



PRIVACY AND CIVIL LIBERTIES OVERSIGHT BOARD

AGENCY FINANCIAL
REPORT

FISCAL YEAR
2020

Privacy and Civil Liberties Oversight Board

Agency Financial Report

FISCAL YEAR 2020

PRIVACY AND CIVIL LIBERTIES OVERSIGHT BOARD
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This report is available at www.pclob.gov.
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ABOUT THIS REPORT

The Privacy and Civil Liberties Oversight Board (“PCLOB” or “the Board”)’s Agency Financial Report for fiscal year (“FY”) 2020 provides fiscal results and performance highlights for the reporting period beginning October 1, 2019 and ending September 30, 2020. This report enables the President, Congress, and the American public to assess the agency’s fiscal accountability as the Board advances its mission of ensuring that efforts by the executive branch to protect the nation from terrorism are balanced with privacy and civil liberties.

The Agency Financial Report is one of the performance and financial reports required from federal agencies, prepared in accordance with Office of Management and Budget (“OMB”) Circulars A-11, *Preparation, Submission, and Execution of the Budget*; A-123, *Management’s Responsibility for Enterprise Risk Management and Internal Control*; and A-136, *Financial Reporting Requirements*. The Board’s Semi-Annual reports, Congressional Budget Justifications, and FY 2020 Agency Financial Report are available online at www.pclob.gov.



HOW THIS REPORT IS ORGANIZED

The Agency Financial Report (“AFR”) presents the agency’s performance highlights and accomplishments, fiscal accountability, and operational achievements and challenges for FY 2020. It begins with a message from the Chairman, Adam Klein, followed by three sections and one appendix:

Management’s Discussion and Analysis

This section provides general background about the agency and showcases PCLOB’s history and mission, organizational structure, and projects. It provides an overview of summary-level performance information, financial results, and management assurance regarding internal controls. This section of the AFR is not audited by the independent auditors.

Financial Information

This section details the agency’s financial position as of the fiscal year that ended September 30, 2020. The agency’s FY 2020 audited financial statements and footnote disclosures are presented in this section, along with the independent auditor’s report.

- The auditor’s report speaks to whether the financial statements are materially correct in accordance with Generally Accepted Accounting Principles (“GAAP”). The auditors found PCLOB’s FY 2020 financial statements to be materially correct in accordance with GAAP.
- Financial statements provide actual financial results for the year and include the balance sheet, the statement of net cost, the statement of changes in net position, and the statement of budgetary resources. See the “Key Terms” section that follows for a brief description of each statement and its purpose.
- Notes to the financial statements provide additional details and context concerning the numbers reported.

Other Information

This section contains a summary of financial statement audit and management assurances and required reporting related to the Board’s compliance with the Payment Integrity Information Act, including the agency’s fraud reduction measures. This section of the report is also not audited by the independent auditors.

Appendix

This section provides a glossary of acronyms used throughout this report.



KEY TERMS USED IN THIS REPORT

Generally Accepted Accounting Principles - GAAP refers to a common set of accounting principles, standards, and procedures issued for the United States Government by the Federal Accounting Standards Advisory Board (“FASAB”), as designated by the American Institute of Certified Public Accountants (“AICPA”). PCLOB follows the requirements for GAAP for federal financial reporting.

Government Financial Statements - According to the U. S. Government Accountability Office (“GAO”), the objectives of federal financial reports are for agencies to demonstrate their accountability, provide useful information, and help internal users of financial information to improve the Government’s management. Federal Government financial statement readers should bear in mind that our goal is to demonstrate good financial stewardship over the assets entrusted to us, whereas private industry financial statement users may have an interest in investing in a company and want assurances that the information provided is timely, accurate, and can be relied upon.

Balance Sheet - The balance sheet shows the agency’s assets and liabilities at a fixed point in time – in this case, September 30, 2020 and 2019. Most of the terms on the balance sheet are familiar to users of financial statements, (e.g. assets — such as accounts receivable, property, and equipment — and liabilities — such as accounts payable). On a federal balance sheet, there is one unique term: “fund balance with Treasury.” Like bank accounts, the fund balances represent the amount of funding in the agency’s accounts within the U.S. Treasury that is available to spend for the purposes for which the funds were approved by Congress.

Statement of Net Cost - The statement of net cost shows the results of operations for PCLOB. A commercial company would call this type of document an income statement. As a reflection that most federal programs generate little to no resources on their own, expenses are offset by revenues to determine the net cost for the agency.

Statement of Changes in Net Position - The statement of changes in net position is similar to a statement of changes in equity for a commercial firm. The statement reflects the impact that changes in assets and liabilities have on the financial position of each fund. During FY 2020, PCLOB received appropriations and used appropriations.

Statement of Budgetary Resources - The statement of budgetary resources is unique to the Federal Government, displaying the key components of the budgetary control process. The statement shows the various sources of budgetary authority and resources provided to fund agency activities. Private industry has no similar statement or set of requirements to establish and control budgets in this manner.



Unobligated Balances - The unobligated balance is the portion of total budget authority provided as financial resources, where no actions have been taken to spend or obligate funding to pay for goods or services, nor bind the Government to pay liabilities. Limitations in laws also create further categorization of unobligated balances into amounts being “available” to spend on new obligations, “unavailable” due to various limitations, or “expired” and no longer available for new obligations.

Congress often provides agencies with funds to obligate or spend in one fiscal year (starting October 1 and ending September 30). These funds are referred to as one-year appropriation accounts, and the budget authority expires and can no longer be used to incur new obligations after September 30 of the fiscal year the appropriation was made.

Congress may also provide agencies with authority to obligate funds over 2 or more years, referred to as multi-year funds or may not limit the amount of time funding remains available, known as no year funds. PCLOB currently operates with funds obligated over a two-year period.

Cumulative Results of Operations - Cumulative results of operations are a component of net position on balance sheets representing the historical total for a fund, summing revenues, expenses, gains, losses, transfers of assets and liabilities from other agencies, and other financing sources provided to a fund since its inception. It is similar in concept to retained earnings for a commercial firm.

Appropriations - Appropriation means a provision of law (not necessarily in an appropriations act) authorizing the expenditure of funds for a given purpose. See OMB Circular A-11 at <https://www.whitehouse.gov/wp-content/uploads/2018/06/s20.pdf> for a more detailed explanation of appropriations.

Outlays - An outlay means a payment to liquidate an obligation (other than the repayment of debt principal or other disbursements that are “means of financing” transactions). Outlays generally are equal to cash disbursements but also are recorded for cash-equivalent transactions, such as the issuance of debentures to pay insurance claims, and in a few cases are recorded on an accrual basis such as interest on public issues of the public debt. Outlays are a primary measure of Government spending.



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MESSAGE FROM THE CHAIRMAN

On behalf of the Privacy and Civil Liberties Oversight Board, I am pleased to present the Fiscal Year 2020 Agency Financial Report. This Agency Financial Report, the first ever issued by the Board, presents the agency's financial statements and the opinion of our independent auditor regarding the Board's financial statements and internal controls. In FY 2020, the Board achieved a clean audit opinion with no findings or required adjustments to our financial statements. The auditors found no material weaknesses, significant deficiencies, or issues of noncompliance with laws and

regulations. In addition, the Board has now addressed all recommendations from the agency's previous financial audits.

The Privacy and Civil Liberties Oversight Board is an independent agency within the Executive Branch, established in its current form by the Implementing Recommendations of the 9/11 Commission Act of 2007.¹ The Board's mission is to ensure that the Federal Government's efforts to prevent terrorism are balanced with the need to protect privacy and civil liberties. To do so, the Board conducts oversight and provides advice regarding Executive Branch regulations, policies, procedures, and activities related to efforts to protect the nation from terrorism.

Notable accomplishments by the Board include:

- Issuing public reports regarding Executive Branch activities related to counterterrorism efforts, such as the following:
 - *Report on the Government's Use of Call Detail Records Program under the USA Freedom Act* (2020)
 - *Presidential Policy Directive 28 Report* (2018)
 - *Report on the Surveillance Program Operated Pursuant to Section 702 of the Foreign Intelligence Surveillance Act* (2014)
 - *Report on the Telephone Records Program Conducted under Section 215 of the USA PATRIOT Act and on the Operations of the Foreign Intelligence Surveillance Court* (2014)
- Providing independent, expert advice in response to numerous requests from Intelligence Community elements and other agencies involved in counterterrorism.

¹ Pub. L. No. 110-53, § 801 (2007), codified at 42 U.S.C. § 2000ee.



- Hosting public forums on topics including the Foreign Intelligence Surveillance Act (2020), the NSA's Call Detail Records Program (2019), countering terrorism while protecting privacy and civil liberties (2019), and activities to protect the nation from terrorism conducted under Executive Order 12,333 (2015).

Ongoing Board projects include an examination of the use of facial recognition and other biometric technologies in aviation security, a review of the FBI's use of open source data for counterterrorism purposes, oversight of the FBI's searching of data obtained pursuant to FISA Section 702, and a review of the NSA's use of a capability known as XKEYSCORE for counterterrorism purposes.

Since regaining a quorum in 2018, the Board has focused on achieving excellence in financial management. In 2018, the Board performed its first external audit. It conducted its first internal controls assessment late the following year. Using the recommendations and findings from the audit and internal controls assessment and drawing on the expertise of its personnel, the Board has strengthened its internal financial controls and continued to professionalize its financial management. The Board has also appointed a Chief Financial Officer and hired a full-time accountant. The Board has also transitioned to a new shared service provider for financial services, which provides better record-keeping and data management capabilities.

The Board received clean audit opinions from the independent external auditors for both its FY 2019 and FY 2020 financial statements, with no material weaknesses, significant deficiencies, or issues of noncompliance with laws and regulations noted by the auditors. All recommendations from prior audits have been addressed. The Board's first internal controls assessment, conducted in 2019, found no waste, fraud, or abuse, and concluded that the Board's internal controls and financial systems met the Federal Managers' Financial Integrity Act objectives.

These achievements reflect the Board's commitment to accountability and transparency in all facets of our operations. I am grateful for the dedication, expertise, and hard work of the Board staff members who made these accomplishments possible. Thanks to their efforts, I am confident that the Board will maintain the highest standard of financial accountability in years to come.

A handwritten signature in blue ink, reading "Adam Klein", is positioned above the printed name.

Adam Klein, Chairman
November 13, 2020



MANAGEMENT'S DISCUSSION AND ANALYSIS

Vision, Mission, and Core Values

VISION

A nation that counters terrorism while safeguarding privacy and civil liberties.

MISSION

The Board's mission is to ensure that the executive branch's efforts to prevent terrorism are balanced with the need to protect privacy and civil liberties. Specifically, the Board's enabling statute, 42 U.S.C. § 2000ee, authorizes it to "analyze and review actions the executive branch takes to protect the Nation from terrorism, ensuring that the need for such actions is balanced with the need to protect privacy and civil liberties," and to "ensure that liberty concerns are appropriately considered in the development and implementation of laws, regulations, and policies related to efforts to protect the Nation from terrorism."

The Board's mission encompasses two core functions: providing advice and conducting oversight.

Advice - Executive branch agencies can consult with the Board at an early stage in the development of legislation, policies, programs, guidelines, or regulations to ensure privacy and civil liberties protections are appropriately considered in their design.

Oversight - The Board is charged with continually reviewing (1) regulations, policies, procedures, and practices within the Board's jurisdiction to ensure that privacy and civil liberties are protected, and (2) other actions within the Board's jurisdiction to ensure that those actions appropriately protect privacy and civil liberties and are consistent with governing laws, regulations, and policies regarding privacy and civil liberties.

CORE VALUES

Three key values guide the Board's work:

Integrity – As an agency whose power lies in its persuasiveness, the Board regards the preservation of its integrity and credibility as paramount. The Board approaches its activities with objectivity and good faith. The Board strives to treat executive branch agencies and other outside parties with evenhandedness and respect, and to evaluate a wide range of data, viewpoints, and considerations.

