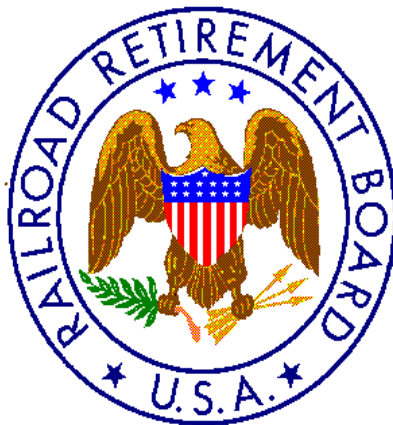


OFFICE OF INSPECTOR GENERAL

Audit Report

**Audit of the Internal Controls Over Obligations
at the Railroad Retirement Board**

**Report No. 15-08
August 14, 2015**



RAILROAD RETIREMENT BOARD

EXECUTIVE SUMMARY

Background

The Office of Inspector General for the Railroad Retirement Board (RRB) conducted an audit of internal controls over obligations. The audit objective was to assess the effectiveness of internal controls in ensuring that obligations are recorded and reported in accordance with applicable laws and regulations.

Findings

Our audit determined that the RRB's internal controls were not adequate to ensure that obligations were recorded in accordance with applicable laws and regulations. We also found that improvement is needed to ensure that obligations are reported in accordance with applicable laws and regulations. In addition, we identified the following deficiencies:

- documented disability controls were inadequate;
- internal controls for open obligations were insufficient;
- documented procurement and account payable controls were insufficient;
- administrative circulars had not been updated; and
- travel accounts had not been deactivated for former RRB employees.

Recommendations

In total, we made 16 recommendations to RRB management related to improvements for:

- purchase card training and updated letters delegating authority for purchases;
- travel system procedures for changes in authorized approvers;
- travel system access privilege revisions to ensure segregation of duties and the proper execution of travel transactions;
- obligation descriptions on two forms that are submitted to the Office of Management and Budget to ensure adherence with guidance;
- medical examination and consultative opinion samples to ensure that they are representative of the population;
- accurate sample methodology descriptions for medical examination and consultative opinion reviews;
- documented controls for the disability benefits and accounts payable assessable units;
- follow-up responses related to the review of open obligations;

- administrative circular revisions;
- timely tests as new systems become operational;
- immediate management control review for the procurement assessable unit; and
- guidance to deactivate travel accounts when employees separate from the agency.

Management Response and Our Comments

Management concurred with most of the recommendations. The Office of Programs did not concur with the recommendation regarding medical examination and consultative opinion samples that should be representative of the population. They stated that a statistical representative sample size would be an excessive management control. The Office of Inspector General stresses the need for a representative sample size, which would provide more assurance regarding the agency's efforts to detect error or fraud.

The Bureau of Fiscal Operations did not concur with the recommendations regarding follow-up responses related to the review of open obligations by citing bureau responsibilities to close unliquidated obligations upon notice provided by the various memorandums issued throughout the year. The OIG reiterates the need for improved management of obligated funds that are no longer needed for its intended purpose. Due to the lack of sufficient controls, deobligation may not occur until the funds near the period of expiration, which makes the funds unavailable for use by the agency during the interim period. The RRB's Chief Financial Officer is responsible for establishing policy with regard to administrative control over all funds and therefore has authority to affect change.

The full text of management's responses is included in the appendices.

TABLE OF CONTENTS

EXECUTIVE SUMMARY

INTRODUCTION

Background	1
Audit Objective.....	3
Scope	3
Methodology.....	3

RESULTS OF AUDIT

Insufficient Controls over the Recording of Obligations	5
Updated Documentation and Training Needed for Purchase Card Transactions.....	5
Recommendations	6
Management’s Response	6
Review of Access Privileges Needed for Travel Authorizations	7
Recommendations	7
Management’s Response	7
Improvement Needed for the Reporting of Obligations.....	8
Recommendation	8
Management’s Response	8
Documented Disability Controls Were Inadequate	8
Recommendations	9
Management’s Response and Our Comments	9
Insufficient Controls for Open Obligations.....	10
Recommendations	11
Management’s Response and Our Comments	11
Insufficient Documented Controls and Agency Guidance	11
Procurement Assessable Unit.....	12
Recommendations	12
Management’s Response	13
Accounts Payable Assessable Unit.....	13
Recommendations	13

Management's Response	13
Improved Controls Needed for Former Employees	13
Recommendation	14
Management's Response	14

APPENDICES

Appendix I – Statistical Sampling Methodology and Results	15
Appendix II – Office of Administration Management Responses	19
Appendix III – Office of Programs Management Responses	22
Appendix IV – Bureau of Fiscal Operations Management Responses.....	25

INTRODUCTION

This report presents the results of the Office of Inspector General's (OIG) audit of internal controls over obligations at the Railroad Retirement Board (RRB).

