

# **OFFICE OF INSPECTOR GENERAL**

## **Audit Report**

### **Audit of Internal Control Over Accounts Payable**

**Report No. 09-03  
March 31, 2009**



**RAILROAD RETIREMENT BOARD**

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## INTRODUCTION

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This report presents the results of the Office of Inspector General's (OIG) audit of internal controls for the recording and payment of non-benefit, non-payroll administrative expenses at the Railroad Retirement Board (RRB).

### Background

The RRB is an independent agency in the executive branch of the Federal government. The RRB administers the retirement/survivor and unemployment/sickness insurance benefit programs for railroad workers and their families under the Railroad Retirement Act (RRA) and the Railroad Unemployment Insurance Act (RUIA). These programs provide income protection during old age and in the event of disability, death, temporary unemployment or sickness. The RRB paid approximately \$10.2 billion in retirement/survivor and unemployment/sickness benefits to 628,000 beneficiaries during fiscal year (FY) 2008. The RRB is headquartered in Chicago, Illinois and has 53 field offices nationwide.

The RRB prepares annual financial statements in accordance with generally accepted accounting principles for Federal entities prescribed by the Office of Management and Budget (OMB) and the Federal Accounting Standards Advisory Board (FASAB).

Internal control is an integral component of an organization's management that provides reasonable assurance concerning the effectiveness and efficiency of operations, reliability of financial reporting and compliance with applicable laws and regulations. Pursuant to the provisions of the Federal Managers' Financial Integrity Act of 1982, the Government Accountability Office (GAO) has issued "Standards for Internal Control in the Federal Government."<sup>1</sup> These standards provide the overall framework for establishing and maintaining internal control and for identifying and addressing major performance and management challenges.

The Bureau of Fiscal Operations (BFO) is responsible for processing payments to the vendors and suppliers that provided goods and services to the RRB. During FY 2007, BFO processed 19,611 transactions totaling \$16.5 million for non-payroll and non-benefit administrative expenses. Because of its monetary nature, the accounts payable function directly impacts financial statement reporting and is susceptible to fraud, waste and abuse.

The Federal Financial System (FFS) is the mainframe application that supports the agency's financial management operations including purchasing, accounts payable and financial statement reporting. FFS includes features that support transaction recording and monitoring. The FFS purchasing subsystem controls the activities in the procurement process, including requesting goods and services (commitments), ordering goods and services (obligations), recording the receipt of goods and services

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<sup>1</sup> "Standards for Internal Control in the Federal Government," GAO/AIMD-00-21.3.1 (11/99).

(receivers) and recording the receipt of vendor invoices (invoices). Within the RRB, BFO is the organizational owner of FFS and the FFS administrator is an employee of that bureau.

The RRB pays benefits by reason of disability to certain qualifying individuals under the disability provisions of the RRA. The Disability, Sickness and Unemployment Benefits Division (DSUBD), within the Office of Programs, relies on medical examinations and consultative opinions provided by independent medical experts to support its decision-making process. The FFS Application for Medical Exams (FAME) is a personal computer application that supports the ordering, acceptance and payment approval process for these services. FAME interfaces directly with FFS to electronically record the obligations, accounts payable and related vendor payments.

This audit supports the OIG's annual audit of the RRB's financial statements. The RRB's strategic plan prescribes effectiveness, efficiency and security of operations as objectives within the agency's larger goal of serving as responsible stewards of the trust funds and financial resources under agency control. This audit supports those objectives.

### **Audit Objective**

The audit objective was to determine whether internal control was adequate to ensure that accounting for non-benefit, non-payroll, administrative expenses was complete, accurate and timely.

### **Scope**

The scope of our audit was limited to payment vouchers and direct disbursements recorded during the first quarter of FY 2008. The scope of our work specifically excluded employee payroll, employee travel and payments to program beneficiaries.

### **Methodology**

To accomplish our objective, we:

- identified the laws, regulations and procedures applicable to accounts payable;
- identified and tested selected internal controls over RRB's administration of accounts payable;
- interviewed responsible officials;
- conducted walkthroughs and assessed the effectiveness of the accounts payable and disability payment processes;
- identified and reviewed management's control activities;
- statistically sampled payments processed and recorded in order to test the applicable internal controls (See Appendix I);

- tested selected aspects of agency compliance with requirements applicable to certain subgroups such as high-value accounts payable transactions greater than \$100,000 (See Appendix II);
- reviewed documentation related to payment transactions;
- reviewed monitoring activities related to the quality and timeliness of payments;
- studied the configuration of FFS security settings and user profiles;
- tested the implementation of FFS security settings and user profiles;
- identified and tested selected controls over high-dollar payments;
- tested compliance with agency policies and procedures and applicable laws and regulations; and
- assessed the adequacy of the agency's existing policies and procedures related to accounts payable transactions.

We conducted this audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

We conducted our fieldwork at the RRB's headquarters in Chicago, Illinois from November 2007 to February 2009.

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## RESULTS OF AUDIT

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Our audit disclosed that internal controls over payments were not adequate to ensure that accounting for non-benefit, non-payroll administrative expenses was complete, accurate and timely because the controls were either not sufficient or not operating as designed.

Our audit found that controls could be strengthened in the following areas:

- Segregation of Duties
- Payment Authorization
- Medical Vendor Payment Functions
- FAME System Audit Trail
- Supporting Documentation for Payments
- Management Control and Related Reviews
- Employee Social Security Number (SSN) Exposure
- Policies and Procedures
- Electronic Receivers

In addition, we identified opportunities for improvement in the following areas:

- Timeliness of Payments
- Prompt Payment Quality Assurance Reviews

The details of our findings and recommendations for corrective action follow. The full text of managements' response is included in this report as Appendices III, IV, and V.

### **Segregation of Duties for Certain Purchasing Activities Could Be Improved**

Although FFS security includes features that provide for segregation of duties, management's implementation undermines their effectiveness.

Key duties and responsibilities need to be divided or segregated among different people to reduce the risk of error or fraud. This should include separating the responsibilities for authorizing transactions, processing and recording them, reviewing the transactions and handling any related assets. No one individual should control all key aspects of a transaction or event.<sup>2</sup>

The ability to enter and approve transactions is controlled through the FFS security profiles of the various users. The privileges of each authorized user of FFS are controlled by security profiles established within FFS by the system administrator. FFS provides for transaction-level security that requires various levels of approval, including multiple levels of approval for certain high-dollar transactions. In addition, the standard

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<sup>2</sup> "Standards for Internal Control in the Federal Government," GAO/AIMD-00-21.3.1 (11/99) page 14.

user profiles are configured to separate critical activities. For example, the system administrator has established standard access profiles that prevent most users who can requisition goods and services from entering a purchase order.

In addition, FFS may be configured to require multiple levels of approval to fully process a requisition depending on the dollar value of the transaction. Standard access profiles are configured to prohibit approval of a transaction by the same person who initially entered it and to require that each successive level of approval be applied by a different authorized user. However, the FFS administrator sometimes grants privileges that are not consistent with these standard settings.

During our audit, we identified one individual who had been granted privileges under three security profiles permitting them to enter and approve requisitions and obligate budgetary resources, in any amount, without the approval of anyone else.

Purchase orders over \$10,000 require two levels of approval. Our review of FFS user profiles disclosed two individuals who had been granted privileges permitting them to enter a purchase order and apply both levels of approval. The system is similarly configured for payment vouchers, requiring a second approval for payments over \$100,000. Our review identified one user who had been granted privileges permitting them to enter a payment voucher and apply both levels of approval. As a result, these users are able to process transactions to completion without involving any other employee, which is inconsistent with proper segregation of duties. In addition, permitting one person to apply both levels of approval defeats the purpose of requiring a second approval for large transactions.