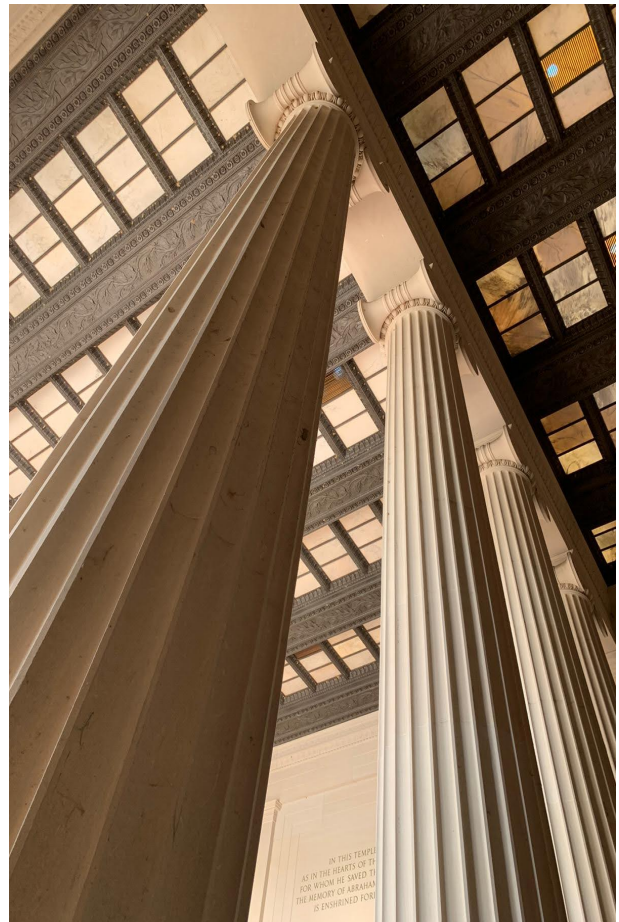


Transparency – The Board aims to inform the public about the impact of efforts to protect the nation from terrorism on privacy and civil liberties. In addition, the Board strives to conduct its own activities responsibly and transparently, to foster confidence in its management of authorities, resources, and information. The Board promotes transparency by holding public events and issuing public reports, to the greatest extent that is consistent with the protection of classified information and applicable law, and by soliciting input from the public and outside experts.

Rigor – The Board strives for the highest standard of quality in its analysis and recommendations. When examining government programs, the Board takes care to understand those efforts in all their complexity. In assessing whether such efforts are consistent with the law and appropriately protect privacy and civil liberties, the Board strives to be thorough and accurate and to account for the impact of new and emerging technologies and institutional reforms. When recommending changes to those efforts, the Board seeks to consider fully the foreseeable impact of its recommendations.

Board History and Authorities

The Board was created on the recommendation of the National Commission on Terrorist Attacks Upon the United States (“the Commission”) in its 2004 report. The Commission acknowledged that many of its recommendations “call[ed] for the government to increase its presence in our lives—for example, by creating standards for the issuance of forms of identification, by better securing our borders, by sharing information gathered by many different agencies,” and by consolidating authority over intelligence agencies under a new Director of National Intelligence. Recognizing that “this shift of power and authority to the government” would require “an enhanced system of checks and balances to protect the precious liberties that are vital to our way of life,” the Commission recommended that “there should be a board within the executive branch to oversee adherence to the guidelines we recommend and the commitment the government makes to defend our civil liberties.”





Many of the Commission’s recommendations have been implemented by Congress and the executive branch, improving the government’s ability to detect and disrupt terrorist plots. In response to the Commission’s recommendation to create an oversight board, President George W. Bush created the President’s Board on Safeguarding Americans’ Civil Liberties in 2004. The President’s Board ceased to meet following the enactment later that year of the Intelligence Reform and Terrorism Prevention Act of 2004, which created the Privacy and Civil Liberties Oversight Board within the Executive Office of the President. Finally, in 2007, the Implementing Recommendations of the 9/11 Commission Act established the Board as an independent agency within the executive branch.

The Board’s statute makes transparency an inherent part of its mission. Specifically, the Board is required to inform the public about its work by holding public hearings, issuing public reports to the extent consistent with the protection of classified information and applicable law, providing semi-annual reports to the Congress, and appearing and testifying before Congress upon request.

The Board also has designated roles under Executive Order 13636 (Improving Critical Infrastructure Cybersecurity), Presidential Policy Directive 28 (regarding the conduct of signals intelligence activities for foreign intelligence and counterintelligence purposes), and Section 803 of the Implementing Recommendations of the 9/11 Commission Act of 2007 (“Section 803”).





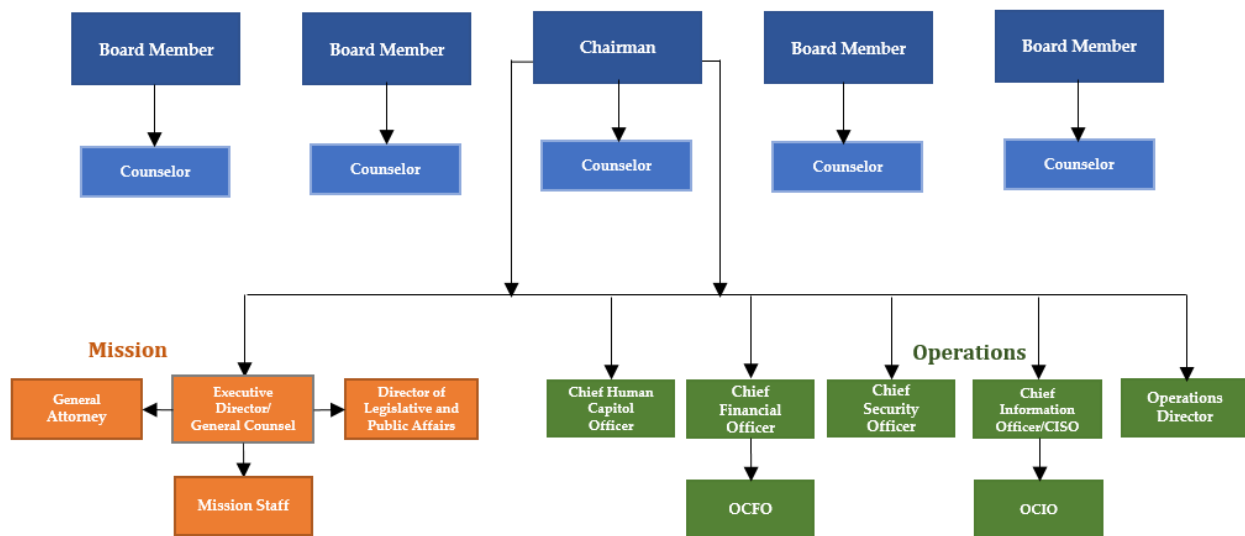
Our Organization

PCLOB's headquarters is in Washington, D.C. A bipartisan group of five Board Members comprise the Board: a full-time Chairman and four part-time members, each appointed by the President, with the advice and consent of the Senate, to staggered six-year terms. The Board's statute requires that Members come from different political parties and be selected based on their professional qualifications, achievements, public stature, expertise in civil liberties and privacy, and relevant experience. For more about the Board Members, see the PCLOB website at <https://www.pclob.gov/Board/Index>.

Aside from the five Board Members and their respective counselors, the agency's structure includes mission and operations staff.



Privacy and Civil Liberties Oversight Board Organizational Chart





Performance Overview

OVERCOMING CHALLENGES TO ACHIEVE OUR STRATEGIC GOALS AND OBJECTIVES

AGENCY SIZE AND WORKFORCE

PCLOB is a small agency, consisting of less than 40 full-time employees. Due to its small size, the agency must achieve its mission and conduct operations with limited resources. One way the Board has compensated for its small size is by using shared-service providers for several key functions. The continued use of shared services, however, does depend on the agency receiving two-year appropriations and requires additional coordination with and oversight by PCLOB staff to achieve the highest standards of excellence.

The agency is led by a bipartisan group of five Board Members, each appointed by the President, with the advice and consent of the Senate, to staggered six-year terms. Board Members must come from different political parties and be selected based on their professional qualifications, achievements, public stature, expertise in civil liberties and privacy, and relevant experience.

Further, the work performed by PCLOB mission and operations staff requires an agile and diverse mix of talent equipped with critical skills that align with the evolving strategic workforce needs of

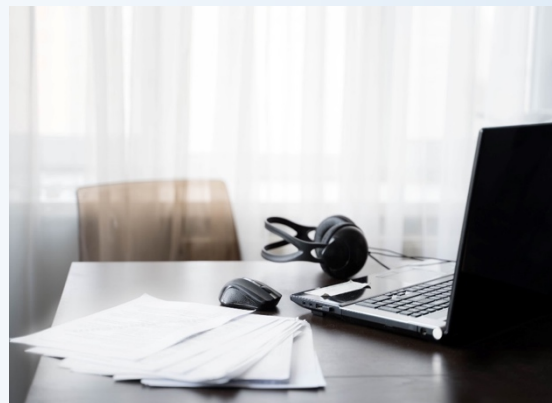
the agency. As funds have allowed each year, the agency has sought to grow its staff by recruiting skilled professionals with backgrounds in intelligence, counterterrorism, privacy and civil liberties, oversight and investigations, federal accounting, and information technology. Steadily over the years, the agency has been able to expand to nearly its full capacity as of the end of FY 2020.

While the agency's small size has created some challenges for the agency, its structure has created distinct opportunities for the Board to ensure that civil liberties and privacy are appropriately considered and protected in the government's efforts to prevent terrorism. The Board is an independent, bipartisan oversight and advice agency with access to classified information. By offering its independent and informed views and analyses, the Board is able to both assist the executive branch in formulating policy regarding counterterrorism efforts and add an important voice to broader discussions about striking the right balance between liberty and security in those efforts.



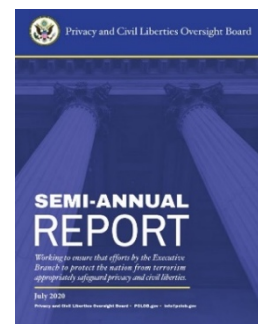
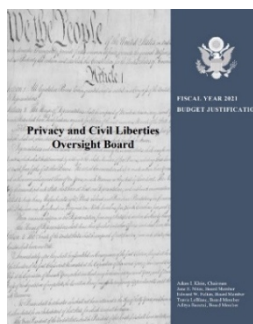
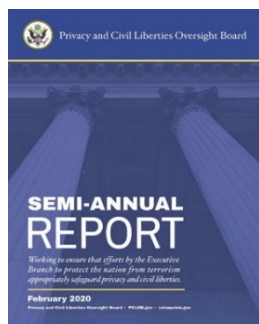
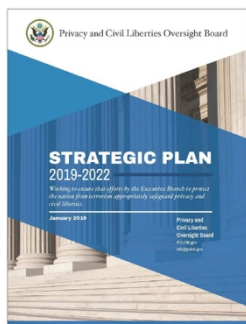
2019 CORONAVIRUS PANDEMIC

The most significant factor affecting the Board's ability to logistically achieve its mission in FY 2020 has been the 2019 Coronavirus ("COVID-19") pandemic; the Board's staff performs its duties in a Sensitive Compartmented Information Facility ("SCIF") for work on classified oversight projects. However, the Board's Information Technology staff worked diligently to implement its Continuity of Operations Plan ("COOP") during the quarantine period, enabling Board Members and staff to quickly adapt to difficult and evolving circumstances resulting from the pandemic. As state and local jurisdictions in the Washington, D.C. area moved through the reopening process, the Board implemented a rigorous health protocol, following the Center for Disease Control and Prevention ("CDC") guidelines, to



enable Board Members and staff to use the agency's SCIF for work on classified oversight projects, permitting only a limited number of Board Members and staff wearing personal protective equipment ("PPE") to be in the SCIF at any given time. Currently, the Board is well-positioned to continue pursuing its vigorous oversight and advice agenda, despite these challenging times.

The PCLOB continues to utilize the objectives and strategies defined in the 2019-2022 Strategic Plan to guide mission work and operational support and to achieve the agency's five strategic goals. The Board measures agency performance through accomplishments recognized in its various advice, oversight, and other mission activities, as reported in PCLOB's semi-annual reports and annual Congressional Budget Justifications, available on the agency's website at www.pclob.gov.





PRIVACY AND CIVIL LIBERTIES OVERSIGHT BOARD

The Board's Strategic Plan for fiscal years 2019-2022, published in January 2019, outlines five strategic goals:

STRATEGIC GOAL 1: Provide effective and timely advice regarding the protection of privacy and civil liberties in the development and implementation of legislation, regulations, and policies related to efforts to protect the nation against terrorism.

Under its advice function, the Board is required to advise the President and Executive Branch departments and agencies to ensure that laws, regulations, policies, and programs related to efforts to protect the nation from terrorism are appropriately balanced against the need to protect privacy and civil liberties and are subject to appropriate guidelines and oversight.

STRATEGIC GOAL 2: Conduct effective oversight of executive branch authorities, policies, and activities related to efforts to protect the nation against terrorism to ensure appropriate protection of privacy and civil liberties.

Under its oversight function, the Board is required to "continually review" executive branch regulations, policies, procedures, information-sharing practices, and other actions related to efforts to protect the nation from terrorism to ensure that they appropriately protect privacy and civil liberties and comport with governing laws, regulations, and policies relating to privacy and civil liberties.

STRATEGIC GOAL 3: Offer insights on the effects of new and emerging technologies on the balance between government power and privacy and civil liberties.

Given the potential implications of new and developing technologies for privacy and civil liberties, their potential deployment should be accompanied by rigorous independent consideration of privacy and civil liberties concerns, taking into account the views of stakeholders inside and outside of government.

STRATEGIC GOAL 4: To the extent consistent with the protection of classified information and applicable law, promote transparency regarding Board activities and issues within the Board's jurisdiction.