Background

The RRB, an independent agency in the executive branch of the Federal government, administers the retirement/survivor and unemployment/sickness insurance benefit programs for railroad workers and their families under the Railroad Retirement Act and the Railroad Unemployment Insurance Act. The RRB paid \$12 billion in retirement/survivor benefits and \$86 million in unemployment and sickness insurance benefits during fiscal year 2014.

The Congress appropriates funds to Federal agencies. Annual appropriation acts provide specific amounts that the agency can obligate. An obligation is defined as a binding agreement that will result in financial outlays, immediately or in the future. The Office of Management and Budget (OMB) has the responsibility to apportion annual appropriations and other available funds appropriated by Congress.¹ Agencies submit apportionment requests to OMB after approval of the appropriation. OMB approves or modifies the apportionment request specifying the amount of funds agencies may use by time period, project, or activity. Federal agencies are responsible for ensuring that appropriated funds are used within the specified time periods and only for the purposes and amounts authorized by Congress.² The Federal government incurs obligations to carry out their programs, projects, and activities in a variety of ways. Obligations are liquidated when funds are disbursed; such disbursements are termed outlays. Throughout the fiscal year, agencies record obligations and outlays, report information to the Treasury, and prepare financial statements. Obligations incurred for the RRB totaled approximately \$13 billion for fiscal year 2014 as reported in the Statement of Budgetary Resources.

Various bureaus within the RRB are responsible for recording obligations, including the Office of Administration (OA), the Office of Programs (OP), and the Bureau of Fiscal Operations (BFO). Obligations recorded by OA are for procurement of goods and services. OP records obligations related to disability annuitants, to order and approve medical examinations and consultative opinions. BFO is responsible for preparing and submitting budget requests, which includes amounts available for obligation and expenditure. They also monitor budget execution and report funds obligated through the Statement of Budgetary Resources.

¹ OMB Circular A-11, *Preparation, Submission, and Execution of the Budget*, (Washington, D.C., July 2014).

² 31 U.S.C. § 1301(a) and 31 U.S.C. § 1502.

Pursuant to the provisions of the Federal Manager's Financial Integrity Act of 1982 (FMFIA), internal accounting and administrative controls shall be established 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 assets.³

The Government Accountability Office's *Standards for Internal Control in the Federal Government* (GAO Standards) provides an overall framework for establishing and maintaining internal control and for identifying and addressing major performance and management challenges and areas at greatest risk of fraud, waste, abuse, and mismanagement.⁴ 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.

The RRB's Management Control Review Committee was created to establish and oversee a process to identify and eliminate management control weaknesses and financial non conformance. The committee is to ensure the adequacy of early warning reporting and the accuracy and completeness of reports on management controls, material weaknesses, and non-conformance. The agency's management control process includes internal controls that are identified, tested, and assessed for effectiveness by the applicable organizations within the agency for operations determined to be mission critical. As related to this audit, mission critical agency operations, defined as assessable units are: procurement, budget and planning, accounts payable, and disability benefits.

For each assessable unit, management control reviews are performed periodically, and certifications are made annually asserting whether:

- (1) material weaknesses exist;
- (2) the mission is being accomplished;
- (3) waste, fraud, and abuse are at the lowest reasonably preventable level;
and
- (4) control objectives are being accomplished.

³ Public Law 97-255 (September 8, 1982).

⁴ Government Accountability Office, *Standards for Internal Controls in the Federal Government*, GAO/AIMD-00-21.3.1 (Washington, D.C., November 1999). A newer version, effective beginning in fiscal year 2016 has been published, GAO 14-704G (Washington, D.C., September 2014).

These certifications are provided to the Management Control Review Committee for review and acceptance. RRB's Executive Committee, in conjunction with the Management Control Review Committee, provides the Board Members with data that supports their annual FMFIA management assurance statements regarding overall agency internal controls.

One of the RRB's strategic goals is to serve as responsible stewards for the customers' trust funds by ensuring that trust fund assets are protected, collected, recorded and reported appropriately. This audit supports the agency's efforts in meeting that goal, as well as the annual RRB financial statement audit.