When a single individual controls both the entry and approval of a single transaction, too much control over key aspects of the acquisition process is vested in a single individual.

Although FFS provides for adequate segregation of duties and additional scrutiny of high-dollar transactions, management has awarded system privileges in a manner that circumvents these controls. As a result, management has not ensured that their control objectives will be achieved.

### Recommendations

We recommend that BFO:

1. identify all individuals who have been awarded FFS privileges that are incompatible with proper segregation of duties; and
2. work with agency management to eliminate FFS user privileges that violate the principles of segregation of duties.

## Management's Response

With regards to recommendations 1 and 2, BFO responded that each year they perform an FFS security audit requesting agency management to review the security profile information for FFS users in their organization and provide BFO with any changes, additions, and deletions. BFO notes that the responses and documentation of actions taken are then provided to the RRB's Chief Security Officer. For the 2009 security audit, BFO has agreed to ask agency management to identify individuals who have been awarded FFS privileges that are incompatible with proper segregation of duties and eliminate such user privileges. BFO notes that additional FFS privileges may have been awarded to users in a given organization due to the small size of that organization and that the organization may have compensating controls.

## Office of Inspector General's Comments on Management's Response

With respect to BFO's proposed implementation plan, we are concerned that it will not achieve the intent of the recommendation because the determination of proper segregation of duties is distributed throughout the agency rather than residing with the system owner.

### **Payment Authorization Is Not Adequately Controlled**

Controls are not adequate to ensure that only designated or authorized individuals certify invoices for payment.

Transactions and other significant events should be authorized and executed only by persons acting within the scope of their authority.<sup>3</sup> RRB Administrative Circular OA-14 dated June 13, 2007 and updated on January 24, 2008 (which outlines the manual procedure for the receipt and acceptance of goods and services and the resulting certification for payment) requires that invoices first be date stamped and forwarded to the designated person in the receiving bureau/office for certification. The employee shall certify the invoice as proper for payment by including the dollar amount for payment, the Purchase Order/Contracts (PC) or Service Order (SO) number, their signature and the date accepted.

During our audit, we observed that:

- the accounts payable unit does not authenticate the certifier's signature;
- the accounts payable unit does not confirm that the certifier is the designated or authorized individual for the receiving bureau or office before processing the payment; and
- the payment voucher approval threshold was set at \$100,000 even though the average value of the 4,769 payments in the audit universe was only \$1,198.

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<sup>3</sup> "Standards for Internal Control in the Federal Government," GAO/AIMD-00-21.3.1 (11/99) page 14.

We also identified one payment in our non-statistical sample of high-value payment transactions, valued at \$1,025,180 that was processed by an accounts payable clerk who neither authenticated the certifier's signature nor verified that the certifier was authorized to certify the transaction.

Moreover, we noted that the various segments of the purchasing/payment life cycle, such as requisitions, purchase orders and payment vouchers, required multiple approvals based on certain dollar thresholds. However the manual certification process involved only one certifier and no additional approvals, regardless of the amount of the invoice.

The lack of:

- a list of individuals who are authorized to certify invoices;
- signature cards to authenticate their signatures;
- meaningful dollar thresholds for approvals; and
- multiple approvals for higher dollar invoices

increases the risk of erroneous, fraudulent, or unauthorized payments.

### Recommendations

We recommend that BFO:

3. develop and maintain a list of designated certifiers, obtain signature cards for these individuals and require that higher dollar hard copy invoices be subject to multiple approvals before they are processed for payment; and
4. establish more reasonable dollar thresholds for payment approvals to mirror the thresholds used in other steps of the procurement life cycle.

### Management's Response

The Bureau of Fiscal Operations has agreed to work with agency management to implement recommendation 3. They note that a revision to Administrative Circular OA-14 may be required.

In response to recommendation 4, the Bureau of Fiscal Operations plans to review the dollar thresholds for payment approvals and make adjustments as necessary.

## **Disability Medical Vendor Payment Functions Are Not Properly Controlled**

The FAME<sup>4</sup> system, which is used to control the purchase and payment of medical examinations and consultative opinions in support of the RRB's disability program, does not provide for adequate segregation of duties.

Key duties and responsibilities need to be divided or segregated among different people to reduce the risk of error or fraud. This should include separating the responsibilities for authorizing transactions, processing and recording them, reviewing the transactions and handling any related assets. No one individual should control all key aspects of a transaction or event. When duties cannot be separated, compensating controls should be in place.

During our audit we observed that a single disability claims examiner may order and approve payment for medical examinations and consultative opinions, thus controlling all key aspects of the transaction. In addition, no second level of approval is required. We also observed that individuals other than claims examiners may place orders and that applicable policies and procedures do not articulate responsibility for placing such orders.

Segregation of duties was not built into the system when it was designed and the management control review process did not disclose this deficiency. In addition, the Disability Claims Manual and FAME system procedures do not:

- clearly identify and define the roles and responsibilities of the staff in the process;
- define levels of system access; or
- address segregation of duties for the order, receipt, acceptance and payment of medical examinations and consultative opinions.

As a result, there is an increased likelihood that the RRB may pay for unnecessary services.

### Recommendations

We recommend that the Office of Programs:

5. segregate duties to prevent the same employee from ordering and accepting medical examinations and consultative opinions, implement second level approvals on orders and acceptances of medical examinations and consultative opinions, or develop an effective compensating control to ensure the agency does not pay for unnecessary services; and

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<sup>4</sup> FFS Application for Medical Exams (FAME)

6. revise policies and procedures to fully articulate which job descriptions have authority for ordering medical examinations and consultative opinions so that the policies and procedures correspond with actual practice and FAME system utilization.

### Management's Response

The Office of Programs responded that the procedure to have a single examiner both order exams and approve them for payment is an intended practice as they believe that the examiner is best qualified to determine if the product received meets the requestor's expectations. However, they have advised us that to preclude ordering unnecessary services, they have a control in place to review medical examination requests that exceed five examination requests for a single disability case. The Office of Programs has agreed to develop a plan for an additional compensating control.

The Office of Programs has also agreed to revise procedures to include job descriptions, such as field office and headquarters clerks, that have the authority to enter examination requests. They have advised us that only claim examiners are authorized to process payments for examinations and there is no change in that authority.

### **FAME System Audit Trail Is Not Fully Reliable**

The FAME system does not maintain a reliable audit trail for all transactions. An audit trail is a detailed record of transaction processing which should include the identities of those initiating and approving each transaction.

The National Institute of Standards and Technology (NIST) has published standards that require Federal agencies to:

- create, protect and retain information system audit records to the extent needed to enable the monitoring, analysis, investigation and reporting of unlawful, unauthorized, or inappropriate information system activity; and
- ensure that the actions of individual information system users can be uniquely traced to those users so they can be held accountable for their actions.<sup>5</sup>

During our audit, we observed that when a consultative medical opinion is ordered via the FAME system, the "Entry Clerk" field is not system-generated; the clerk manually enters their user identifier. This occurs because the FAME system is not programmed to automatically pre-fill the "Entry Clerk" field with the active user identifier and secure the field against changes.

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<sup>5</sup> NIST Federal Information Processing Standards Publication 200 "Minimum Security Requirements for Federal Information and Information Systems," (03-09-06) page 2.

As a result, management cannot know with any certainty who actually ordered opinions and accountability for transaction processing is compromised.