The Board is committed to ensuring that its work is available and useful to the public, in accordance with the Board's enabling statute.

STRATEGIC GOAL 5: Continue to strengthen the Board's institutional capacity.

To achieve a standard of excellence in both mission and operational activities, the Board must continuously develop its operational activities, including human resources, financial management, and cybersecurity, in a manner consistent with its small size and limited workforce.



PERFORMANCE THROUGH PROGRESS

The following section demonstrates how the achievements of the Board relate to defined goals and objectives of the agency.

STRATEGIC GOAL 1: ADVICE

Provide effective and timely advice regarding the protection of privacy and civil liberties in the development and implementation of legislation, regulations, and policies related to efforts to protect the nation against terrorism.

OBJECTIVE 1.1:

Continue to serve as a trusted source of advice to the President and executive branch departments, agencies, and elements on how to ensure efforts to protect the nation from terrorism appropriately protect privacy and civil liberties.

OBJECTIVE 1.2:

Ensure that Board advice is constructive, practicable, and timely.

OBJECTIVE 1.3:

Maintain and strengthen the Board's collaboration with agency privacy and civil liberties officers.

The Board continues to perform its advice function, which entails providing advice to agencies involved in efforts to protect the nation against terrorism. The Board currently has one advice project. During the past year, the Board also completed three advice engagements that relate to revisions of Attorney-General approved guidelines governing the handling of U.S.-personal information collected under Executive Order 12333. With the completion of these engagements, the Board has provided advice, or is currently providing advice, on every significant revision or issuance by an IC element of its Attorney-General approved guidelines since 2013.





Other notable functions that PCLOB has performed in FY 2020 include:

- **Cybersecurity: Executive Order 13636.** Executive Order 13636 requires DHS to consult with the Board in producing a public report, required by Section 5(c) of the order, that assesses the privacy and civil liberties implications of the functions and programs undertaken by agencies covered by the order. The Board continued to engage with DHS during this reporting period. As required by Executive Order 13636, DHS periodically updates the Board on the progress of agencies' cybersecurity information-sharing activities. Board staff will continue to consult with DHS and provide necessary guidance for the final, consolidated Executive Order 13636 Privacy and Civil Liberties Assessment Reports.
- **Coordination of Executive Branch Privacy and Civil Liberties Activities.** Section 803 of the Implementing Recommendations of the 9/11 Commission Act of 2007 requires agencies' Privacy and Civil Liberties ("P/CL") officers to issue semi-annual reports about their activities to their respective agency heads, Congress, and the Board. The Board regularly receives and reviews Section 803 reports from federal departments and agencies.

The Board's authorizing statute instructs the Board to advise executive agencies on their efforts to protect privacy and civil liberties and to coordinate those activities on relevant interagency matters. As such, the Board has regular interactions with agency P/CL officers. Among other advantages, these interactions promote information sharing and privacy best practices. Board Members and staff work closely with P/CL officers.





STRATEGIC GOAL 2: OVERSIGHT

Conduct effective oversight of executive branch authorities, policies, and activities related to efforts to protect the nation against terrorism to ensure appropriate protection of privacy and civil liberties.

OBJECTIVE 2.1:

Build and execute a diverse portfolio of oversight projects related to efforts to protect the nation against terrorism and their implications for privacy and civil liberties.

OBJECTIVE 2.2:

Conduct professional, fact-based oversight that yields practicable and constructive findings and recommendations.

In line with the agency's second strategic goal, the Board has conducted vigorous oversight of efforts by the executive branch to protect the nation against terrorism through its work on both classified activities and the following previously disclosed oversight projects:

- In July 2019, the Board publicly issued the most comprehensive inventory of active oversight projects and other initiatives ever released by the Board. This document was updated in January 2020. Among the oversight work announced was a project titled, "From Booking to Baggage Claim," an examination of the use of facial recognition and other biometric technologies in aviation security, as well as the disclosure for the first time of the Board's "deep dive" review, a National Security Agency ("NSA") capability known as XKEYSCORE.
- In November 2019, Chairman Klein testified before the Senate Judiciary Committee NSA's Call Detail Records ("CDR") program under the USA FREEDOM Act of 2015. The Board also held a public forum to hear from outside experts and





the public in its examination of the CDR program under the Act. After this year-long examination of the CDR program, the Board released an oversight report in February 2020 to help inform Congress as it continues to consider reauthorization of that Act. The Board looks forward to continuing to be a resource to Congress, the executive branch, and the American public on this program.

- As part of its ongoing oversight of the Foreign Intelligence Surveillance Act (“FISA”), the Board has also taken several steps to further inform itself about the use of Title I of FISA by the Federal Bureau of Investigation (“FBI”) and the Department of Justice. On June 24, 2020, the Board held a virtual public forum to discuss the past and future of FISA. The forum provided Board Members with a diverse range of viewpoints on the FISA process, the law’s use for counterterrorism, challenges for privacy and civil liberties, and proposals for changes in the law.
- The Board continues to work on several oversight projects previously approved by the agency. These projects examine programs within the Board’s jurisdiction conducted by several federal agencies and in part relate to data aggregation and access, terrorist watch-listing, and the government’s use of open-source data. This work includes meetings and briefings (now telephonic and virtual) and obtaining and reviewing relevant documents.

STRATEGIC GOAL 3: TECHNOLOGY

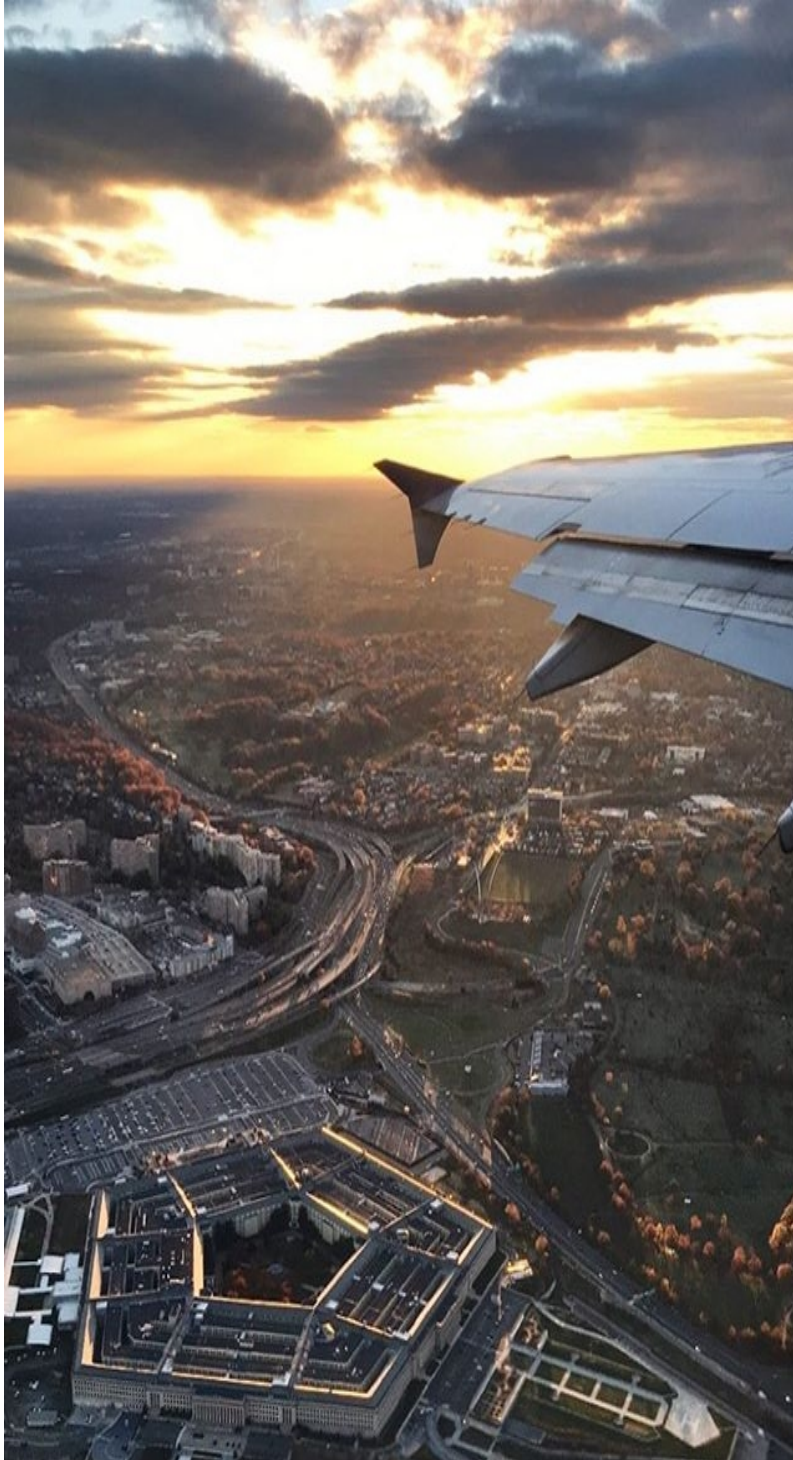
Offer insights on the effects of new and emerging technologies on the balance between government power and privacy and civil liberties.

OBJECTIVE 3.1:

Rigorously analyze the potential implications of new and emerging technologies for efforts to protect the nation against terrorism and the preservation of privacy and civil liberties.

OBJECTIVE 3.2:

Ensure that the Board receives the technical input needed to conduct effective oversight and provide informed advice on issues related to emerging technologies.



The Board has prioritized its project on the use of facial recognition in airports by the Department of Homeland Security. This oversight project, titled “From Booking to Baggage Claim,” is an examination of how facial recognition and other biometric technologies are used to verify identity at each phase of an air traveler’s journey, considering both operational benefits and privacy and civil liberties concerns arising from the use of biometric technologies in the aviation-security context.

In addition to many virtual and in-person meetings and briefings related to this project, the Board visited two airports, McCarran International Airport and Atlanta Hartsfield Jackson International Airport, to observe first-hand the pilot programs used by the Transportation Security Administration (“TSA”) and Customs Border Protection (“CBP”) and discuss the current uses and development of facial recognition in the aviation environment.



STRATEGIC GOAL 4: TRANSPARENCY

To the extent consistent with the protection of classified information and applicable law, promote transparency regarding Board activities and issues within the Board's jurisdiction.

OBJECTIVE 4.1:

Ensure that the Board's work is available and useful to the public and other stakeholders.

OBJECTIVE 4.2:

Maintain regular and constructive interaction with Congress, through both formal and informal channels.

OBJECTIVE 4.3:

Engage directly with the public about the Board's work and issues within the Board's jurisdiction.

OBJECTIVE 4.4:

Identify appropriate opportunities for international engagement.

To achieve its goal of transparency, the Board has committed to ensuring that its work is available, relevant, and informative for the public, Congress, and other federal agencies. The Board's statute requires it to hold public hearings and otherwise inform the public of its activities, as appropriate and in a manner consistent with the protection of classified information and applicable law.



Above: Board Members Edward Felten, Jane Nitze, and Chairman Adam Klein at a public forum in January 2020.



To foster a better understanding of its mission and work, Board Members and staff speak at events, including webinars, hosted by other government agencies, as well as by a variety of groups and organizations, including bar associations, business organizations, educational institutions, and non-governmental organizations. Board Members and staff held several briefings on Capitol Hill to provide updates on the Board's work and, upon request, to provide technical assistance on legislative matters as the agency strives to be a valuable resource to Congress through its work and written reports, briefings, and testimony on



matters within the Board's authority. While many of these interactions were virtual during FY 2020 due to the COVID-19 pandemic, Board Members and staff also continued their past practice of meeting with representatives of non-governmental organizations, the private sector, international counterparts, and other entities with interest in issues within the Board's jurisdiction.

Left: Chairman Klein at a November 2019 Senate Judiciary Committee hearing on the NSA's Call Detail Records Program.

STRATEGIC GOAL 5: COMPETENCE

Continue to strengthen the Board's institutional capacity.

OBJECTIVE 5.1:

Optimize the Board's use of shared-service providers.

OBJECTIVE 5.2:

Recruit and retain a workforce equipped with the skills to achieve the Board's mission.

OBJECTIVE 5.3:

Continue to strengthen the Board's financial management capabilities and ensure responsible stewardship of taxpayer funds.

OBJECTIVE 5.4:

Maintain a high standard of personnel and information security.

OBJECTIVE 5.5:

Continue to refine the Board's internal policies and governance processes.