Audit Objective

The audit objective was to assess the effectiveness of internal controls in ensuring that obligations are recorded and reported in accordance with applicable laws and regulations.

Scope

The scope of the audit was the internal controls over obligations from October 1, 2014 through December 31, 2014.

Methodology

To accomplish the audit objective, we:

- identified applicable laws and regulations and related criteria;
- tested compliance with applicable laws and regulations;
- reviewed documented controls for obligations to assess adequacy;
- reviewed the reporting of obligations to determine if they were reported in accordance with applicable laws and regulations;
- tested statistically valid samples of obligating documents and travel authorizations to assess the effectiveness of the internal controls over the recording of obligations;
- interviewed appropriate agency staff; and
- reviewed related supporting documentation maintained by the agency.

To assess the reliability of data in the RRB's financial management system, we:

- reviewed existing documentation regarding certifications and approvals;
- interviewed responsible agency personnel that are knowledgeable about the system; and
- identified the relevant controls for preparation and approval of transactions.

We determined that the data was sufficiently reliable for the purposes of this report.

We conducted this performance 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 objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

We conducted our fieldwork at RRB headquarters in Chicago, Illinois from December 2014 through June 2015.

RESULTS OF AUDIT

Our audit determined the RRB's internal controls were not adequate to ensure that obligations were recorded in accordance with applicable laws and regulations. We also found that improvement is needed to ensure that obligations are reported in accordance with applicable laws and regulations. In addition, we identified the following deficiencies:

- documented disability controls were inadequate;
- internal controls for open obligations were insufficient;
- documented procurement and accounts payable controls were insufficient;
- administrative circulars had not been updated; and
- travel account status changes had not been made for former RRB employees.

The details of the audit findings and recommendations for corrective action follow. The full text of management's responses is included in the appendices.

Insufficient Controls over the Recording of Obligations

Internal controls over the recording of obligations were not sufficient for obligating documents and travel authorizations. As a result, the RRB's internal controls were insufficient to ensure that obligations were recorded in accordance with applicable laws and regulations (see Appendix I for more details). Insufficient controls were identified related to the adequacy of training and documentation for purchase card transactions and access privileges for the approval of travel authorizations.

Updated Documentation and Training Needed for Purchase Card Transactions

Our statistical sample of 104 obligating documents resulted in determining that for 3 purchase card transactions, internal controls were not sufficient to ensure that the staff who prepared the transactions received recertification training within the required timeframe. Our sample projections indicate that a total of 221 purchase card transactions in the population could have the same deficient internal controls. In addition, letters authorizing the use of government credit cards had not been updated to reflect changes in guidance and authorizing personnel. These Delegation of Authority Letters for Purchase Cards and Credit Cards are issued to specific agency personnel for the purpose of making official purchases for the agency and defining their monetary purchase levels. Purchase card transactions create obligations for the RRB. These letters were dated four or more years ago and were authorized by an official that retired in 2012.

Appendix B of OMB Circular A-123 requires that refresher training be provided for purchase card holders at a minimum of every three years.⁵ RRB Administrative Circular OA-21, *Government Purchase Card Procedures*, states that all participants in the agency's Government Purchase Card Program shall be retrained and recertified every three years.

GAO Standards state that transactions should be promptly recorded to maintain their relevance and value to management in controlling operations and making decisions, and applies to the entire process or life cycle of a transaction or event from initiation and authorization through final classification in summary records. All documentation and records should be properly managed and maintained. Transactions and other significant events should be authorized and executed only by persons acting within the scope of their authority. This is the principal means of assuring that only valid transactions to exchange, transfer, use, or commit resources and other events are initiated or entered into. Authorizations should be clearly communicated to managers and employees.

The agency indicated that the refresher training reminder would be delayed due to changes in the purchase cards. Although management recognized the need to update the Delegation of Purchase Card Authority Letters and indicated in 2013 that new letters would be issued, these updates had not been made due to constant changes and other priorities. In addition, agency management stated that updated letters are only warranted for changes in policy or procedure, and that purchase card authority is authorized by the official's position, regardless of employment status.

Recommendations

We recommend that the Office of Administration:

1. strengthen internal controls to ensure that purchase card training is completed by each purchase card holder within the timeframes required by OMB and agency guidance; and
2. immediately revise and issue updated Delegation of Authority Letters for Purchase Cards to reflect changes in authorizing authority, approvers, and changes in guidance.