### Recommendation

We recommend that the Office of Programs:

7. review FAME system programming and request revisions to ensure that the active user identifier is automatically captured for each transaction and secured against change.

### Management's Response

The Office of Programs has agreed to review the FAME system to determine when revisions can be made. They note, however, that other priorities make it difficult to project when system revisions could be completed.

## **Payment Documentation Needs Improvement**

Proper order authorization forms, evidence of receipt and acceptance and payment approvals supporting medical examinations and consultative opinions are not always maintained in the claim folders. In addition, the manual certification of some invoices for non-medical goods and services was incomplete or lacked adequate documentation to support the amount paid.

Federal standards for internal control require that all transactions and other significant events be clearly documented and readily available for examination.<sup>6</sup> More specifically, transactions and significant events need an audit trail. "An audit trail is the evidence that demonstrates how a specific transaction was initiated, processed, recorded and summarized."<sup>7</sup>

During our audit, we observed that:

- two of the five high-value payments that were non-statistically sampled and reviewed lacked complete documentation to support the amount paid;
- eight of the twenty-eight non-medical payments statistically sampled and reviewed lacked proper approval for payment; and
- four of the seventy-seven medical case files statistically sampled and reviewed did not contain the appropriate supporting documentation for vendor payments.

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<sup>6</sup> "Standards for Internal Control in the Federal Government," GAO/AIMD-00-21.3.1 (11/99) page 15.

<sup>7</sup> GAO/The President's Council on Integrity and Efficiency (PCIE) "Financial Audit Manual," Section 260, "Identify Risk Factors," GAO-08-585G, Volume 1, July 2008, page 260-9.

The Office of Programs' procedures note that FAME order and payment confirmation screens will automatically print for file documentation purposes and specifies that documentation supporting these transactions be maintained within claim folders.

Due to human error, the procedure to put the documentation in the folder is not always followed.

Lack of adequate documentation represents non-compliance with the RRB's policies and procedures, weakens the operational audit trail and limits the effectiveness of management oversight. If accounts payable documentation is inadequate, transactions may be incorrectly perceived as incomplete, unpaid, duplicated, lacking approval, or improperly recorded.

### Recommendations

We recommend that the Office of Programs:

8. re-communicate to the appropriate staff that all order authorization forms, evidence of receipt and acceptance and payment approvals supporting medical examinations and consultative opinions need to be maintained in the files.

We recommend that BFO:

9. ensure that manually certified invoices and other payments include adequate back-up documentation to support the amount paid; and
10. re-communicate to all certifiers that, to be complete, the manual certification must include a signature, the date of acceptance, reference to the applicable purchase order or service order and the amount approved for payment.

### Management's Response

The Office of Programs concurs with this recommendation and has agreed to include a reminder to disability examiners to place all evidence in the claim folders on the agenda for their next monthly training.

BFO plans to discuss with the OIG staff and then work to ensure that manually certified invoices and other payments have adequate documentation to support the amount paid.

BFO plans to re-communicate the requirements for manual certifications, which are in Administrative Circular OA-14, to certifiers of invoices.

### **Management Control and Related Reviews Need to be Updated**

A complete management control review and related risk assessment had not been completed for the accounts payable unit in at least ten years.

A comprehensive system of internal control includes a risk assessment process, implementation of appropriate control activities and monitoring to assess the quality of performance over time. The RRB has established a Management Control Review Committee (MCRC) to oversee the agency's internal control assessment process and provide guidance to managers in performing the individual evaluations that support the assessment of the adequacy of internal control agency wide.

Issues related to outdated management control reviews were previously reported in an OIG report dated April 30, 2007.<sup>8</sup> In response to this report, the MCRC established updated policies and procedures in December 2007.<sup>9</sup> These updated policies required that each assessable unit be reviewed once every five years, or more frequently based on risk, and that the MCRC maintain the schedule of when each assessable unit is due for review.<sup>10</sup> During the management control reviews, the control objectives are to be identified or developed for each assessable unit and are to be logical, applicable and reasonably complete, taking into consideration the financial assertions of existence and occurrence, completeness, rights and obligations, valuation or allocation and presentation and disclosure.<sup>11</sup> Lastly, the new policies allowed for extensions of due dates for the management control reviews as long as the request for extension was in writing, included a reason for the delay and was approved by and submitted through an Executive Committee member.

During our audit we observed that:

- the last complete management control review and the related risk assessment for accounts payable was completed in April 1998;
- although BFO had completed a risk assessment only for the Accounts Payable Assessable Unit in May 2007, this risk assessment was incomplete in that it did not include supporting documentation for the workload data reported;
- the data used for this 2007 risk assessment was from FY 2006, which was the most current at the time. However, current drafts of an in-process risk assessment, to be used as part of the next management control review, still contain FY 2006 data and have not been updated; and
- the RRB's MCRC approved an extension to FY 2009 for the Accounts Payable Assessable Unit's management control review, which delayed the next review even further. As of February 2009, the management control review for the Accounts Payable Assessable Unit is scheduled for completion on June 3, 2009.

The delays occurred because BFO management prioritized other work ahead of the management control review for the Accounts Payable Assessable Unit.

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<sup>8</sup> "Assessment of the Federal Managers' Financial Integrity Act Process at the Railroad Retirement Board," OIG Report No. 07-05, April 30, 2007, pages 7 through 9.

<sup>9</sup> "Management Control Guide," BFO, December 2007.

<sup>10</sup> "Management Control Guide," BFO, December 2007, page 4-1.

<sup>11</sup> "Management Control Guide," BFO, December 2007, page 3-7.

Infrequent management control reviews increase the risk that the control objectives and techniques insufficiently address the current work environment, policies and procedures. If poorly designed or ineffective controls are not detected, financial misstatements or fraudulent transactions may occur.

### Recommendation

We recommend that BFO:

11. complete a management control review and a related risk assessment for the Accounts Payable Assessable Unit, using current data, according to the MCRC's current policy, without further delay.

### Management's Response

BFO plans to complete a management control review and related risk assessment for the Accounts Payable Assessable Unit by the end of the current fiscal year.

### **Opportunity to Reduce Exposure of Employee SSNs**

The RRB could reduce exposure of employee social security numbers (SSNs) by revising a form commonly used to authorize reimbursement of employee medical expenses.

OMB has directed agencies to eliminate the unnecessary use of SSNs.<sup>12</sup> The Office of Personnel Management (OPM) has recommended that agencies minimize the use of Federal employee SSNs as an identifier and strengthen protective measures when personally identifiable information (PII) is used.<sup>13</sup> To implement these directives, the RRB has published an administrative directive requiring periodic privacy-related reviews, including an annual review of agency progress in reducing the unnecessary use of SSNs.<sup>14</sup>

During our audit we observed that the RRB collects employee SSNs on Form G-753 "Application for Reimbursement of Medical and/or Eye Examination Fees" which is used to request reimbursement of expenses under the RRB's Physical and Eye Examination Program. Form G-753 is submitted to the Employee Health Service for verification of eligibility and then forwarded to BFO for payment. Our review of the form indicates that the SSN is not necessary for processing.

Although BFO uses SSNs to identify employees in FFS, the mainframe computer

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<sup>12</sup> "Safeguarding Against and Responding to the Breach of Personally Identifiable Information," OMB M-07-16, May 22, 2007.

<sup>13</sup> "Guidance on Protecting Federal Employee Social Security Numbers and Combating Identity Theft," OPM, June 18, 2007.

<sup>14</sup> "Management of Information Privacy for Individuals," RRB Administrative Circular IRM-2, September 3, 2008.

financial management system, it is not necessary to display the SSN on the form itself. Continued collection of SSNs on Form G-753 creates an unnecessary risk of identity theft and a related need to provide secure storage and limit access which would not exist if the form did not include an SSN.