The Board requires a strong foundation of administrative, managerial, and organizational capabilities to operate as a freestanding agency and strategically drives for a stronger institution by committing to achieving the highest standards for its workforce, cybersecurity, financial management, operational capacity, and protection of classified information. Despite its small agency size and limited workforce, the Board's operational support fulfilled an impressive list of accomplishments relating to the agency's human resources, financial management, cybersecurity, and physical/personnel security in FY 2019 and 2020, achieving the Board's fifth strategic goal of strengthening the institutional capacity of the agency. Some of the organizational and managerial successes recognized are as follows:

HUMAN RESOURCES AND FINANCIAL MANAGEMENT

- Increase of staffing level from less than 50 percent in early FY 2019 to over 90 percent at the end of FY 2020 through an active recruitment effort, which enabled the Board to fill key vacant positions with highly qualified personnel with professional backgrounds in intelligence, counterterrorism, privacy and civil liberties, oversight and investigations, federal accounting, and information technology;
- Implementation of new, cost-efficient benefits, flexible work schedules that are customary at other agencies, and other initiatives to enhance employee morale, retention, and development;
- Appointment of a Chief Financial Officer and recruitment of a full-time accountant to increase oversight of accounting functions and provide a conduit for stronger financial management;
- Successful migration of the agency's financial and payroll services to shared services provided by the Departments of Treasury and Interior, respectively, providing the agency with new technological systems and promoting more efficient and effective coordination with service providers, thus achieving better value for taxpayer dollars;
- Completion of the Board's second and third external audit of the agency's financial statements, resulting in unmodified audit opinions for two consecutive years; and
- Completion of the Board's first full internal controls assessment, which found no fraud, waste, or abuse.



INFORMATION TECHNOLOGY AND SECURITY

- Implementation of stronger technical controls to ensure compliance with Federal Information Security and Modernization Act (“FISMA”) requirements for cybersecurity. An independent evaluation rated the Board’s cybersecurity controls as effective for both FY 2020 and FY 2019;
- Implementation of collaboration tools and a Virtual Desktop Infrastructure platform to ensure continuity of operations and enhancing the agency’s boundary protection;
- Installation of a new, modernized website that improves the accessibility of the Board’s activities to users;
- Launch of a Trusted Access Program to ensure the security of classified information and to prevent insider threats, in accordance with Executive Order 13587, which requires federal agencies that operate or access classified computer networks to establish an insider threat program; and
- Collaboration with other federal agencies to transition its security portfolio and to ensure the workforce is enrolled in the Continuous Evaluation Program and is part of the Trusted Workforce 2.0.



Financial Summary and Highlights

Sound financial management is integral to the execution of PCLOB's mission. The following pages provide a summary and overview of the financial position of the Board and highlights some of the most significant financial achievements carried out, as well as some financial management challenges, during FY 2020.

Audited Agency Financial Statements, FY 2018 to FY 2020

Although the agency's first financial audit of the FY 2018 financial statements found no fraud, waste, or abuse, the independent auditors identified five material weaknesses in the Board's internal controls over various financial processes, resulting in the auditor's inability to provide an audit opinion over the FY 2018 financial statements. The Board viewed its first audit as the first step in a process of self-evaluation and continual improvement, with the goal of achieving the highest attainable standards of federal financial management. The extensive list of audit recommendations and findings provided the Board's small staff (which at the time consisted of only ten full-time employees, only two of which represented the finance team), with not only a list of challenges to overcome but great motivation to strengthen the agency's financial management in the process.

Due to the diligence of the Office of the Chief Financial Officer ("OCFO") to respond to the FY 2018 audit findings and recommendations, the agency's second audit of its financial statements concluded in April 2020, resulting in an unmodified opinion over the FY 2019 financial statements, with no new audit findings and no required audit adjustments. An unmodified opinion provides reasonable assurance that the financial statements are free of material misstatement. Reasonable assurance, while not absolute, is nonetheless a high level of assurance.

As evidence of the Board's continued efforts towards strong financial management, the agency's third audit over the financial statements in FY 2020 resulted in an unmodified audit opinion for the second consecutive year. The FY 2020 audit report, included in the "Financial Information" section of this report, noted no material weaknesses or significant deficiencies, a remarkable feat for the agency. The Board acknowledges these significant accomplishments as a testament to its commitment to achieving excellence despite the agency's small size.

CHALLENGES TO OUR FINANCIAL MANAGEMENT

Transitions to New Service Providers

In FY 2020, the PCLOB's pursuit of better value for taxpayer dollars brought three new contracts with shared service providers for payroll, financial, and procurement services. The time and effort expended by the Chief of Human Capital Officer, Chief Financial Officer, and Budget Officer was significant, as both the procurement process and the migration process required extensive coordination with both old and new service providers to ensure



maximum value and successful, timely migration of data. Agency staff completed significant training to learn new technological systems and the processes and procedures used by the new service providers, in addition to regular duties and responsibilities to support the agency mission. Since the completion of the transitions, however, the Board has experienced a remarkable improvement in the quality of services received from the new service providers.

Financial Impact of COVID-19

The financial impact of COVID-19 on the PCLOB was not significant, and no additional budgetary resources were necessary for the Board to continue its mission.

KEY ACCOMPLISHMENTS

The Board achieved its strategic goal of strengthening the agency's institutional capacity by meeting the following objectives:

Optimal Use of Shared Service Providers

In FY 2020, the Board procured and successfully transitioned to a new financial service provider, the Bureau of Fiscal Service's Administrative Resource Center ("ARC"), as well as a new payroll service provider, the Department of the Interior's Interior Business Center ("IBC"). The Board anticipates that the services provided by these providers will continue to strengthen the agency's institutional capacity through excellent service, responsiveness, and value for taxpayer dollars.

Recruitment of Skilled Staff

After a 20-month sub-quorum period from January 2017 to October 2018, the Board committed to establishing and maintaining a robust workforce equipped with skills to achieve its mission. The Board sought to ensure its staff encompasses a broad range of professional backgrounds, including experience in human resources, operations, intelligence, counterterrorism, privacy and civil liberties, oversight and investigations, finance, and technology. Specifically for financial operations, the Board sought to recruit highly qualified permanent staff, which resulted in the appointment of Chief Financial Officer ("CFO") and a full-time accountant. The Board successfully filled all its critical skills by the end of FY 2020, where continued focus remains with retention to maintain the robust workforce.



Strengthened Financial Management through Enhanced Internal Controls

PCLOB's first full internal controls assessment was completed in FY 2020. The assessment found no fraud, waste, or abuse. None of the recommendations made in the internal controls assessment's final report aggregated to a material weakness or significant deficiency.

The Board's commitment to obtaining excellent service, responsiveness, and value for taxpayer dollars resulted in a new contract for internal controls support in April 2020 to remediate prior internal controls test findings, update procedures and controls based on the new financial service provider processes, and continue identifying ways to strengthen the Board's internal controls through a second internal controls assessment. The new internal controls support team has continued to review and refine internal financial policies and procedures to align with those of the agency's new service providers.

OVERVIEW OF FINANCIAL POSITION

PCLOB's financial statements are submitted to the OMB in compliance with the Accountability of Tax Dollars Act of 2002. As presented in the "Financial Information" section of this report, these statements support the agency's objective to improve financial management and provide accurate, reliable information for assessing performance and allocating resources. Agency resources primarily consist of funds appropriated by Congress and administered by the Department of the Treasury ("Treasury"). The agency has the authority to obligate these funds over a two-year period. In FY 2020, the agency received \$8.2 million in appropriations, operating under one general fund.

Overall, the Board's financial position improved as a result of the FY 2020's activities, as presented in the agency principal statements:

- Balance Sheet,
- Statement of Net Cost,
- Statement of Changes in Net Position, and
- Statement of Budgetary Resources.

The Board prepares its Balance Sheet, Statement of Net Cost, and Statement of Changes in Net Position on an accrual basis, in accordance with generally accepted accounting principles; meaning that economic events are recorded as they occur, regardless of when cash is received or disbursed. Agency management is accountable for the integrity of the financial statements, which were prepared using the Board's books and records in conformity with GAAP, which for federal entities, are the standards prescribed by FASAB. The FY 2020 financial statements have been audited by an independent certified public accounting firm, Castro & Company. These financial statements earned an unmodified

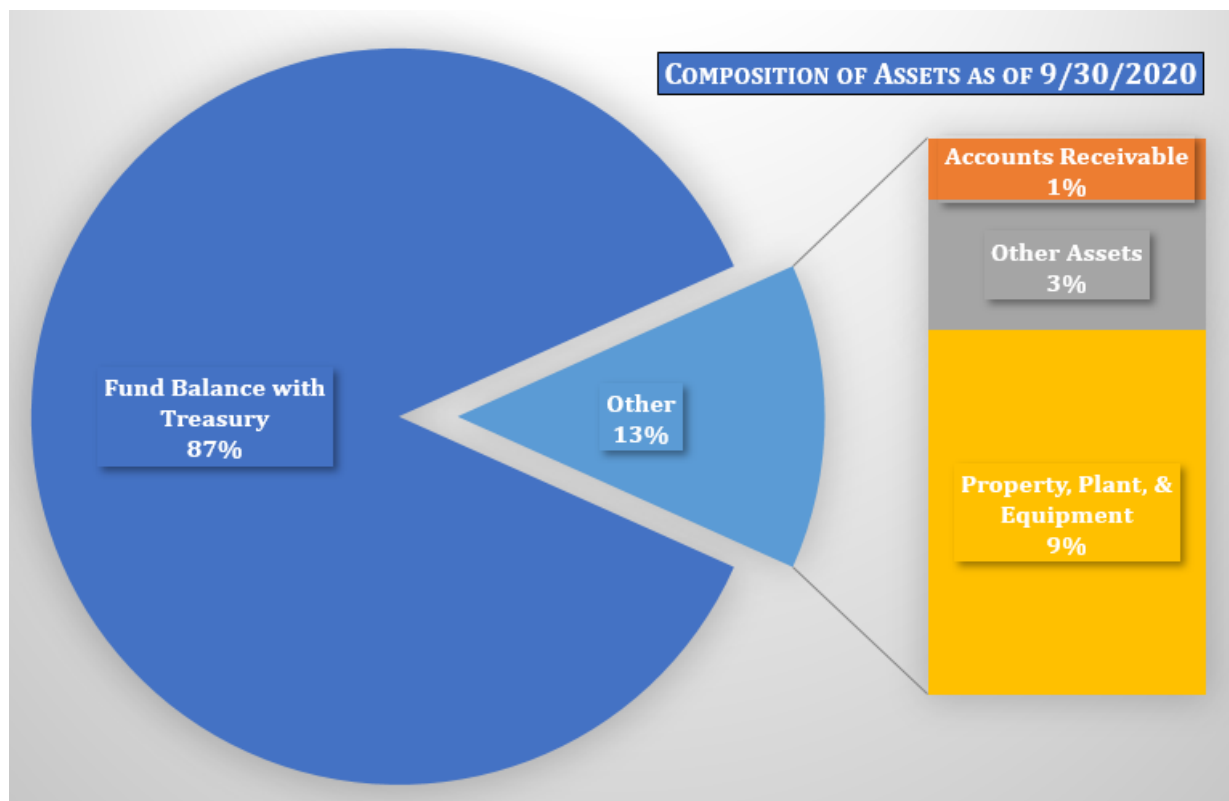


opinion and are included, along with accompanying footnote disclosures, in the “Financial Information” section of this report.

BALANCE SHEET

The Balance Sheet presents resources owned and managed by PCLOB that have future economic benefits (assets) and amounts owed by the agency that will require future payments (liabilities). The difference between assets and liabilities is the residual amount retained by the Board (net position) that is available for future programs. The Balance Sheet shows the major components of PCLOB’s assets, liabilities, and net position at the end of FY 2020 and FY 2019.

Assets



Assets are the amount of current and future economic benefits owned or managed by PCLOB, which are used to achieve its mission. Total assets were approximately \$23.9 million at the end of September 30, 2020, compared to \$25.8 million from September 30, 2019. The fund balance with Treasury and property, plant, and equipment accounted for 87 percent and 9 percent, respectively, of overall agency assets in FY 2020. The fund balance with Treasury are monies held within Treasury and represents the balance in agency resources that are available for appropriated purposes to make future expenditures and



pay liabilities. Property, plant, and equipment is comprised of tangible assets, such as equipment and leasehold improvements owned by the agency.

Overall, asset balances decreased between FY 2020 and FY 2019. The fund balance with Treasury balance decreased slightly by \$1.3 million (or 6%) from \$22 million in FY 2019 to \$20.7 million in FY 2020, while the net property, plant, and equipment balance decreased by nearly \$500 thousand (or 19%) from \$2.6 million in FY 2019 to \$2.1 million in FY 2020. The variance in the agency's property, plant, and equipment balance is primarily due to depreciation expense recognized in FY 2020 of approximately \$350 thousand and various entries to correct asset balances of approximately \$110 thousand.

Other assets of \$1.1 million includes accounts receivable of approximately \$350 thousand and prepayments for various contracted services and subscriptions of approximately \$750 thousand. While the Board's receivables balance was fairly consistent between the years, PCLOB's prepayments decreased nearly \$125 thousand (or 14%) from approximately \$875 thousand in FY 2019 to \$750 thousand in FY 2020 primarily as a result of better management of prepaid accounts through new processes and procedures implemented in FY 2020.