Management's Response

The Office of Administration concurred with these recommendations.

⁵ OMB Circular A-123, Appendix B, *Improving the Management of Government Charge Card Programs*, (Washington, D.C., January 15, 2009).

Review of Access Privileges Needed for Travel Authorizations

Our review of a statistical sample of 96 travel authorizations identified 4 errors:

- two transactions were approved by someone other than the designated approver in the RRB's travel system;
- one employee had access privileges to approve his or her own travel transactions; and
- one employee did not have a designated approver for travel transactions.

GAO Standards state that, “[t]ransactions and other significant events should be authorized and executed only by persons acting within the scope of their authority.” In addition, key duties and responsibilities should be divided or segregated among different people to reduce the risk of error or fraud.

These exceptions occurred because documented agency procedures do not exist for changes to authorizing approvers in the travel system. Changes in authorizing approvals are made by an employee in OA based on either an email or telephone request. Explanations and supporting documentation could not be provided for the noted exceptions. In addition, regarding the employee that can approve his or her own travel transactions, the principles of segregation of duties were not observed when these approval privileges were granted.

As a result of insufficient internal controls, waste and abuse of government funds, as related to travel, could occur and not be detected. Our sample projections indicate that a total of 16 travel authorizations in the population could have the same approval deficiencies.

Recommendations

We recommend that the Office of Administration, in collaboration with other agency management:

3. develop and document formal agency procedure for changes made to authorized approvers in the travel system; and
4. review and revise approval privileges in the RRB's travel system to ensure that the principles for segregation of duties and proper execution of transactions are observed.

Management's Response

The Office of Administration concurred with these recommendations.

Improvement Needed for the Reporting of Obligations

During our audit, we noted instances when obligation funding descriptions did not provide consistent language in budgetary documents as required by OMB guidance. Specifically, the RRB's descriptions for three obligations were not consistent between the documents used to identify program reporting categories (as recorded on Standard Form 132) and the actual reported obligations incurred categories (as recorded on Standard Form 133) for three RRB trust funds. Inconsistent descriptions for budgetary obligations could impact the reporting process, as the RRB submits both documents to OMB.

OMB guidance requires that consistent descriptive language be used for approved apportionments recorded on the aforementioned forms. GAO Standards state that control activities help to ensure that all transactions are accurately recorded.

BFO staff explained that the space for descriptive data is limited to a certain number of characters, but that they can revise and condense them accordingly.

Recommendation

5. We recommend that the Bureau of Fiscal Operations revise the obligation descriptions on Standard Form 132 and Standard Form 133 to ensure that they are consistently described in accordance with OMB guidance.

Management's Response

The Bureau of Fiscal Operations concurred with this recommendation.

Documented Disability Controls Were Inadequate

The documented controls for the disability assessable unit did not include controls over obligations for medical examinations and consultative opinions. We found that appropriate segregation of duties did not exist for ordering medical examinations and consulting opinions, and for approving payment by staff in OP. Due to this finding, which was originally reported in a prior OIG audit report, OP performs quarterly reviews as a compensating control.⁶ The related audit recommendation was closed as implemented. However, when reviewed as part of this audit, the compensating control was found to be insufficient and not accurately described in the quarterly report prepared by OP.

We reviewed the report for the first quarter of fiscal year 2015 and determined that the review of 10 medical examination cases and 10 consultative opinion cases was not representative of the total cases completed during a quarter. For the first quarter of fiscal year 2015, there were 396 medical examination cases and 886 consultative

⁶ Railroad Retirement Board Office of Inspector General, *Audit of Internal Control Over Accounts Payable*, OIG Report No. 09-03 (Chicago, IL., March 31, 2009).

opinion cases. In comparison, our statistically valid sample for this same period resulted in a sample size of 17 for medical examinations and 51 for consulting opinions. In addition, the report did not accurately describe the method of sample selection or the source from which the sample was drawn. Although the report states that the cases were randomly selected from the previous financial management system, staff in OP explained that the sample was judgmentally selected from an internal disability system maintained by their office.

GAO Standards state that internal controls help to safeguard assets, and to prevent and detect errors and fraud. Segregation of duties consists of dividing duties and responsibilities among different people to prevent one person from controlling all aspects of a transaction and to reduce the risk of error or fraud. Responsibilities should be separated for processing and recording transactions, authorizing and reviewing them, and handling any related assets.

The quarterly reviews and the documented management controls are prepared by two separate organizations within OP. As a result, these reviews had not been included in the documented controls for the disability benefits assessable unit.