Prior OIG recommendations to strengthen physical security over PII, including SSNs are pending.<sup>15</sup> Further evaluation of physical security is outside the scope of this review.

### Recommendations

We recommend that:

12. the Office of Administration implement a revised Form G-753 that does not require the employees' SSNs; and
13. BFO implement procedures that will permit them to process Form G-753 without employee SSNs for payment.

### Management's Response

The Office of Administration concurs with the recommendation and is taking steps to revise Form G-753 so that it no longer requires employees' SSNs.

BFO responded that they are able to process Form G-753 without employee SSNs.

### **Policies and Procedures Need Improvement**

Policies and procedures for accounts payable and related matters need improvement to ensure continuity of operations in accordance with management's directives.

Control activities help ensure that management's directives are carried out.<sup>16</sup> Internal controls and all transactions and other significant events need to be clearly documented and the documentation should be readily available for examination.<sup>17</sup> These controls include policies and procedures to carry out organizational objectives, such as planning, productivity, programmatic, quality, economy, efficiency and effectiveness objectives. Management uses these controls to provide reasonable assurance that the entity (1) achieves its mission, (2) maintains quality standards, and (3) does what management directs it to do.<sup>18</sup>

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<sup>15</sup> "Audit of Controls to Safeguard Sensitive Personally Identifiable Information," OIG Report No. 07-09, September 27, 2007, Recommendation 1, page 9.

<sup>16</sup> "Standards for Internal Control in the Federal Government," GAO/AIMD-00-21.3.1 (11/99) page 11.

<sup>17</sup> "Standards for Internal Control in the Federal Government," GAO/AIMD-00-21.3.1 (11/99) page 15.

<sup>18</sup> GAO/PCIE "Financial Audit Manual," Section 260, "Identify Risk Factors," GAO-08-585G, Volume 1, July 2008, page 260-3.

Comprehensive policies and procedures for accounts payable should describe the various activities required to process payments from receipt through the issuance of final payment. Such documentation would reference FFS documentation, administrative circulars and other authorities as necessary to provide a complete, understandable basis for action.

During our audit we observed that the documented policies and procedures do not include all of the activities presently performed by BFO staff. In addition, we noted that BFO staff does not perform certain control activities which should be a routine part of accounting for payables. For example:

- Procedures currently in use for processing the payment of government purchase card bills have not been formalized.
- Two employees had independently prepared different written instructions describing procedures that they followed in performing the same work.
- Procedures currently in use for processing the payment of centrally billed travel cards have not been formalized.
- Existing procedures do not include a periodic search for unrecorded liabilities related to unpaid administrative expense or a process for estimating such liabilities.

Additionally, during our review, it came to our attention that other policies and procedures administered by the Office of Administration also needed improvement. For example:

- The Administrative Circular OA-14 was recently updated, but it does not contain information on expedited payments or procedures for early payment.
- Basic Board Order 5, in its coverage of severable contracts, does not include any references to the appropriations laws, regulations and circulars such as 41 U.S.C. § 253 and GAO's Principles of Federal Appropriations Law (the "Red Book").

In general, responsible managers did not recognize the need for more detailed policies and procedures. The BFO accounting guide which describes policies and procedures for other accounting responsibilities does not include accounts payable activities. Although management has distributed some written work instructions, when asked about current practice, they frequently refer to the FFS documentation. FFS documentation is not a substitute for formalized, written and comprehensive policies and procedures.

As a result, management has not ensured that transactions will be executed in accordance with management's directives. For example, during our audit, we found two instances where payments were not properly approved because certifiers did not sign

and/or date the invoices when they approved them for payment. We noted that some certifiers used a stamp that had a space for a signature, but no space for a date; while other certifiers used no stamp at all and did not even sign the invoice. We also found one instance where the monitoring of Treasury's payment was not documented with an annotation on the invoice. When policies, procedures and practices are not documented, are unavailable, outdated, or inconsistent, accounting controls may be bypassed and control weaknesses may go undetected. In addition, lack of documentation undermines an organization's ability to ensure continuity of operations in the event of staff changes.

### Recommendations

We recommend that BFO:

14. review, update and finalize policies and procedures for accounts payable activities.

We recommend that the Office of Administration:

15. review and update the identified policies and procedures related to the procurement process.

### Management's Response

BFO plans to review, update, and finalize policies and procedures for accounts payable activities.

The Office of Administration has agreed to update Administrative Circular OA-14 to contain information on expedited payments or procedures for early payment. They will also work with legal counsel to update Basic Board Order 5 to include references to appropriate laws or regulations in the coverage of severable contracts.

### **Electronic Receivers**

The manual process currently used to record the receipt and acceptance of goods and services is often inconsistent and incomplete. Increased use of electronic receivers would improve accounts payable processing.

The FFS was designed to comply with Federal accounting standards and requirements for Federal financial management systems. The electronic receiver is an FFS feature that may be used to record the receipt and acceptance of goods and services and facilitates the following:

- provides an easily traceable audit trail;

- confirms the identity of the individual who is recording the receipt and acceptance of the goods and services (certifier);
- authenticates the certifier's signature;
- automatically records the date of acceptance for goods and services in the system;
- automatically creates an accrued liability;<sup>19</sup>
- ensures the completeness of liabilities for financial reporting; and
- saves time and effort for all employees in the purchasing life cycle by eliminating steps usually required in the manual certification process.

The agency does not currently require utilization of electronic receivers. Instead, a manual procedure is often used. RRB Administrative Circular OA-14 (which outlines the manual procedure for the receipt and acceptance of goods and services and the resulting certification for payment) requires that invoices first be date stamped and forwarded to the designated person in the receiving bureau/office for certification. It further states that the employee shall certify the invoice as proper for payment by including the dollar amount for payment, the PC or SO number, their signature and the date accepted.<sup>20</sup>

During our audit, we observed the following:

- The date of acceptance for three accounts payable transactions (ranging from \$160,000 to \$1,025,180) was not clear. This occurred because the transactions were processed without electronic receivers and the date of acceptance was not documented on the invoice during the manual certification process.

We also observed the following:

- An additional 1,102 non-medical payments totaling \$2,485,141 were also made without a receiver. The considerable volume of transactions represented a missed opportunity to save extensive time and effort by the employees in the purchasing life cycle if electronic receivers had been used.
- The year-end request for managers to identify any accruals not already on the agency's books did not consider accounts payable transactions. Had electronic receivers been used, the need to search for unrecorded accounts payable-related liabilities at year-end could have been minimized as any applicable accruals would have been automatically recorded.

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<sup>19</sup> Accruals are used to record liabilities created when goods or services are received but before payment is authorized. Accruals are used to make final accounting reports more accurate by ensuring the completeness of reporting for liabilities.

<sup>20</sup> "Procurement of Goods and Services," RRB Administrative Circular OA-14, January 24, 2008, pages 14 and 16.

The manual invoice certification process used in lieu of the electronic receiver falls short in that it:

- does not always provide for an easily traceable audit trail;
- does not provide for the identification of approved certifiers;
- does not authenticate certifiers' signatures;
- does not always record the actual date of acceptance;
- creates potentially missed accruals which can result in inaccurate financial statements; and
- creates unnecessary work for employees in the purchasing life cycle.