Liabilities

Liabilities are amounts owed by PCLOB for goods and services provided but not yet paid—specifically, monies owed to the public and other federal agencies. Total liabilities in FY 2020 were approximately \$900 thousand, which was \$2.7 million (or 75%) lower than the FY 2019 balance of \$3.6 million. This decrease is primarily related to the settlement of \$2.9 million of accounts payable for office space rents and detailee reimbursements due to another agency. The other remaining liabilities increased overall approximately \$200 thousand due to increased payroll-related costs recognized as the Board gained six more full-time employees in FY 2020.

Net Position

Net position is comprised of unexpended appropriations and cumulative results of operations. PCLOB's net position increased by approximately \$900 thousand, or 4%, from \$22.2 million in FY 2019 to \$23.1 million in FY 2020.



STATEMENT OF NET COST

The Statement of Net Cost reports the agency's net cost of operations for a given fiscal year. Net cost of operations is the difference between the costs incurred minus earned revenue attributed to and permitted to be offset against these costs. The agency's net cost of operations increased \$1 million (or 15%) from \$6.5 million in FY 2019 to \$7.5 million in FY 2020. The increase is mostly due to an increase in gross costs. Expenses were attributable to strategic programs enhancement and employee payroll and benefits.

PCLOB's earned revenues come from reimbursable agreements with other federal agencies for temporary detail assignments of PCLOB employees. Earned revenues decreased approximately \$115 thousand (or 61%), from approximately \$190 thousand in FY 2019 to nearly \$75 thousand in FY 2020, primarily due to shorter reimbursable detail assignments in FY 2020.

STATEMENT OF CHANGES IN NET POSITION

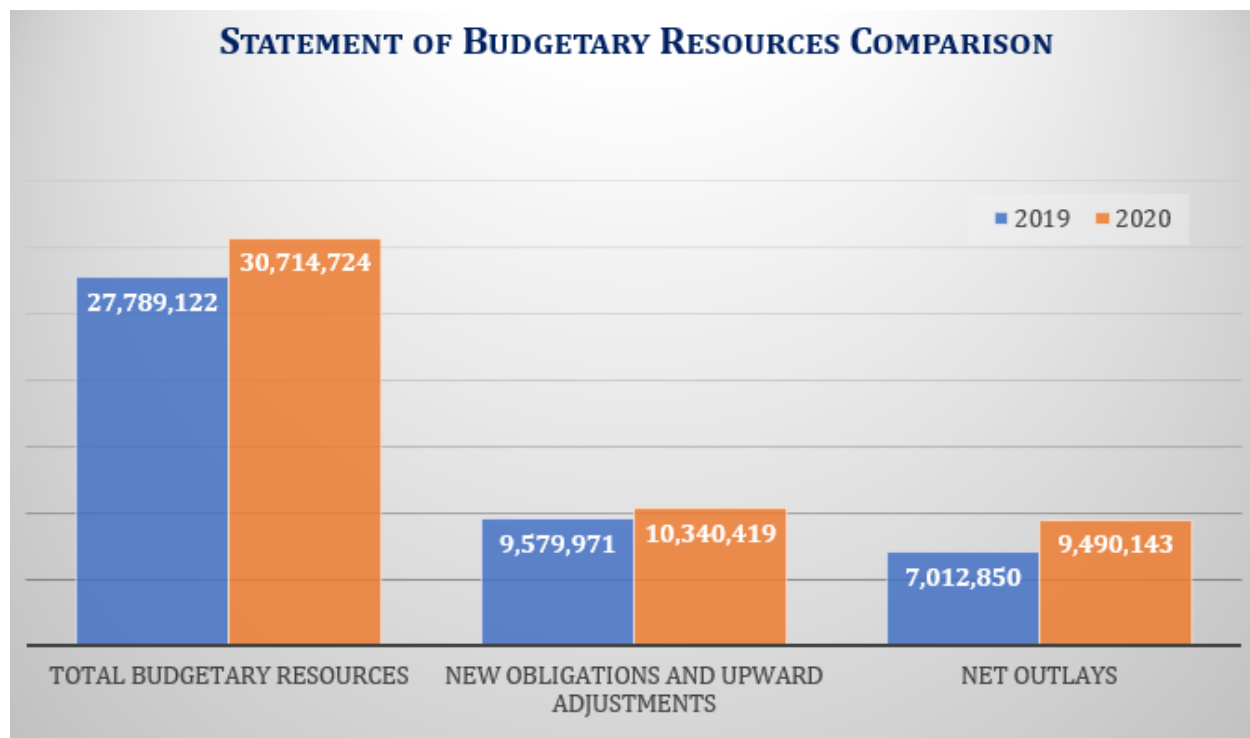
The Statement of Changes in Net Position identifies the difference between all financing sources available to and used by the PCLOB to support its net cost of operations. Increases or decreases in an organization's net financial position is the sum of two components: cumulative results of operations and unexpended appropriations. Each component is displayed separately to facilitate more detailed understanding of the changes in net position as a whole.

The Board's net position as of September 30, 2020, shown on both the Balance Sheet and the Statement of Changes in Net Position, was \$23.1 million, an increase of approximately \$900 thousand (or 4%) from FY 2019's net position of \$22.2 million. This change was due to an increase of \$1.5 million (or 7%) in unexpended appropriations and a decrease of approximately \$600 thousand (or 31%) to the cumulative results of operations. The PCLOB's overall increase in net position stems from an increase in appropriations of \$5 million in FY 2019 to \$8.2 million in FY 2020.



STATEMENT OF BUDGETARY RESOURCES

PCLOB's total budgetary resources consist of new budget authority and unobligated balances of budget authority provided in previous years. New obligations and upward adjustments result from an order placed, contract awarded, service received, or similar transaction, which will require payments during the same or a future period. Net outlays reflect the actual cash disbursed by Treasury for PCLOB obligations net of offsetting collections. Total budgetary resources were \$30.7 million for FY 2020, of which \$8.2 million comes from new budget authority, and \$27.8 million for FY 2019, of which \$5 million comes from new budget authority. New obligations and upward adjustments increased approximately \$760 thousand (or 8%) to \$10.3 million, while net outlays increased by \$2.5 million (or 36%) to \$9.5 million.



LIMITATIONS OF THE PRINCIPAL FINANCIAL STATEMENTS

The principal financial statements are prepared to report the financial position, financial condition, and results of operations, pursuant to the requirements of 31 U.S.C. § 3515(b). The statements are prepared from records of federal entities in accordance with GAAP and the formats prescribed by OMB. Reports used to monitor and control budgetary resources are prepared from the same records. Users of the statements are advised that the statements are for a component of the U.S. Government.



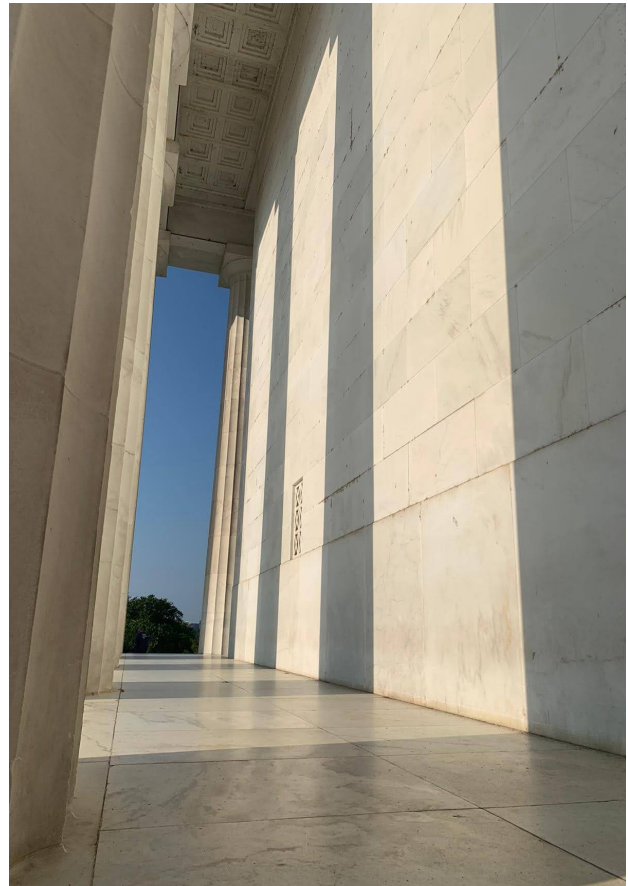
Analysis of Systems, Controls, and Legal Compliance

Management Assurance

This section addresses PCLOB's compliance with the Federal Managers' Financial Integrity Act of 1982, other applicable laws, and the agency's financial management system strategy.

Federal Managers' Financial Integrity Act

The Federal Managers' Financial Integrity Act ("FMFIA") mandates that agencies establish effective internal control to provide reasonable assurance that (1) obligations and costs are in compliance with applicable law; (2) funds, property, and other assets are safeguarded against waste, loss, unauthorized use, or misappropriation; and (3) revenues and expenditures applicable to agency operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the assets.



FMFIA requires agencies to establish accounting and administrative controls over program, operational, and administrative functions, in addition to accounting and financial management. FMFIA also requires standards to ensure for the prompt resolution of all audit findings and mandates for agency heads to annually evaluate agency controls and provide an assurance statement on the adequacy of internal and administrative controls (Section 2) and conformance of systems with government-wide standards (Section 4).

The FMFIA FY 2020 Unmodified Management Assurance Statement, included later in this section, is consistent with the FY 2020 financial statement audit report, included in the "Financial Information" section.



Enterprise Risk Management, Internal Controls System, and Implementation of Federal Managers' Financial Integrity Act

Guidance for implementing FMFIA (31 U.S.C. 3512) is provided through OMB Circular A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*. PCLOB took into consideration the best practices set out by the GAO as well as the guidance provided by the OMB when developing the agency's Internal Controls Framework ("ICF") Manual, issued in February 2019 with the goal of ensuring sound financial and non-financial risk management while accounting for the PCLOB's small size and limited resources. The ICF Manual sets out the agency's oversight role and strategic decision-making over enterprise risk management and policies and procedures for establishing, assessing, correcting, and reporting on internal control.

To ensure the agency continues to maintain a robust internal control framework and continue meeting the guidelines established in the ICF Manual despite its small size, PCLOB outsources with an independent contractor to provide internal controls support services, such as risk assessment, testing, and remediation, with oversight from the Chief Financial Officer.

In FY 2020, the first evaluation of the internal controls and assessment of risks over program operations was performed. The Board documented its key controls to address risks and assessed the design and operating effectiveness of these controls through detailed test procedures. The Board also tested the operating effectiveness of control activities that were found to be deficient in prior assessments. The PCLOB Chief Financial Officer analyzed the magnitude of internal control deficiencies, both individually and in the aggregate, to determine whether a material weakness existed in the financial reporting processes.

In summary, the agency's internal control program is designed to ensure compliance with the requirements of the Federal Managers' Financial Integrity Act and other federal regulations.

Payment Integrity Information Act

PCLOB is a small agency operating under one program, with no activities that are susceptible to the threshold amounts stated in the Payment Integrity Information Act of 2019 ("PIIA"), which amended requirements stated by the Improper Payments Information Act of 2002, the Improper Payments Elimination and Recovery Act of 2010, Improper Payments Elimination and Recovery Improvement Act of 2012, and the Federal Improper Payments Coordination Act of 2015. By definition, significant improper payments are defined as gross annual improper payments exceeding both 1.5 percent of program outlays and \$10 million of all program or activity disbursements made during the fiscal year reported or \$100 million (regardless of the improper payment percentage of total program outlays). The Board performs a risk assessment at least once every three years with the



end goal of determining whether the program is or is not susceptible to significant improper payments.

PIIA requires agencies to review all programs and activities they administer and identify those which may be susceptible to significant erroneous payments. For all programs and activities in which the risk of erroneous payments is significant, agencies are to estimate the annual amount of erroneous payments made in those programs. The PCLOB's last risk assessment, conducted in 2018, indicated that PCLOB's single program was not susceptible to significant improper payments. PCLOB will conduct its next risk assessment in 2021. The PCLOB will perform another risk assessment sooner if a program has a significant change in legislation or the agency receives a significant increase in its funding.

Although the Board is not susceptible to significant improper payments, the agency has a responsibility to implement certain financial and administrative controls relating to fraud and improper payments and to report to Congress annually on the implementation of controls to mitigate and detect fraud, identification of risks and vulnerabilities to fraud with respect to applicable processes, and the strategies, procedures, and other steps used by the agency to curb fraud. The Fraud Reduction and Data Analytics Act of 2015, now incorporated into PIIA, was first signed into law in June 2016 to improve financial and administrative controls and procedures to identify, assess, and address fraud risks. Application of the agency's internal controls framework strengthens the agency effectiveness in meeting agency goals and objectives, while improving fraud prevention and detection of federal resources. PCLOB is a full participant in the Treasury's "Do Not Pay" program operating through the Do Not Pay Business Center. Payees under consideration for payment are reviewed for eligibility through the pre-award component of the business center, payments are then re-verified in the pre-payment component, followed by post-payment data matching reviews. See the PCLOB's 2020 Fraud Reduction Report in the "Other Information" section of this agency financial report.

