported in the FY 2019 SBR and the related President's Budget reflected the following:

FY2019	Budgetary Resources	New Obligations & Upward Adjustments (Total)	Distributed Offsetting Receipts	Net Outlays
Statement of Budgetary Resources	$ 27,789,122	$ 9,579,971	$ -	$ 7,012,850
Expired Unobligated Balances	(13,131,193)			
Budgetary Resources - Adjusted	14,657,929			
Budget of the U.S. Government	13,000,000	10,000,000	-	7,000,000
Difference	**$ 1,657,929**	**$ (420,029)**	**$ -**	**$ 12,850**

The differences between the Statement of Budgetary Resources and the *Budget of the United States Government* for budgetary resources, obligations incurred, and net outlays are primarily due to rounding. A portion of the difference in the budgetary resources is due to expired unobligated balances being reported in the Statement of Budgetary Resources but not in the Budget of the United States Government.

NOTE 13 –RESTATEMENT OF 2018 FINANCIAL STATEMENTS

PCLOB conducted the first audit of its financial statements in 2018 as the first step in a process of self-evaluation and continual improvement. The auditors were unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion that the financial statements were free from material misstatements when taken as a whole, citing "Inadequate Internal Controls Over Recognizing and Reporting Property, Plant, and Equipment" and "Inadequate Internal Controls Over Recording of Advances and Prepayments" as two of their five identified material weaknesses.

Based on these findings and the recommendations made by the auditors, PCLOB developed new policies and procedures in FY2019 over their significant processes and conducted extensive analyses to determine the accuracy of reported property, plant and equipment and advances. Consequently, the Board identified material errors in the ending FY2018 balances for the following accounts:

- Plant, Property, and Equipment were understated by $1,082,649 due to uncapitalized property, plant, and equipment (net), primarily related to leasehold improvements that had been expensed.
- Advances and Prepayments were overstated by $419,754.
- Net costs of $662,895 were overstated as a result of the above errors.

Accordingly, PCLOB made adjusting entries in FY2019 to properly reflect the related FY2018 balances and correct beginning balances for FY2019. The lack of policies and procedures that led to these errors has also been addressed by the implementation of developed policies and procedures, as well as increased monitoring controls with the additions of an internal controls officer and contracted accounting support.

The financial statements as of and for the year ended September 30, 2018 included in this report are restated in accordance with SFFAS 21, "*Reporting Corrections of Errors and Changes in Accounting Principles*".

The effects of these errors on PCLOB's FY2018 Balance Sheet are listed below.

BALANCE SHEET	Unaudited 2018, As Reported	Corrections of errors	Unaudited 2018, As Restated
Assets:			
Intragovernmental:			
Fund Balance With Treasury	$ 24,065,030		$ 24,065,030
Accounts Receivable	172,972		172,972
Other:			
Advances and Prepayments	1,021,891	(419,754)	602,137
Total Intragovernmental	25,259,893		24,840,139
General Property, Plant and Equipment, Net	1,250,031	1,082,649	2,332,680
Total Assets	**26,509,924**		**$ 27,172,819**
Liabilities:			
Intragovernmental:			
Accounts Payable	3,336,027		$ 3,336,027
Other:			
Employer Contributions and Payroll Taxes Payable	19,133		19,133
Total Intragovernmental	3,355,160		3,355,160
Accounts Payable	54,779		54,779
Other:			
Accrued Funded Payroll and Leave	73,063		73,063
Employer Contributions and Payroll Taxes Payable	3,255		3,255
Unfunded Leave	145,422		145,422
Total Liabilities	3,631,679		3,631,679
Net Position:			
Unexpended Appropriations - All Other Funds (Consolidated Totals)	21,773,636		21,773,636
Cumulative Results of Operations - All Other Funds (Consolidated Totals)	1,104,609	662,895	1,767,504
Total Net Position - All Other Funds (Consolidated Totals)	22,878,245		23,541,140
Total Net Position	22,878,245		23,541,140
Total Liabilities and Net Position	**26,509,924**		**$ 27,172,819**

The effects of these errors on PCLOB's FY2018 Statement of Net Cost are listed below:

STATEMENT OF NET COST	Unaudited 2018, As Reported	Corrections of errors	Unaudited 2018, As Restated
Gross Program Costs	$ 10,588,937	$ (662,895)	$ 9,926,042
Less: Earned Revenue	172,972		172,972
Net Cost of Operations	**$ 10,415,965**		**$ 9,753,070**

The effects of these errors on PCLOB's FY2018 Statement of Changes in Net Position are as follows:

STATEMENT OF CHANGES IN NET POSITION	Unaudited 2018, As Reported	Corrections of errors	Unaudited 2018, As Restated
Unexpended Appropriations:			
Beginning Balance	$ 25,351,350		$ 25,351,350
Budgetary Financing Sources:			
Appropriations received	8,000,000		8,000,000
Other Adjustments	(28,632)		(28,632)
Appropriations used	(11,549,082)		(11,549,082)
Total Budgetary Financing Sources	(3,577,714)		(3,577,714)
Total Unexpended Appropriations	21,773,636		21,773,636
Cumulative Results from Operations			
Beginning Balances	(142,578)		(142,578)
Budgetary Financing Sources:			
Appropriations Used	11,549,082		11,549,082
Other Financing Sources (Nonexchange):			
Imputed Financing	114,070		114,070
Total Financing Sources	11,663,152		11,663,152
Net Cost of Operations	10,415,965	(662,895)	9,753,070
Net Change	1,247,187		1,910,082
Cumulative Results of Operations	1,104,609		1,767,504
Net Position	**$ 22,878,245**		**$ 23,541,140**

NOTE 14 - RECONCILIATION OF NET OPERATING COST AND NET BUDGET OUTLAYS

	Intragovernmental	With the Public	Total
Net Operating Cost (SNC)	**$ 2,819,537**	**$ 3,648,175**	**$ 6,467,712**
Components of Net Operating Cost Not Part of the Budget Outlays:			
Property, Plant, and Equipment Depreciation	-	(275,415)	$ (275,415)
Increase/(Decrease) in Asset Not Affecting Budget Outlays:			
Accounts Receivable	187,979	112	188,091
Other Assets	(145,678)	-	(145,678)
Increase/(Decrease) in Liabilities Not Affecting Budget Outlays:			
Accounts Payable	288,081	(117,634)	170,447
Salaries and Benefits	(17,968)	(80,166)	(98,134)
Other Liabilities (Unfunded Leave, Unfunded FECA, Actuarial FECA)	-	(77,493)	(77,493)
Other Financing Sources			
Federal Employee Retirement Benefit Costs	(143,526)	-	(143,526)
Components of Net Operating Cost Not Part of the Budget Outlays	**$ 168,888**	**$ (550,596)**	**$ (381,708)**
Components of the Budget Outlays That Are Not Part of Net Operating Cost			
Acquistion of Capital Assets	922,958	3,887	926,845
Total Components of the Budget Outlays That Are Not Part of Net Operating Cost	**$ 922,958**	**$ 3,887**	**$ 926,845**
Net Outlays (Calculated Total)	**$ 3,911,383**	**$ 3,101,466**	**$ 7,012,849**
Related Amounts on the Statement of Budgetary Resources Outlays, Net (SBR Line 4190)			**$ 7,012,850**