Agency procedures do not stress the importance of the electronic receiver as a control in the purchasing and financial reporting process. The use of an electronic receiver can ensure that payments are not made when goods or services have not been received, or when they are inadequate or defective. It also acts as a deterrent against fraudulent transactions. When receivers are not entered on FFS, the related expense may not be recorded in the proper accounting period, potentially understating both the administrative expense and liabilities on the agency's income statement and balance sheet, respectively.

The use of electronic receivers would strengthen all of the above controls and help to ensure the completeness and accuracy of the liabilities reported in the agency's financial statements.

### Recommendation

We recommend that BFO:

16. work with the Executive Committee to maximize the use of electronic receivers for accounts payable transactions and promote the importance of the electronic receiver as an additional control in the purchasing and financial reporting process; or improve the manual certification process to include all of the controls that are provided by the electronic receiver.

### Management's Response

BFO has discussed this recommendation with the Director of Administration and they note that he plans to promote the use of electronic receivers to the Executive Committee.

## Opportunity for Improvement - Timely Payment

The timeliness of payments to vendors and contractors could be improved.

The RRB's vendors and contractors expect the government to meet its obligations for timely and accurate payment for goods and services received. Procurement and program officials have responsibility for timely inspection and acceptance of goods and services. BFO works with procurement and program officials to review and process payment vouchers and/or invoices. Payments should be made within 30 days after the latter of the receipt and acceptance of the goods and services, or the invoice date, (if the receipt and acceptance was not within seven days of the invoice) in accordance with normally accepted business practices and the agency's policies and procedures.<sup>21</sup>

During our audit, we identified one payment in our non-statistical sample of five high-value payment transactions, valued at \$1,025,180 that was not processed on a timely basis. This late payment resulted in the agency paying twelve days of interest totaling \$1,964.93. The delay happened because the invoice was not immediately sent to BFO, but was sent to, and held in, other bureaus before being sent to BFO for payment.

In the statistical sample, we identified two payments which were also not processed timely. However, because these two payments were within the acceptance error of the statistical sample and minimal interest was paid, we only bring this to the agency's attention as an opportunity to make further improvements in timely payment. Again, the cause of the delay in these two payments was that the invoices were not sent to BFO timely.

Lack of timely payment can result in the agency's liability for the payment of interest. Unnecessary interest paid takes away from agency financial resources and does not support the RRB's strategic plan of effectiveness, efficiency and the security of operations. It also deters from the agency's overall goal of serving as responsible stewards of the trust funds and financial resources under agency control.

### Recommendation

We recommend that BFO:

17. periodically re-communicate the importance of:

- sending invoices directly to BFO;
- timely inspection and acceptance of goods and services;
- timely return of certified invoices back to BFO for payment processing; and
- avoiding unnecessary interest charges which directly impact the bureaus' budgets.

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<sup>21</sup> "Procurement of Goods and Services," RRB Administrative Circular OA-14, January 24, 2008, pages 12 and 13.

## Management's Response

BFO plans to periodically re-communicate the importance of this process.

### **Opportunity for Improvement - Prompt Payment Quality Assurance Reviews**

Quality assurance reviews for monitoring compliance with the Prompt Payment Act were not completed timely.

The Prompt Payment Act requires establishment of: 1) procedures monitoring the causes of late payments and any interest penalties incurred, taking necessary corrective action and handling inquiries; 2) effective internal control systems; and 3) periodic quality control validation to be conducted no less frequently than once annually for payment to vendors. The intent of the quality control process is to establish that controls are effective and that processes are efficient. A quality control program is to be established in order to quantify payment performance, qualify corrective actions, aid cash management decision making and estimate payment performance.<sup>22</sup>

To ensure compliance with the OMB's Prompt Payment requirements, BFO established quarterly quality assurance reviews to confirm the validity of payments entered into FFS by BFO's accounts payable staff. One of these reviews validates a statistical sample of current payment vouchers for compliance with the Prompt Payment Act.

During our audit, we observed that as of August 2008, BFO had completed only one of their quality assurance reviews of payments subject to the Prompt Payment Act.<sup>23</sup> BFO management explained that they had only completed one prompt payment quality assurance review because the agency had a shortage of experienced financial management staff to conduct these reviews and the existing financial management staff had been concentrating on tasks with a higher priority.

During our audit, our review of a statistical sample of 105 medical and non-medical payments and a non-statistical sample of five high-value payment transactions found no instances of non-compliance with the Prompt Payment Act. However, we found four instances where the measurement dates were incorrect. These incorrect measurement dates did not result in late payments or the payment of interest. We do believe, however, that these instances of incorrect measurement dates or other related errors could be minimized with timely monitoring, such as the quality assurance reviews mentioned above.

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<sup>22</sup> "Prompt Payment Final Rule," 5 CFR Part 1315.3 (a) and (b), (31 U.S.C. Chapter 39), OMB/Federal Register Volume 64 No. 188, September 29, 1999 page 52588.

<sup>23</sup> "Quality Assurance Review of Payments Subject to the Prompt Payment Act Processed During the 1<sup>st</sup> Quarter of Fiscal Year 2008," BFO, August 25, 2008.

### Recommendation

We recommend that BFO:

18. consider prioritizing the quality assurance reviews of payments subject to the Prompt Payment Act to ensure their timely completion.

### Management's Response

BFO has responded that they have prioritized and completed the quality assurance reviews of payments subject to the Prompt Payment Act for the second, third, and fourth quarter of FY 08 on November 21, 2008, December 19, 2008, and February 27, 2009, respectively.

### Office of Inspector General's Comments on Management's Response

With respect to BFO's proposed implementation plan, we are concerned that it will not achieve the intent of the recommendation because the delay in the completion of these reviews undermines their usefulness as a tool for timely program improvement.

## APPENDIX I

### Statistical Sampling Methodology and Results

This appendix presents the methodology and results of our statistical sampling tests of non-benefit, non-payroll payments.<sup>24</sup>

#### Sample Objective

The sampling objective was to determine if internal controls for processing and recording vendor and contractor payments timely and accurately are operating and effective.

#### Sampling Unit

The sampling unit is defined as one accounts payable payment, which can include either a payment voucher (PV) or a direct disbursement (DD).

#### Sampling Universe

The sampling universe consisted of 4,769 payments totaling \$5,711,353.55 for the period October 1, 2007 through December 31, 2007, which were downloaded from FFS by BFO and provided to the OIG. Employee payments for travel were specifically excluded.

#### Sample Size

We randomly selected 105 accounts payable transactions. These 105 transactions consisted of 77 payments made to vendors who provided medical examinations and consultative opinions in support of the Office of Program's Disability, Sickness and Unemployment Benefits Division's (DSUBD's) medical claims. These payments were processed by the DSUBD. The other 28 transactions were non-medical payments processed by BFO.

#### Sample Selection Method

We used one-step attribute acceptance sampling and tested each of the 105 randomly selected accounts payable payment transactions for compliance and operation of internal controls. Attribute sampling provides for compliance testing of policies, procedures and practices to determine adequacy of internal controls or operational efficiency. Acceptance sampling provides for the pass/fail testing of the universe based on the number of errors expected.

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<sup>24</sup> We used non-statistical sampling to supplement our statistical sampling of high-value accounts payable (transactions greater than \$100,000). The payments in this additional sample ranged between \$160,000 and \$1,025,180. See Appendix II.

## APPENDIX I

### Statistical Sampling Methodology and Results

#### The Acceptance Number of Errors

The acceptance number of errors for this sample was two.

#### Confidence Level

The confidence level of ninety percent represents the reliability of our estimate and the degree of assurance that we have in our estimate.

#### Critical Error Rate

The critical error rate is five percent and represents the maximum error rate in the universe that is considered acceptable by the auditor.