Debt Collection Improvement Act

PCLOB does not currently manage debt but continues to monitor provisions of the Debt Collection Improvement Act of 1996; OMB Circular A-129, *Policies for Federal Credit Programs and Non-Tax Receivables*; the Controller Alert, Improving Collection of Delinquent Debt, issued Jan. 4, 2013; and other relevant laws to ensure compliance.



Anti-Deficiency Act

The Anti-Deficiency Act (31 U.S.C. §§ 1341 and 1517) prohibits federal agencies from obligating and expending federal funds in excess of its appropriation. The agency's financial system was designed to prevent Anti-Deficiency Act violations through the implementation of a zero-tolerance funds control check at the fund and office level. This systematic control ensures that obligations are not recorded until monies are authorized and allotted by the OCFO. Funds control is a critical tool in ensuring funds are managed effectively across all levels of the agency.

Prompt Payment Act

In 1982, Congress enacted the Prompt Payment Act (31 U.S.C. Chapter 39) to require federal agencies to pay their bills on a timely basis, to pay interest penalties when payments are made late, and to take discounts only when payments are made by the discount date. In FY 2020, PCLOB paid 23 of its 24 invoices (or 96%) subject to the Prompt Payment Act on time, with one invoice totaling \$114 paid late due to an administrative error.

Digital Accountability and Transparency Act

Digital Accountability and Transparency Act of 2014 ("Public Law. 113-101"), or DATA Act, was signed into law in May 2014 to establish governmentwide, financial data standards and increase the availability, accuracy, and usefulness of federal spending information. DATA Act implementation, which is being led by Treasury and the OMB, mandates federal agencies to report on procurement data to bring awareness on federal spending. Pursuant to the statutory reporting requirements, PCLOB submits award-level information for posting on usaspending.gov using the required standard data exchange called the DATA Act Information Model Schema. Federal spending that is reported on usaspending.gov is derived from financial and contract award information. The agency's financial system is updated with the most recent version of DATA Act Information Model Schema to ensure that the submission of all required financial data elements is complete and accurate. As for contract award data, the agency uses Procurement Information System for Management ("PRISM") for domestic contracts, which automatically updates to Federal Procurement Data System-Next Generation, the central repository of information for federal contracting. Validation issues between financial and award information are reconciled to ensure that spending data is accurate.

PCLOB does not have an Inspector General and therefore is not required to conduct an annual audit to validate the accuracy of the agency's DATA Act submission. However, PCLOB's financial service provider, ARC, does have a Statement of Standards for Attestation Engagements ("SSAE") Number 18 internal controls audit each year, which inherently provides assurance over internal controls related to the submission of DATA Act data.



Financial Management Systems Strategy

PCLOB strives to maintain and enhance financial management systems, processes, and controls that ensure financial accountability and transparency, provide financial management data and information to decision makers, and comply with federal laws, regulations, and policy. Oracle is the agency's system of record and is integrated with various end-user applications to capture the agency's financial transactions.

Federal Information Security Modernization Act

FISMA requires federal agencies to "develop, document, and implement an agency-wide information security program to provide information security for the information and information systems that support the operations and assets of the agency, including those provided or managed by another agency, contractor, or other source." In addition, FISMA requires federal agencies to conduct annual assessments of their information security and privacy programs, to develop and implement remediation efforts for identified weaknesses and vulnerabilities, and to report compliance to OMB. The Board's Office of Chief Information Officer ("OCIO") performs a review of the Board's compliance with FISMA requirements each year. In accordance with FISMA and OMB Memorandum M-20-04, *Fiscal Year 2019-2020 Guidance on Federal Information Security and Privacy Management Requirements*, PCLOB submitted its FY 2020 metrics into the Department of Homeland Security's CyberScope application on November 2, 2020.





Federal Managers' Financial Integrity Act FY 2020 Unmodified Management Assurance Statement

The management of the Privacy and Civil Liberties Oversight Board is responsible for managing risks and maintaining effective internal control to meet the objectives of the FMFIA.

The Board utilizes the services of the Department of Treasury Fiscal Services' ("Treasury") financial management system, Oracle Federal Financials. Annual examinations of their system indicate that the system complies with federal financial management systems requirements, standards promulgated by the Federal Accounting Standards Advisory Board and the U.S. Standard General Ledger at the transaction level.

PCLOB has established internal controls over its agreements, disbursements, and end-user controls, and relies on the controls over accounting, procurement, and general computer operations that Treasury has in place. The Board obtained Treasury's 2020 Statement on Standards for Attestation Engagements Number 18, *Report on Controls at a Service Organization Relevant to User Entities' Internal Control over Financial Reporting* report and reviewed it to assist in assessing the internal controls over the Board's financial reporting. After a thorough review of the results, the Board did not discover any significant issues or deviations in its financial reporting during fiscal year 2020.

In fiscal year 2020, the Board continued to develop its comprehensive Federal Information Security Modernization Act program for its information systems. This program included the implementation of a defined risk management framework that implements National Institute of Standards and Technology defined security controls and requirement for periodic audits. This has resulted in the Board's ability to manage organizational risk and maintain effective information security program.

We conducted an assessment of risks and evaluated internal controls to support effective and efficient programmatic operations, reliable reporting, and compliance with applicable laws and regulations in accordance with Office of Management and Budget Circular A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*. Through this assessment, the Board can provide reasonable assurance that the objectives of Sections 2 and 4 of FMFIA have been achieved, and internal control over operations, reporting, and compliance with laws and regulations were operating effectively as of September 30, 2020.

A handwritten signature in blue ink, appearing to read "Adam Klein".

Adam Klein, Chairman
November 13, 2020

A handwritten signature in blue ink, appearing to read "Raheel Baig".

Raheel Baig, Chief Financial Officer
November 13, 2020



Forward-Looking Information

The Board's FY 2021 Budget focuses on key capabilities and anticipated performance in the following areas:

- Providing effective and timely advice regarding the protection of privacy and civil liberties in the development and implementation of legislation, regulations, and policies related to efforts to protect the nation against terrorism.
- Conducting effective oversight of executive branch authorities, policies, and activities related to efforts to protect the nation against terrorism to ensure appropriate protection of privacy and civil liberties.
- Offering insight on the effects of new and emerging technologies on the balance between government power and privacy and civil liberties.
- Promoting transparency regarding the Board's activities and issues within its jurisdiction, to the extent consistent with the protection of classified information and applicable law.
- Continuing to build and strengthen relationships with agency P/CL Officers and to coordinate the activities of those officers on relevant interagency matters.
- Continuing to strengthen the Board's institutional capacity. This includes a continued focus on recruiting and retaining highly qualified staff; maintaining robust cybersecurity; and exercising effective financial management to ensure that taxpayers dollars are spent wisely.
- Continuing to implement the Board's FY 2019-2022 Strategic Plan as new initiatives for the next strategic plan are developed for Board consideration and approval.

The Board anticipates the following accomplishments in Fiscal Year 2021:

Workforce – The Board's FY 2021 workforce anticipated performance objectives include:

- Continuing to encourage and facilitate staff participation in external training programs to ensure the ongoing professional development of the PCLOB's workforce;
- Maintaining human-resource practices, policies, guidance, and workforce plans that inspire and motivate employees and support mission success; and
- Sustaining a positive and professional workplace environment.

Internal Policies – Professional, effective internal management is the foundation of the Board's ability to operate as a freestanding federal agency. During FY 2021, the Board anticipates completing its efforts to refine its internal policies and procedures.



Financial Management – The Board will continue to further strengthen the agency’s financial management capabilities in the upcoming fiscal year, with specific focus on the following activities:

- Continuing to undergo regular external and internal audits, using any findings or recommendations to further refine internal controls and improve accounting practices;
- Continuing to use shared service providers to execute non-mission activities and periodically reviewing those arrangements to ensure optimal performance, responsiveness, and value for taxpayer dollars over the long term; and
- Continuing to conduct agency-wide planning that is linked and responsive to the budget process.

Information Technology Systems and Cybersecurity - In FY 2021, the Board’s information technology (“IT”) staff will remain focused on strengthening the agency’s cybersecurity posture while implementing tools and strategies to respond to the COVID-19 pandemic work environment. In addition, the Board will continue to leverage shared-service providers and contractor support to enhance its boundary protection.

For FY 2021 and leading into FY 2022, the Board will continue to focus its efforts on complying with federal standards and OMB’s Cross-Agency Priority Goals for cybersecurity. These goals include managing asset security, protecting networks and data, and limiting personnel access. The Board’s IT staff will implement, maintain, and document technical controls to comply with FISMA requirements.

Protecting Classified and Sensitive Information – The Board will remain focused on the protection of classified information to achieve the highest standards of security for the Board’s cleared personnel, physical space, and classified systems. This includes continuing the implementation of its Trusted Access Program and Controlled Unclassified Information policy to maintain the agency’s robust self-inspection program, which ensures appropriate derivative classification.

The Board plans to further strengthen its cybersecurity by:

- Leveraging the Board’s recently concluded FISMA audit to further refine cybersecurity practices, policies, and documentation, and conduct annual FISMA audits in FY 2021 and beyond;
- Continuing to implement the Cybersecurity Cross-Agency Priorities, including continuous monitoring, anti-phishing defenses, and malware defenses;
- Training staff on cybersecurity, counterintelligence, and physical security threats; and
- Ensuring compliance with supply chain risk management to sustain the protection of systems.



FINANCIAL INFORMATION

Message from the Chief Financial Officer

I am pleased to report that for the second consecutive year, we received an unmodified opinion on our financial statements from our independent auditors, and I am honored to join the Chairman of the Board in issuing the FY 2020 Agency Financial Report for the Privacy and Civil Liberties Oversight Board. This report highlights our accomplishments in achieving our mission to ensure that the executive branch's efforts to prevent terrorism are balanced with the need to protect privacy and civil liberties and demonstrates our responsible stewardship of taxpayer dollars.



The Board has made significant progress since electing to undergo its first financial statement audit two years ago. The disclaimer of opinion we received following the first audit imposed an urgent need to re-examine our internal policies and governance process and bolster the strength of our financial management capabilities. As our staff worked diligently to address a challenging list of material weaknesses and audit recommendations, significant accounts were analyzed, new processes were revised or implemented, and internal controls were added or enhanced. With most of the previously identified audit weaknesses remediated, PCLOB received an unmodified audit opinion over the FY 2019 financial statements with no new findings and no required audit adjustments, an achievement we take great pride in. We became even more committed to sustaining the progress achieved through our financial statement audits by further strengthening internal controls, reducing manual processes, and improving data quality and reporting.

This pledge to put PCLOB's internal controls on a strong footing for the long term carried into FY 2020 as we continued to seek areas for operational improvement and growth. In line with an objective of our strategic plan, we performed a review of the Board's shared-service arrangements, and procured two new service providers, enabling gains in functionality and enhancing our internal controls significantly. The Board met another strategic objective by appointing a new Chief Financial Officer and hiring a full-time accountant, both of which provide greater oversight of accounting functions. Our work to streamline the procurement process by analyzing each contract has also benefited the agency through a reduction of overall contracting costs. Through these measures, we successfully remediated all previous audit recommendations to management by year's end.



It is rewarding to see the diligence and dedication of our staff members in support of our mission goals bear fruit through the receipt of an unmodified audit opinion over the FY 2020 financial statements. I deeply appreciate the efforts of the talented PCLOB professionals who plan, execute, and account for the Board's resources. Their commitment to ensuring sound financial management provides the foundation for our strong stewardship and ensures that reliable financial information is delivered to our stakeholders. I am proud to lead in my capacity as Chief Financial Officer during this time of exponential growth and look forward to continued excellence in FY 2021.

A handwritten signature in blue ink, appearing to read 'Raheel Baig', is positioned above the name and title of the signatory.

Raheel Baig, Chief Financial Officer
November 13, 2020



Report of Independent Auditors



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Phone: 703.229.4440
Fax: 703.859.7603
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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 sheets of the Privacy and Civil Liberties Oversight Board (PCLOB) as of September 30, 2020 and 2019 and the related statements of net cost, changes in net position, and budgetary resources for the fiscal years then ended, and the related notes to the financial statements.

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 audits. We conducted our audits 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*. Those standards require that we plan and perform the audits 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.

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, 2020 and 2019, and the related statements of net cost, changes in net position, and budgetary resources for the years then ended in accordance with accounting principles generally accepted in the United States of America.



Independent Auditor's Report
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Required Supplementary and Other Information

U.S. generally accepted accounting principles require that the information in the *Required Supplementary Information*, including *Management's Discussion and Analysis*, be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Federal Accounting Standards Advisory Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. The supplementary information is the responsibility of management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the basic financial statements. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

The information presented in the Message from the Chairman, and Other Information, and Appendices is presented for purposes of additional analysis and are not required as part of the basic financial statements. Such information has not been subjected to auditing procedures applied by us in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

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 November 13, 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 and 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.