Because the compensating control was not documented with the assessable unit control documentation, it was not tested for effectiveness. As a result, the deficiencies we identified in this audit were not recognized and corrected by the RRB.

Recommendations

We recommend that the Office of Programs:

6. increase the quantity of cases during its quality assurance review for medical examinations and consultative opinions to ensure that the cases reviewed are representative of the number of cases processed each quarter;
7. revise its documented methodology for the quarterly quality assurance reviews to correctly identify the source from which the medical examinations and consultative opinions were selected and the type of sampling performed; and
8. revise management control documentation for the disability benefits assessable unit to include the quarterly quality assurance tests, thereby ensuring that it will be tested for effectiveness.

Management's Response and Our Comments

The Office of Programs did not concur with recommendation 6. They stated that the quarterly, judgmental sampling is an additional complementary management control meant to help provide reasonable assurance and that a statistical representative sample size would be an excessive management control.

The OIG continues to stress the need for an effective compensating control regarding segregation of duties to reduce the risk of error or fraud, either of which could have a monetary impact on the agency's trust funds. Potential errors or fraud may not be detected due to the limited number of cases reviewed. A representative sample size would provide more assurance regarding the agency's goal to serve as responsible stewards for the customers' trust funds.

The Office of Programs concurred with recommendations 7 and 8.

Insufficient Controls for Open Obligations

Internal controls for open obligations were not sufficient to ensure that the funds are appropriately managed prior to expiration. Funds not used prior to their expiration, generally five years, are forfeited and returned to the general reserve or to a reserve established for a specific purpose. Obligations expected to be spent that do not expire in the current fiscal year remain open until the responsible bureau makes a request to deobligate the funds. A quarterly memorandum from the Chief Financial Officer informs internal organizations of open obligations, and requests closure for those no longer needed. However, this process is not effective because responses are not required and there is no follow up action taken to obtain responses unless the funds are nearing the period of expiration. Obligations no longer needed for the specified purpose, but that have not been deobligated, remain unavailable for other agency expenditures. In addition, discrepancies between the responsible bureau's records and BFO open obligations report may go undetected because management responses are not required within a specific timeframe and there is no follow-up action for non-responses.

Open obligations for the RRB totaled \$14.8 million for fiscal years 2010 through the first quarter of fiscal year 2015.

Open Obligations Per Fiscal Year as of January 1, 2015	
(in millions; rounded)	
1 st Quarter Fiscal Year 2015	\$ 3.4
Fiscal Year 2014	\$ 9.2
Fiscal Year 2013	\$ 1.9
Fiscal Years 2012, 2011, and 2010	\$ 0.3
Total	\$14.8

Bureau and office heads are responsible for managing obligations and expenditures within their approved allotment amounts and for determining which obligations can be returned to the general reserve or to a reserve established for a specific purpose. Some obligation closures can be made by the originating bureau, while others, upon request, have to be made by OA. For funds that will expire in the current year, OA will close all open obligations before the end of the fiscal year and will notify the appropriate bureau.

GAO Standards state that the prompt recording of transactions is needed to maintain their relevance and value to management and in controlling operations and making decisions.

Recommendations

We recommend that the Bureau of Fiscal Operations:

9. strengthen internal controls by establishing a due date for formal responses from all organizations with open obligations to ensure better management of these funds prior to the period of expiration; and
10. establish a follow-up process when responses are not provided within the designated timeframe from all organizations with open obligations.

Management's Response and Our Comments

The Bureau of Fiscal Operations did not concur with these recommendations. They cited portions of the RRB's Basic Board Orders regarding bureau responsibilities for liquidating obligations and Acquisition Management's responsibility for approving the deobligation of funds. They described the instructions included in various memorandums, which indicate that unliquidated obligations should be closed out upon notice. They stated that identifying a date would only delay the effort.

The OIG reiterates the need for improved management of obligated funds prior to expiration of the funds. During our audit, we identified an open obligation of \$88,000 for FMIS pre-migration services that was scheduled to end in October 2013 when FMIS was implemented. Although we made inquiries regarding this open obligation, BFO staff did not respond. This obligation was listed in the quarterly open obligations memorandum for the first quarter of fiscal year 2015 and it appears that it should have been deobligated two years ago which would have made the funds available for other expenditures by the agency. Due to the lack of sufficient controls, deobligation may not occur until the funds near the period of expiration. The RRB's Chief Financial Officer is responsible for establishing policy with regard to administrative control over all funds as stated in the RRB's Basic Board Order Number 4. Therefore, the Chief Financial Officer has authority to affect change.