#### Sample Results

We tested the 105 randomly selected payments for the following attributes related to both administration and processing controls and compliance with the Prompt Payment Act.

The details of the sample evaluation for administration and processing controls follow.

Administration and Processing Controls	Tested	Non-Exceptions	Exceptions
<u>Supporting Documentation</u>  <i>Medical payments</i> were considered to have complete supporting documentation if the files contained ALL of the following items required by the Office of Program's policies and procedures: <ul style="list-style-type: none"> <li>• FAME medical exam order screen print or medical opinion request</li> <li>• FAME payment screen that references the order, the exam ordered (applicable for medical exams), receipt, acceptance and payment approvals (electronically signed and dated)</li> <li>• Accepted exam/opinion signed and dated by a medical professional</li> </ul> <p style="text-align: right;"><b>Medical Payments Total</b></p>	77	73	1 2 1 <b>4</b>
<i>Non-medical payments</i> were considered to have complete supporting documentation if the files contained an approved invoice, which was both signed and dated as required by the agency's policies and procedures: <ul style="list-style-type: none"> <li>• Signed</li> <li>• Dated</li> </ul> <p style="text-align: right;"><b>Non-Medical Payments Total</b></p>	28	20	4 4 <b>8</b>
<b>Grand Total</b>	105	93	<b>12</b>

## APPENDIX I

### Statistical Sampling Methodology and Results

Administration and Processing Controls	Tested	Non- Exceptions	Exceptions
<u>Paid the Correct Amount</u>  <i>Medical payments</i> were considered accurate if the amount paid agreed to contracted amount as required by the agency's policies and procedures. <p style="text-align: right;"><b>Medical Payments Total</b></p>	77	77	<b>0</b>
<i>Non-medical payments</i> were considered accurate if the amount paid agreed to the approved invoice amount as required by the agency's policies and procedures. <p style="text-align: right;"><b>Non-Medical Payments Total</b></p>	28	28	<b>0</b>
<b>Grand Total</b>	105	105	<b>0</b>
<u>Proper Payment Approval</u>  <i>Medical payments</i> were considered properly approved if supporting documentation included a dated FAME screen with the user identified as required by the Office of Program's policies and procedures. <p style="text-align: right;"><b>Medical Payments Total</b></p>	77	77	<b>0</b>
<i>Non-medical payments</i> were considered properly approved if the supporting documentation maintained in BFO included a signed invoice according to their normal business practices. <p style="text-align: right;"><b>Non-Medical Payments Total</b></p>	28	28	<b>0</b>
<b>Grand Total</b>	105	105	<b>0</b>
<u>Proper Authorization</u>  Both <i>Medical and Non-Medical payments</i> were considered properly authorized if they were approved by an appropriate individual acting within the scope of their authority as required by the agency's policies and procedures. <p style="text-align: right;"><b>Grand Total</b></p>	105	105	<b>0</b>
<u>Goods and Services Were Appropriate to the Agency's Mission</u>  Both <i>Medical and Non-Medical payments</i> were considered acceptable if the goods and services obtained were appropriate to the agency's mission in accordance with the purpose statute of appropriations law. <sup>25</sup> <p style="text-align: right;"><b>Grand Total</b></p>	105	105	<b>0</b>
<u>The Receipt of Goods and Services Was Acknowledged</u>  Both <i>Medical and Non-Medical payments</i> were considered acceptable if the receipt and acceptance of goods and services were appropriately acknowledged as required by the agency's policies and procedures. <p style="text-align: right;"><b>Grand Total</b></p>	105	105	<b>0</b>

<sup>25</sup> 31 U.S.C. §1301(a), the purpose statute of appropriations law requires that obligations/expenditures be authorized and that "Appropriations shall be applied only to the objects for which the appropriations were made except as otherwise provided by law."

## APPENDIX I

### Statistical Sampling Methodology and Results

Administration and Processing Controls	Tested	Non- Exceptions	Exceptions
<u>Timely Payment</u>  Both <i>Medical and Non-Medical payments</i> were considered timely if they were made within 30 days after the latter of the receipt and acceptance of the goods and services or the invoice date, (if the receipt and acceptance was not within seven days of the invoice) in accordance with normally accepted business practices and the agency's policies and procedures.			
<b>Medical Payments Total</b>			<b>0</b>
<b>Non-Medical Payments Total</b>			<b>2</b>
<b>Grand Total</b>	105	103	<b>2</b>
<u>Adequate Monitoring and Treasury Annotation</u> <sup>26</sup>  <i>Non-Medical payments</i> were considered adequately monitored if the invoice was properly annotated with the Treasury processing data in accordance with the agency's normal business practices.			
<b>Non-Medical Payments Total</b>			<b>1</b>
<b>Grand Total</b>	28	27	<b>1</b>

Conclusion: The transaction-based provisions for documenting the approval of medical and non-medical payments have not been implemented as designed and are not effective. During the audit we noted 12 instances where the supporting documentation was not adequate to support payment. With respect to the other controls and attributes tested, we can conclude with 90 percent confidence that internal controls were operating at least 95 percent of the time and payment accuracy was at least 95%.

We also identified instances where procedures and practices for timely payment and adequate monitoring and Treasury annotation were not followed. However, these instances were infrequent and at or below the acceptance number of errors.

<sup>26</sup> Only 28 of the 105 transactions in our sample were subject to this requirement due to different processes used by DSUBD and BFO.

## APPENDIX I

### Statistical Sampling Methodology and Results

The details of the sample evaluation for compliance with the Prompt Payment Act follow.

<b>Compliance with Prompt Payment Act</b>	<b>Tested</b>	<b>Non- Exceptions</b>	<b>Exceptions</b>
<u>Interest Accuracy</u>  Both <i>medical and non-medical payments</i> were considered to have accurate interest applied if the effective interest rate was paid for the appropriate period.			
<b>Grand Total</b>	105	105	<b>0</b>
<u>Prompt Payment Tracking</u>  Both <i>medical and non-medical payments</i> were considered to be in compliance if all vendors subject to the Prompt Payment Act were being tracked in FFS.			
<b>Grand Total</b>	105	105	<b>0</b>
<u>Trigger/Prompt Payment Date Accuracy</u>  <i>Medical payments</i> were considered to be acceptable if the trigger date was the date of acceptance and if the prompt payment date was 30 days after the trigger date.			
<b>Medical Payments Total</b>	77	76	<b>1</b>
<i>Non-medical payments</i> were considered to be acceptable if the trigger date was the invoice date or the date of acceptance, if within seven days of the invoice and if the prompt payment date was 30 days after the trigger date.			
<b>Non-Medical Payments Total</b>	28	25	<b>3</b>
<b>Grand Total</b>	105	101	<b>4</b>
<u>Early Pay</u>  Both <i>medical and non-medical payments</i> were considered compliant if payments that were paid earlier than seven days prior to the due date were appropriately approved.			
<b>Grand Total</b>	105	105	<b>0</b>

Conclusion: We conclude that the agency was generally compliant with the Prompt Payment Act. However, the random statistical sample did disclose four errors related to the identification and implementation of measurement dates, such as the trigger date and the prompt payment date. These exceptions were infrequent and none of them resulted in late payments. We brought the specifics of these exceptions to management's attention during the audit.

## APPENDIX II

### Non-Statistical Sampling Methodology and Results

This appendix presents the methodology and results of our non-statistical sampling tests of high-value non-benefit, non-payroll payments.

#### Sample Objective

The sampling objective was to determine if internal controls for the accurate and timely processing and recording of high-value non-benefit, non-payroll payments are operating and effective.