Costo & Company, LLC

Alexandria, VA
November 13, 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 sheets as of September 30, 2020 and 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 November 13, 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, 2020, 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. Given these limitations, during our audit we did not identify any deficiencies in



Independent Auditor's Report on Internal Control
Page 2

internal control that we consider to be material weaknesses or significant deficiencies. However, material weakness or significant deficiencies may exist that have not been identified.

We noted less significant matters involving internal control and its operations which we have reported to PCLOB management in a separate letter dated November 13, 2020.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and the result 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
November 13, 2020



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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 sheets as of September 30, 2020 and 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 November 13, 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*.

The management of PCLOB is responsible for complying with laws and regulations applicable to PCLOB. 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. 19-03, including the requirements referred to in the Federal Managers' Financial Integrity Act of 1982. We limited our tests of compliance to these provisions, and we did not test compliance with all laws and regulations applicable to PCLOB.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the PCLOB's financial statements are 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 determination of financial statement amounts. However, 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 tests of compliance disclosed no instances of noncompliance or other matters that are required to be reported herein under *Government Auditing Standards* or OMB Bulletin No. 19-03.

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 the PCLOB's compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the 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, 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
November 13, 2020



Audited Financial Statements

**PRIVACY AND CIVIL LIBERTIES OVERSIGHT BOARD
BALANCE SHEET
AS OF SEPTEMBER 30, 2020 AND 2019
(In Dollars)**

	2020	2019
Assets:		
Intragovernmental:		
Fund Balance with Treasury (Note 2)	\$ 20,733,240	\$ 22,038,868
Accounts Receivable (Note 3)	354,355	360,951
Other (Note 4)	620,652	876,213
Total Intragovernmental	21,708,247	23,276,032
Accounts Receivable, Net (Note 3)	254	112
General Property, Plant, and Equipment, Net (Note 5)	2,100,865	2,564,357
Other (Note 4)	132,372	-
Total Assets	\$ 23,941,738	\$ 25,840,501
Liabilities:		
Intragovernmental:		
Accounts Payable	\$ 202,552	\$ 3,047,945
Other (Note 7)	51,178	37,101
Total Intragovernmental	253,730	3,085,046
Accounts Payable	77,217	172,414
Other (Note 7)	547,949	379,399
Total Liabilities (Note 6)	\$ 878,896	\$ 3,636,859
Net Position:		
Unexpended Appropriations - All Other Funds	\$ 21,728,137	\$ 20,281,842
Cumulative Results of Operations - All Other Funds	1,334,705	1,921,800
Total Net Position	23,062,842	22,203,642
Total Liabilities and Net Position	\$ 23,941,738	\$ 25,840,501

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



**PRIVACY AND CIVIL LIBERTIES OVERSIGHT BOARD
STATEMENT OF NET COST
FOR THE YEARS ENDED SEPTEMBER 30, 2020 AND 2019
(In Dollars)**

	2020	2019
Gross Program Costs:		
Gross Costs	\$ 7,605,832	\$ 6,655,691
Less: Earned Revenue	(73,703)	(187,979)
Net Program Costs	\$ 7,532,129	\$ 6,467,712
<hr/>		
Net Cost of Operations	\$ 7,532,129	\$ 6,467,712

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



**PRIVACY AND CIVIL LIBERTIES OVERSIGHT BOARD
STATEMENT OF CHANGES IN NET POSITION
FOR THE YEARS ENDED SEPTEMBER 30, 2020 AND 2019
(In Dollars)**

	2020	2019
Unexpended Appropriations:		
Beginning Balances	\$ 20,281,842	\$ 21,773,636
Budgetary Financing Sources:		
Appropriations Received	8,200,000	5,000,000
Other Adjustments	(15,487)	(13,312)
Appropriations Used	(6,738,218)	(6,478,482)
Total Budgetary Financing Sources	1,446,295	(1,491,794)
Total Unexpended Appropriations	\$ 21,728,137	\$ 20,281,842
Cumulative Results of Operations:		
Beginning Balances	\$ 1,921,800	\$ 1,767,504
Adjustments		
Corrections of Errors	(30,303)	-
Beginning Balances, as Adjusted	1,891,497	1,767,504
Budgetary Financing Sources:		
Appropriations Used	6,738,218	6,478,482
Other Financing Sources (Non-Exchange):		
Imputed Financing (Note 9)	237,119	143,526
Total Financing Sources	6,975,337	6,622,008
Net Cost of Operations	(7,532,129)	(6,467,712)
Net Change	(556,792)	154,296
Cumulative Results of Operations	\$ 1,334,705	\$ 1,921,800
Net Position	\$ 23,062,842	\$ 22,203,642

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



**PRIVACY AND CIVIL LIBERTIES OVERSIGHT BOARD
STATEMENT OF BUDGETARY RESOURCES
FOR THE YEARS ENDED SEPTEMBER 30, 2020 AND 2019
(In Dollars)**

	2020	2019
Budgetary Resources:		
Unobligated balance from prior year budget authority, net (discretionary and mandatory)	\$ 22,449,319	\$ 22,601,143
Appropriations	8,200,000	5,000,000
Spending authority from offsetting collections	65,405	187,979
Total Budgetary Resources	\$ 30,714,724	\$ 27,789,122
Status of Budgetary Resources:		
New obligations and upward adjustments (total)	\$ 10,340,419	\$ 9,579,971
Unobligated balance, end of year:		
Apportioned, unexpired account	3,433,198	5,077,538
Unapportioned, unexpired accounts	260,228	420
Unexpired unobligated balance, end of year	3,693,426	5,077,958
Expired unobligated balance, end of year	16,680,879	13,131,193
Unobligated balance, end of year (total)	20,374,305	18,209,151
Total Budgetary Resources	\$ 30,714,724	\$ 27,789,122
Outlays, Net and Disbursements, Net:		
Outlays, net (total)	9,490,143	7,012,850
Agency outlays, net	\$ 9,490,143	\$ 7,012,850
Disbursements, net (total) (mandatory)	\$ 9,490,143	\$ 7,012,850

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



Notes to the Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Privacy and Civil Liberties Oversight 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 begin operations 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 became fully functional in until May 2013, when the Board's first chairman was confirmed.

Since then, the Board has continued establishing itself as an 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 the financial position of the agency. The Statement of Net Cost presents the agency's operating results; the Statement of Changes in Net Position displays the changes in the agency's equity accounts. The Statement of Budgetary Resources presents the sources, status, and uses of the agency's resources and follows the rules for the Budget of the United States Government.

These financial statements are a requirement of the Accountability of Tax Dollars Act of 2002 and have been prepared from, and are fully supported by, the books and records of PCLOB in accordance with the hierarchy of accounting principles generally accepted in the United States of America, standards issued by FASAB, OMB Circular A-136, *Financial Reporting Requirements*, as amended, and PCLOB accounting policies which are summarized in this note. These statements, apart from 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.

The financial statements represent intragovernmental and public activities. The intragovernmental balances, revenues, and costs reflect financial transactions between PCLOB and other federal agencies, while public activities are those with non-governmental customers, including employees, contractors, and vendors. The Board's financial statements reflect agency-only financial activities and do not require consolidation.

C. Basis of Accounting

Accounting principles encompass both accrual and budgetary transactions. 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. Under the budgetary basis, fund availability is recorded based upon legal considerations and constraints. The agency receives financing sources through direct appropriations from the general fund of the Treasury to support its operations. "Appropriations Used" recognizes that appropriation authority has been applied against received goods and services.

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 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 as 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.



Earned revenues as reported on the Statement of Net Cost represent revenue from services provided to another governmental agency through reimbursable agreements. No revenues were earned by PCLOB outside of federal sources in FY 2020 or 2019.

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 the Federal Employees Retirement System (“FERS”) retirement program which became effective on January 1, 1987. The Board and its employees both contribute to this system. Although the Board funds a portion of the benefits under FERS and makes the necessary payroll withholdings, it does not report assets associated with this benefit plan in accordance with SFFAS 5.

For FERS employees covered under FERS prior to January 1, 2013, the Board contributes an amount equal to 16 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 14.2 percent of each employee’s basic pay to the plan.

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 FERS. 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.

OPM is responsible for reporting assets, accumulated plan benefits, and unfunded liabilities, if any, applicable to FERS employee’s 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

Intragovernmental assets and liabilities arise from transactions between the Board and other federal entities. Fund balance with Treasury comprise the majority of the 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 FBwT 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 FBwT 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. Other Assets

Other assets consist of 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

General Property, Plant, and Equipment ("PP&E") represents furniture, fixtures, equipment, and information technology hardware and software and 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:

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

The Board's PP&E is presented net of accumulated depreciation on the Balance Sheet.

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

Fund Balance with Treasury account balances as of September 30, 2020 and 2019, were as follows:

	2020	2019
Status of Fund Balance with Treasury:		
Unobligated Balance		
Available	\$ 3,433,198	\$ 5,077,538
Unavailable	16,941,107	13,131,613
Obligated Balance Not Yet Disbursed	358,935	3,829,717
Total	\$ 20,733,240	\$ 22,038,868



No discrepancies exist between the FBwT reflected on the Balance Sheet and the balances in the Treasury accounts.

The available unobligated fund balances represent the amount currently available for obligation or commitment. At the start of the next fiscal year, this amount will become part of the unavailable balance as described in the following paragraph.

The unavailable unobligated fund balances represent the amount of appropriations for which the period of availability for obligation has expired. These balances are available for upward adjustments of obligations incurred only during the period for which the appropriation was available for obligation or for paying claims attributable to the appropriations.

The obligated balance not yet disbursed includes accounts payable, accrued expenses, and undelivered orders that have reduced unexpended appropriations but have not yet decreased the fund balance on hand.

NOTE 3 - ACCOUNTS RECEIVABLE, NET

Accounts receivable balances as of September 30, 2020 and 2019, were as follows:

	2020	2019
Intragovernmental		
Accounts Receivable	\$ 354,355	\$ 360,951
Total Intragovernmental Accounts Receivable	\$ 354,355	\$ 360,951
With the Public		
Accounts Receivable	\$ 254	\$ 112
Total Public Accounts Receivable	\$ 254	\$ 112

Accounts receivable from intragovernmental sources represent the portion of reimbursable agreements with other federal agencies that are earned but not yet reimbursed. Accounts receivable with the public represents the gross amount of monies owed to the Board by associate claims.

Historical experience has indicated that the majority of the receivables are collectible. There are no material uncollectible accounts as of September 30, 2020 and 2019.



NOTE 4 - OTHER ASSETS

Other assets as of September 30, 2020 and 2019, were as follows:

	2020	2019
Intragovernmental		
Advances and Prepayments	\$ 620,652	\$ 876,213
Total Intragovernmental Other Assets	\$ 620,652	\$ 876,213
With the Public		
Advances and Prepayments	\$ 132,372	\$ -
Total Public Other Assets	\$ 132,372	\$ -

Advance payments and prepayments represent cash outlays made to federal and non-federal entities for future goods and/or services.

NOTE 5 - GENERAL PROPERTY, PLANT AND EQUIPMENT, NET

Schedule of General Property, Plant and Equipment, Net as of September 30, 2020:

Major Class	Acquisition Cost	Accumulated Amortization/Depreciation	Net Book Value
Leasehold Improvements	\$ 2,215,986	\$ 577,211	\$ 1,638,775
Furniture & Equipment	605,579	143,489	462,090
Total	\$ 2,821,565	\$ 720,700	\$ 2,100,865

Schedule of General Property, Plant and Equipment, Net as of September 30, 2019:

Major Class	Acquisition Cost	Accumulated Amortization/Depreciation	Net Book Value
Leasehold Improvements	\$ 2,312,104	\$ 320,445	\$ 1,991,659
Furniture & Equipment	632,358	59,660	572,698
Total	\$ 2,944,462	\$ 380,105	\$ 2,564,357

**NOTE 6 - LIABILITIES NOT COVERED BY BUDGETARY RESOURCES**

The liabilities for PCLOB as of September 30, 2020 and 2019 include liabilities not covered by budgetary resources. Congressional action is needed before budgetary resources can be provided. Although future appropriations to fund these liabilities are likely and anticipated, it is not certain that appropriations will be enacted to fund these liabilities.

	2020	2019
Intragovernmental – FECA	\$ 63	\$ -
Unfunded Leave	346,596	222,915
Total Liabilities Not Covered by Budgetary Resources	\$ 346,659	\$ 222,915
Total Liabilities Covered by Budgetary Resources	532,237	3,413,944
Total Liabilities	\$ 878,896	\$ 3,636,859

Federal Employees Compensation Act (“FECA”) liabilities represent the unfunded liability for actual workers compensation claims and unemployment benefits paid on PCLOB’s behalf and payable to the Department of Labor (“DOL”).

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 account balances as of September 30, 2020 and 2019, entirely comprised of currently due balances, were as follows:

	2020	2019
Intragovernmental		
FECA Liability	\$ 63	\$ -
Payroll Taxes Payable	51,115	37,101
Total Intragovernmental Other Liabilities	\$ 51,178	\$ 37,101
With the Public		
Payroll Taxes Payable	\$ 8,649	\$ 6,577
Accrued Funded Payroll and Leave	192,704	149,907
Unfunded Leave	346,596	222,915
Total Public Other Liabilities	\$ 547,949	\$ 379,399



NOTE 8 - LEASES

Operating Leases

PCLOB occupies office space under a lease agreement that is accounted for as an operating lease. The lease term began on April 30, 2018 and expires on April 29, 2028. The total operating lease expense relating to this agreement for fiscal years 2020 and 2019 was \$943,349 and \$282,736, respectively. Below is a schedule of future payments for the term of the lease.

Fiscal Year	Total
2021	\$ 959,051
2022	969,409
2023	998,571
2024	1,035,451
2025	1,046,770
2026 thru 2028	2,732,196
Total Future Payments	\$ 7,741,448

The operating lease amount does not include estimated payments for leases with annual renewal options.

NOTE 9 - INTER-ENTITY COSTS

PCLOB recognizes certain inter-entity costs for goods and services that are received from other federal entities at no cost or at a cost less than the full cost. Consistent with accounting standards, certain costs of the providing entity that are not fully reimbursed are recognized as imputed cost and are offset by imputed revenue. Such imputed costs and revenues relate to business-type activities, employee benefits and claims to be settled by the Treasury Judgement Fund. However, unreimbursed costs of goods and services other than those identified are not included in our financial statements.

PCLOB recognizes as inter-entity costs the amount of accrued pension and post-retirement benefit expenses for current employees. The assets and liabilities associated with such benefits are the responsibility of the administering agency, OPM. For the periods ended September 30, 2020 and 2019, respectively, inter-entity costs were as follows:

	2020	2019
Office of Personnel Management	\$ 163,016	\$ 143,526
Treasury Judgment Fund	74,103	-
Total Imputed Financing Sources	\$ 237,119	\$ 143,526

**NOTE 10 - UNDELIVERED ORDERS AT THE END OF THE PERIOD**

As of September 30, 2020, budgetary resources obligated for undelivered orders were as follows:

	Federal	Non-Federal	Total
Paid Undelivered Orders	\$ 620,652	\$ 132,372	\$ 753,024
Unpaid Undelivered Orders	21,302	159,753	181,055
Total Undelivered Orders	\$ 641,954	\$ 292,125	\$ 934,079

As of September 30, 2019, budgetary resources obligated for undelivered orders were as follows:

	Federal	Non-Federal	Total
Paid Undelivered Orders	\$ 876,213	\$ -	\$ 876,213
Unpaid Undelivered Orders	429,657	-	429,657
Total Undelivered Orders	\$ 1,305,870	\$ -	\$ 1,305,870

NOTE 11 - EXPLANATION OF DIFFERENCES BETWEEN THE STATEMENT OF BUDGETARY RESOURCES AND THE BUDGET OF THE U.S. GOVERNMENT

The President's Budget that will include fiscal year 2020 actual budgetary execution information has not yet been published. The President's Budget is scheduled for publication in February 2021 and can be found at the OMB Web site: <http://www.whitehouse.gov/omb/>. The 2021 Budget of the United States Government, with the "Actual" column completed for 2019, has been reconciled to the Statement of Budgetary Resources and there were no material differences.

(In Millions)

	Budgetary Resources	New Obligations & Upward Adjustments	Distributed Offsetting Receipts	Net Outlays
Combined Statement of Budgetary Resources	\$ 28	\$ 10	\$ -	\$ 7
Unobligated Balance Not Available	(13)	-	-	-
Difference - Due to Rounding	(2)	(2)	-	-
Budget of the U.S. Government	\$ 13	\$ 8	\$ -	\$ 7

The differences between the Board's Statement of Budgetary Resources ("SBR") 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 12 - RECONCILIATION OF NET COST TO NET OUTLAYS

The reconciliation of net outlays, presented on a budgetary basis, and the net cost, presented on an accrual basis, provides an explanation of the relationship between budgetary and financial accounting information.

Reconciliation of Net Cost to Net Outlays as of September 30, 2020:

**PRIVACY AND CIVIL LIBERTIES OVERSIGHT BOARD
BUDGET AND ACCRUAL RECONCILIATION
FOR THE YEAR ENDED SEPTEMBER 30, 2020
(In Dollars)**

	Intragovernmental	With the Public	Total
Net Operating Cost (SNC)	\$ 2,451,971	\$ 5,080,158	\$ 7,532,129
Components of Net Operating Cost Not Part of the Budgetary Outlays			
Property, plant, and equipment depreciation	-	(354,181)	(354,181)
Property, plant, and equipment disposal & reevaluation	-	(109,311)	(109,311)
Increase/(Decrease) in assets not affecting Budget Outlays:			
Accounts receivable	(6,596)	142	(6,454)
Other assets	(255,561)	132,372	(123,189)
(Increase)/Decrease in liabilities not affecting Budget Outlays:			
Accounts payable	2,845,393	95,197	2,940,590
Salaries and benefits	(14,014)	(44,869)	(58,883)
Other liabilities	(63)	(123,681)	(123,744)
Other financing sources:			
Imputed federal employee retirement benefit costs	(237,119)	-	(237,119)
Total Components of Net Operating Cost Not Part of the Budget Outlays	\$ 2,332,040	\$ (404,331)	\$ 1,927,709
Other Temporary Timing Differences	-	30,303	30,303
Differences Due to Rounding		2	2
Net Outlays (Calculated Total)	\$ 4,784,011	\$ 4,706,130	\$ 9,490,143
Related Amounts on the Statement of Budgetary Resources			
Outlays, net, (total) (SBR 4190)			9,490,143
Agency Outlays, Net (SBR 4210)			\$ 9,490,143



PRIVACY AND CIVIL LIBERTIES OVERSIGHT BOARD

Reconciliation of Net Cost to Net Outlays as of September 30, 2019:

**PRIVACY AND CIVIL LIBERTIES OVERSIGHT BOARD
BUDGET AND ACCRUAL RECONCILIATION
FOR THE YEAR ENDED SEPTEMBER 30, 2019
(In Dollars)**

	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 Budgetary Outlays			
Property, plant, and equipment depreciation	-	(275,415)	(275,415)
Increase/(Decrease) in assets 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	-	(77,493)	(77,493)
Other financing sources:			
Imputed federal employee retirement benefit costs	(143,526)	-	(143,526)
Total 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			
Acquisition 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
Differences Due to Rounding	-	1	1
Net Outlays (Calculated Total)	\$ 3,911,383	\$ 3,101,467	\$ 7,012,850
Related Amounts on the Statement of Budgetary Resources			
Outlays, net, (total) (SBR 4190)			7,012,850
Distributed offsetting receipts (SBR 4200)			-
Agency Outlays, Net (SBR 4210)			\$ 7,012,850



OTHER INFORMATION

Summary of Financial Statement Audit and Management Assurances

Summary of Financial Statement Audit					
Audit Opinion	Unmodified				
Restatement	No				
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Ending Balance
Total Material Weaknesses	0	0	0	0	0
Summary of Management Assurances					
Effectiveness of Internal Control over Financial Reporting (FMFIA § 2)					
Statement of Assurance	Unmodified				
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Ending Balance
Total Material Weaknesses	0	0	0	0	0
Effectiveness of Internal Control over Operations (FMFIA § 2)					
Statement of Assurance	Unmodified				
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Ending Balance
Total Material Weaknesses	0	0	0	0	0
Conformance with Federal Financial Management System Requirements (FMFIA § 4)					
Statement of Assurance	Unmodified				
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Ending Balance
Total Material Weaknesses	0	0	0	0	0



Summary of Financial Statement Audit and Management Assurances, Continued

Definition of Terms

Beginning Balance:	The beginning balance must agree with the ending balance from the prior year.
New:	The total number of material weaknesses/non-conformances identified during the current year.
Resolved:	The total number of material weaknesses/non-conformances that dropped below the level of materiality in the current year.
Consolidated:	The combining of two or more findings.
Reassessed:	The removal of any finding not attributable to corrective actions (e.g., management has re-evaluated and determined that a finding does not meet the criteria for materiality or is redefined as more correctly classified under another heading).
Ending Balance:	The year-end balance that will be the beginning balance next year.



Payment Integrity Information Act of 2019

As stated in the Analysis of Systems, Controls, and Legal Compliance section of the “Management’s Discussion and Analysis” of this AFR, the Board operates under one program with no activities that are susceptible to the threshold amounts stated in the Payment Integrity Information Act of 2019. The Board performs a risk assessment at least once every three years with the end goal of determining whether the program is or is not susceptible to significant improper payments. The PCLOB’s last risk assessment, conducted in 2018, indicated that none of PCLOB’s programs were susceptible to significant improper payments. PCLOB will conduct its next risk assessment in 2021 and will perform another risk assessment sooner if a program has a significant change in legislation or the agency receives a significant increase in its funding.

The Board upholds its responsibilities to improve financial and administrative controls and procedures to identify, assess, and address fraud risks as required by PIIA, as described in the Fraud Reduction Report that follows.



FY 2020 Fraud Reduction Act

The Fraud Reduction and Data Analytics Act of 2015 (Pub. L. 114-186, 31 U.S.C. 3321 note), now incorporated into the PIIA, requires agencies to implement the GAO's *A Framework to Managing Fraud Risks in Federal Programs*. The GAO framework identifies four steps that agencies should follow: 1) commit to creating an organization that is conducive to manage fraud risk; 2) assess the fraud risks within the organization; 3) design and implement controls that reduce risk of fraud; and 4) evaluate and adapt assessment outcomes. PCLOB's approach to managing fraud risk starts with a strong tone at the top. This includes messaging from senior officials regarding the importance of a culture committed to a high level of integrity and resources dedicated to ensuring that ethics training is provided annually to all employees. PCLOB leverages its Senior Assessment Team, which consists of senior executives from divisions/offices throughout PCLOB who oversee the Board's efforts to assess, address, and report on identified fraud risks.

PCLOB has established a system of internal controls to support effective and efficient operations that also helps to mitigate the risk of fraud. Such controls, which overlay formal policies and procedures, typically deal with factors such as approval and authorization processes, access restrictions and transaction controls, account reconciliations, and physical security. These procedures often include the division of responsibilities and checks and balances to reduce risk. To the extent that these controls affect financial reporting, they are reviewed and tested by management on an annual basis. While strong internal controls help to mitigate the risk of fraud, employees are strongly encouraged to contact the General Counsel or the GAO's FraudNet hotline should they suspect instances of fraud.

Analysis of results from testing performed and the overall business environment can lead to additional training opportunities for which there is a heightened risk of fraud. For example, PCLOB contracting officer representatives are required to take annual training around the potential for fraud in the area of procurement.

Management recognizes that the assessment of fraud is an ongoing process and that mitigation strategies need to change as business processes and the overall environment evolve.



APPENDIX: GLOSSARY OF ACRONYMS

AFR	Agency Financial Report
AICPA	American Institute of Certified Public Accountants
ARC	Bureau of Fiscal Service's Administrative Resource
CBP	Customs Border Protection
CDC	Center for Disease Control and Prevention
CDR	Call Detail Records
CIA	Central Intelligence Agency
COOP	Continuity of Operations Plan
DATA Act	Digital Accountability and Transparency Act
DHS	Department of Homeland Security
ERM	Enterprise Risk Management
FASAB	Federal Accounting Standards Advisory Board
FBI	Federal Bureau of Investigation
FBwT	Fund Balance with Treasury
FECA	Federal Employees Compensation Act
FISA	Foreign Intelligence Surveillance Act
FISMA	Federal Information Security Management Act
FMFIA	Federal Managers' Financial Integrity Act
FY	Fiscal Year
GAAP	Generally Accepted Accounting Principles
GAO	U. S. Government Accountability Office



APPENDIX: GLOSSARY OF ACRONYMS, CONTINUED

IBC	Department of the Interior's Interior Business Center
IC	Intelligence Community
ICF	Internal Controls Framework
IT	Information Technology
NIST	National Institute of Standards and Technology
NSA	National Security Agency
OCFO	Office of the Chief Financial Officer
OCIO	Office of the Chief Information Officer
OMB	Office of Management and Budget
OPM	Office of Personnel Management
P/CL	Privacy and Civil Liberties
PP&E	Property, Plant, and Equipment
PPE	Personal Protective Equipment
PCLOB	Privacy and Civil Liberties Oversight Board
PIIA	Payment Integrity Information Act of 2019
PRISM	Procurement Information System for Management
SBR	Statement of Budgetary Resources
SCIF	Sensitive Compartmented Information Facility
SSAE	Statement of Standards for Attestation Engagements
TSA	Transportation Security Administration
U.S.C.	United States Code