#### Sampling Unit

The sampling unit is defined as one accounts payable payment greater than \$100,000, which can include either a payment voucher (PV) or a direct disbursement (DD).

#### Sampling Universe

The sampling universe consisted of 4,769 payments totaling \$5,711,353.55 for the period October 1, 2007 through December 31, 2007, which were downloaded from FFS by BFO and provided to the OIG. Employee payments for travel were specifically excluded.

#### Sample Size

We judgmentally selected all five of the high-value accounts payable payment transactions that were in the universe for review. These five payment transactions totaled \$1,963,729.

#### Sample Selection Method

We used judgmental sampling to select high-value payment transactions greater than \$100,000 to determine overall compliance and operation of internal controls, including approval controls for high-value items and segregation of duties controls.

#### Sample Results

We tested five high-value payment transactions selected from a population of 4,769 for the following attributes related to both administration and processing controls and compliance with the Prompt Payment Act.

The details of the sample evaluation for administration and processing controls follow.

## APPENDIX II

### Non-Statistical Sampling Methodology and Results

Administration and Processing Controls	Tested	Non- Exceptions	Exceptions
<u>Supporting Documentation</u>  <i>High-value payment transactions</i> were considered to have complete supporting documentation if the files contained an approved invoice, which was both signed and dated, as required by the agency's policies and procedures. In the absence of an invoice, we looked for additional documentation which would support the amount paid in accordance with normally accepted business practices. <ul style="list-style-type: none"> <li>• Signed/Dated</li> <li>• Lacked both an invoice or any other documentation to support the amount paid</li> </ul>			1 1
<b>High-value Payment Transactions Total</b>	5	3	2
<u>Paid the Correct Amount</u>  <i>High-value payment transactions</i> were considered accurate if the amount paid agreed to the approved invoice amount as required by the agency's policies and procedures.			
<b>High-value Payment Transactions Total</b>	5	5	0
<u>Proper Payment Approval</u>  <i>High-value payment transactions</i> were considered properly approved if the supporting documentation maintained in BFO included an invoice that was approved for payment with both a signature and the date of approval, in accordance with BFO's normal business practices.			
<b>High-value Payment Transactions Total</b>	5	3	2
<u>Proper Authorization</u>  <i>High-value payment transactions</i> were considered properly authorized if they were approved by an appropriate individual acting within the scope of their authority as required by the agency's policies and procedures.			
<b>High-value Payment Transactions Total</b>	5	4	1
<u>Goods and Services Were Appropriate to the Agency's Mission</u>  <i>High-value payment transactions</i> were considered acceptable if the goods and services obtained were appropriate to the agency's mission in accordance with the purpose statute of appropriations law. <sup>27</sup>			
<b>High-value Payment Transactions Total</b>	5	5	0
<u>The Receipt of Goods and Services Was Acknowledged</u>  <i>High-value payment transactions</i> were considered acceptable if the receipt and acceptance of goods and services were appropriately acknowledged as required by the agency's policies and procedures.			
<b>High-value Payment Transactions Total</b>	5	5	0

<sup>27</sup> 31 U.S.C. §1301(a), the purpose statute of appropriations law requires that obligations/expenditures be authorized and that "Appropriations shall be applied only to the objects for which the appropriations were made except as otherwise provided by law."

## APPENDIX II

### Non-Statistical Sampling Methodology and Results

Administration and Processing Controls	Tested	Non- Exceptions	Exceptions
<u>Timely Payment</u>  <i>High-value payment transactions</i> were considered timely if they were made within 30 days after the latter of the receipt and acceptance of the goods and services or the invoice date (if the receipt and acceptance was not within seven days of the invoice) in accordance with normally accepted business practices and the agency's policies and procedures.			
<b>High-value Payment Transactions Total</b>	5	4	1
<u>Adequate Monitoring and Treasury Annotation</u> <sup>28</sup>  <i>High-value payment transactions</i> were considered adequately monitored if the invoice was properly annotated with the Treasury processing data in accordance with the agency's normal business practices.			
<b>High-value Payment Transactions Total</b>	4	4	0
<u>Segregation of Duties/Access Profiles</u>  <i>High-value payment transactions</i> were considered to have adequate segregation of duties if key duties and responsibilities were divided or segregated among different people. FFS security profiles can be configured to facilitate and ensure the proper segregation of duties. <ul style="list-style-type: none"> <li>• Multiple User ID's</li> <li>• FFS configurations allowed one user to perform multiple steps in the purchasing process</li> </ul>			1 3
<b>High-value Payments Transactions Total</b>	5	1	4

Conclusion: Internal controls over high-value payment transactions have not been implemented as designed. We found issues with supporting documentation, proper payment approval, proper authorization, timely payment, segregation of duties and access profiles. Because we found issues with these high-value payment transactions, we believe that additional compensating controls should be considered.

<sup>28</sup> Only 4 of the 5 transactions in our sample were subject to this requirement due to different practices used by BFO to process payment vouchers versus direct disbursements.

## APPENDIX II

### Non-Statistical Sampling Methodology and Results

The details of the sample evaluation for compliance with the Prompt Payment Act follow.

<b>Compliance with Prompt Payment Act</b>	<b>Tested</b>	<b>Non- Exceptions</b>	<b>Exceptions</b>
<u>Interest Accuracy</u>  <i>High-value payments</i> were considered to have accurate interest applied if the effective interest rate was paid for the appropriate period.			
<b>High-value Payment Transactions Total</b>	<b>5</b>	<b>5</b>	<b>0</b>
<u>Prompt Pay Tracking</u>  <i>High-value payments</i> were considered to be in compliance if all vendors subject to the Prompt Payment Act were being tracked in FFS.			
<b>High-value Payment Transactions Total</b>	<b>5</b>	<b>5</b>	<b>0</b>
<u>Trigger/Prompt Payment Date Accuracy</u>  <i>High-value payments</i> were considered to be acceptable if the trigger date was the invoice date or the date of acceptance, if within seven days of the invoice and if the prompt pay date was 30 days after the trigger date.			
<b>High-value Payment Transactions Total</b>	<b>5</b>	<b>5</b>	<b>0</b>
<u>Early Pay</u>  <i>High-value payments</i> were considered compliant if payments that were paid earlier than seven days prior to the due date were appropriately approved.			
<b>High-value Payment Transactions Total</b>	<b>5</b>	<b>5</b>	<b>0</b>

Conclusion: With regards to the non-statistical sample of high-dollar value payments, we identified no instances of non-compliance with the Prompt Payment Act.


 UNITED STATES GOVERNMENT  
**MEMORANDUM**
**MAR 30 2009**

**TO :** Letty Benjamin Jay  
Assistant Inspector General for Audit

**FROM :** John M. Walter *John M. Walter*  
Chief of Accounting, Treasury and Financial Systems

**THROUGH:** Kenneth P. Boehne *Kenneth P. Boehne*  
Chief Financial Officer

**SUBJECT:** OIG Draft Report – Audit of Internal Control Over Accounts Payable

Thank you for the opportunity to review and comment on the above draft report dated March 16, 2009. We are pleased that your review found no instances of non-compliance with the Prompt Payment Act. Our comments on the recommendations are as follows:

**Recommendations**

**We recommend that BFO:**

1. **identify all individuals who have been awarded FFS privileges that are incompatible with proper segregation of duties.**
2. **work with agency management to eliminate FFS user privileges that violate the principles of segregation of duties.**

Regarding recommendations #1 and #2, each year, BFO performs an FFS security audit requesting agency management to review security profile information for FFS users in their organization and provide us with any changes, additions, or deletions. The responses and documentation of actions taken are then provided to the RRB's Chief Security Officer. For the fiscal year 2009 security process, we will ask agency management to identify individuals who have been awarded FFS privileges that are incompatible with proper segregation of duties and eliminate such FFS user privileges. Additional FFS privileges may have been awarded to users in a given organization due to the small size of that organization, and the organization may have compensating controls. Target date: 9/30/09.

- 3. *develop and maintain a list of designated certifiers, obtain signature cards for these individuals and require that higher dollar hard copy invoices be subject to multiple approvals before they are processed for payment.***

We plan to work with agency management to implement this recommendation. A revision to Administrative Circular OA-14 may be required. Target date: 9/30/09.

- 4. *establish more reasonable dollar thresholds for payment approvals to mirror the thresholds used in other steps of the procurement life cycle.***

We plan to review the dollar thresholds for payment approvals and make adjustments as necessary. Target date: 9/30/09.

- 9. *ensure that manually certified invoices and other payments include adequate back-up documentation to support the amount paid.***

The Treasury staff plan to discuss this recommendation with your staff and then work to ensure that manually certified invoices and other payments include adequate back-up documentation to support the amount paid. Target date: 12/31/09.

- 10. *re-communicate to all certifiers that, to be complete, the manual certification must include a signature, the date of acceptance, reference to the applicable purchase order or service order and the amount approved for payment.***

We plan to re-communicate this information, which is in Administrative Circular OA-14, to certifiers of invoices. Target date: 8/31/09.

- 11. *complete a management control review and a related risk assessment for the Accounts Payable Assessable Unit, using current data, according to the MCRC's current policy, without further delay.***

Treasury plans to complete a management control review and a related risk assessment for the Accounts Payable Assessable Unit. Target date: 9/30/09.

- 13. *BFO implement procedures that will permit them to process Forms G-753 without employee SSNs for payment.***

The Treasury section is able to process Forms G-753 without employee SSNs.

**14. review, update and finalize policies and procedures for accounts payable activities.**

The Treasury section plans to review, update, and finalize policies and procedures for accounts payable activities. Target date: 3/31/10.

**16. work with the Executive Committee to maximize the use of electronic receivers for accounts payable transactions and promote the importance of the electronic receiver as an additional control in the purchasing and financial reporting process; or improve the manual certification process to include all of the controls that are provided by the electronic receiver.**

We have discussed this recommendation with the Director of Administration. He plans to promote the use of electronic receivers to the Executive Committee.

**17. periodically re-communicate the importance of:**

- **sending invoices directly to BFO;**
- **timely inspection and acceptance of goods and services;**
- **timely return of certified invoices back to BFO for payment processing; and**
- **avoiding unnecessary interest charges which directly impact the bureaus' budgets.**

We plan to periodically re-communicate the importance of this process which is in Administrative Circular OA-14. Target date: 9/30/09.

**18. consider prioritizing the quality assurance reviews of payments subject to the Prompt Payment Act to ensure their timely completion.**

We have considered the quality assurance reviews for payments subject to the Prompt Payment Act and have prioritized them. The first quarter 2008 Prompt Pay review was completed on 8/25/08. In addition, the second quarter Prompt Pay review was completed on 11/21/08, the third quarter Prompt Pay review was completed on 12/19/08 and the fourth quarter Prompt Pay review was completed on 2/27/09.

cc: Dave Miller, Finance Officer  
 Kris Garmager, Financial Systems Manager  
 Katrina Page, Financial Management Analyst  
 Hattie Fitzgerald, Financial Compliance Officer  
 Bill Flynn, Executive Assistant  
 Jill Roellig, Management Analyst



UNITED STATES GOVERNMENT  
**MEMORANDUM**

FORM G-115f (1-92)  
 RAILROAD RETIREMENT BOARD

MAR 27 2009

**TO** : Letty Benjamin Jay  
 Assistant Inspector General for Audit

**FROM** : Catherine A. Leyser  
 Director of Assessment and Training  
 Through Dorothy Isherwood  
 Director of Programs

*Catherine A. Leyser*  
*D. Isherwood*

**SUBJECT:** Draft Report-Audit of Internal Control Over Accounts Payable

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**Recommendation 5** The Office of Programs should segregate duties to prevent the same employee from ordering and accepting medical examinations and consultative opinions, implement second level approvals on orders and acceptances of medical examinations and consultative opinions, or develop an effective compensating control to ensure the agency does not pay for unnecessary services.

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**OP response** The OIG finding of a single examiner having the capability of both ordering and paying for medical examinations or opinions is an intended practice. The Office of Programs established this practice because the requestor is best qualified to determine if the product received meets the requestor's expectations. To preclude ordering unnecessary services, we have a control in place to examine medical examination requests that exceed 5 examinations in a case. In light of the OIG's concerns we agree to develop a plan for an additional compensating control.

We will develop a plan by September 30, 2009.

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**Recommendation 6** The Office of Programs should revise policies and procedures to fully articulate which job descriptions have authority for ordering medical examinations and consultative opinions so that the policies and procedures correspond with actual practice and FAME system utilization.

*Continued on next page*

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**OP response**            The OIG review observed staff in clerical positions that were entering medical opinion and medical examination requests; and, there were no specifications in procedures regarding authority at those positions. The Office of Programs agrees to revise procedures to include positions such as field office and headquarters clerks as those given authority to enter requests. Only claim examiners are authorized to process payments and there is no change in that authority.

We will make the necessary procedure revisions by July 31, 2009.

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**Recommendation 7**    The Office of Programs should review FAME system programming and request revisions to ensure that the active user identifier is automatically captured for each transaction and secured against change.

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**OP response**            The Office of Programs agrees to review the system to determine when revisions can be made. Other priorities make it difficult to project when this can be completed; and, we will make any changes that are possible when the next program revisions are made to the FAME system. The target date for this is pending.

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**Recommendation 8**    The Office of Programs should re-communicate to the appropriate staff that all order authorization forms, evidence of receipt and acceptance and payment approvals supporting medical examinations and consultative opinions need to be maintained in the files.

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**OP response**            The Office of Programs agrees to this recommendation.

We will include a reminder to examiners during the next monthly training agenda which includes pertinent procedural, informational and reminder notices to disability examiners.

Target completion date: April 30, 2009.

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UNITED STATES GOVERNMENT

**MEMORANDUM**

March 27, 2009

**TO** : Letty Benjamin Jay  
Assistant Inspector General for Audit

**FROM** : Henry M. Valulis  
Director of Administration/Senior Executive Officer

**SUBJECT:** Draft Report-Audit of Internal Control Over Accounts Payable

In response to your draft report dated March 16, 2009, I have reviewed the findings and recommendations, and in particular, the two recommendations concerning the Office of Administration.

I concur with recommendation #12, "the Office of Administration implement a revised Form G-753 that does not require the employees' social security numbers (SSNs)". The RRB should reduce exposure of employee SSNs and revising this form, which is used to reimburse employee medical expenses, will do so. The recommendation should be implemented by June 30, 2009.

The second recommendation #15, "review and update the identified policies and procedures related to the procurement process" will also be implemented. We will update Administrative Circular OA-14 to contain information on expedited payments or procedures for early payment. We will also work with legal counsel to update Basic Board Order 5 to include references to appropriate laws or regulations in the coverage of severable contracts. This recommendation will be implemented by June 30, 2009.

Thank you for the opportunity to comment on the draft report.

cc: General Counsel  
Chief Financial Officer  
Supervisory Contract Specialist  
Asst. to Director of Administration  
Executive Asst. to Director of Administration