Insufficient Documented Controls and Agency Guidance

Internal controls and guidance were not always sufficient for the procurement and accounts payable assessable units because some controls had not been updated, management control documentation was not updated timely, and not all controls were documented. This occurred because the internal control documentation was not sufficiently prepared in accordance with the internal control standards specified in the GAO Standards. These standards require management to continuously assess internal controls to ensure that they are effective and updated to reflect changes in programs and technology. Further, OMB guidance states that "[m]anagement is responsible for

establishing and maintaining internal control to achieve the objectives of effective and efficient operations, reliable financial reporting, and compliance with applicable laws and regulations. Management shall consistently apply the internal control standards to meet each of the internal control objectives and to assess internal control effectiveness.”

In October 2013, the RRB implemented a new financial management system, the Financial Management Integrated System (FMIS). However, RRB internal administrative circular guidance (BFO-1, BFO-3, OA-14, and OA-21) and management control documentation for the procurement and accounts payable assessable units have not been updated to reflect changes in procedures and controls, as a result of this implementation.⁷

Procurement Assessable Unit

Although FMIS became operational in fiscal year 2014, procurement management control documentation had not been updated since 2009. OA recognized the need to update procurement controls and the related administrative circulars. Their request to delay the development, testing, and validation of the new controls until fiscal year 2015 was approved by the Management Control Review Committee. The management control review that was originally scheduled to be completed in February 2014 was rescheduled for April 2015. The management control review process had not been completed when fieldwork for this audit ended in June 2015.

In September 2014, despite the lack of updated controls and tests, management stated with reasonable assurance that no material weaknesses existed, that fraud, waste, and abuse were at the lowest reasonably preventable level, and all control objectives were being accomplished, but that further cost-effective improvements to controls could be made. As a result, management’s assertions were based on outdated controls and tests, and individual assessments of effectiveness may no longer be true.

Recommendations

We recommend that the Office of Administration:

11. revise agency administrative circulars OA-14 and OA-21 and control activities when agency systems are replaced, or as needed;
12. ensure that the effectiveness of controls are tested and documented in a timely manner when new systems become operational, regardless of when the management control review is scheduled; and
13. perform the management control review for the procurement assessable unit immediately.

⁷ RRB Administrative Circulars: BFO-1, *Budget Execution*, (Chicago, IL., March 7, 2011); BFO-3, *Temporary Duty Travel*, (Chicago, IL., April 16, 2013); OA-14, *Procurement of Goods and Services*, (Chicago, IL., October 1, 2009); and OA-21, *Government Purchase Card Procedures*, (Chicago, IL., January 14, 2011).

Management's Response

The Office of Administration concurred with these recommendations.

Accounts Payable Assessable Unit

The documented obligation controls in the accounts payable assessable unit were not always accurate or complete. Changes in the controls and procedures for travel transactions had occurred but documented controls had not been revised to reflect these changes.

According to the Management Control Guide, management control documentation should be updated when warranted in the judgment of the responsible official, but must be updated and submitted with the management control review, which is conducted every five years for most assessable units. To ensure documentation is complete, current, and accurate, documentation should be updated as changes occur.

BFO staff had not identified the need for these corrections. In addition, they did not know that assessable unit control documentation should be updated and documented as needed and not only for the next management control review. The RRB has an increased risk of control gaps when control documentation is inaccurate or not updated timely to reflect the current process.

Recommendations

We recommend that the Bureau of Fiscal Operations:

14. revise agency administrative circular BFO-1 and BFO-3 to reflect new operations and controls related to the implementation of FMIS; and
15. revise the accounts payable assessable unit documentation to ensure the control descriptions accurately reflect the current controls.

Management's Response

The Bureau of Fiscal Operations concurred with these recommendations.

Improved Controls Needed for Former Employees

We found that former agency employees remained in active status in the RRB's travel system after they left RRB employment. Agency personnel explained that these travel records had been maintained in active status in the RRB's travel system to comply with retention guidelines. Potential fraudulent travel authorizations could have been billed and paid for as a result of this weakness.

GAO Standards state that access to resources and records should be limited to authorized individuals, and accountability usage should be assigned and maintained, to help reduce the risk of errors, fraud, misuse, or unauthorized alteration.

After being notified of this finding, agency personnel learned that employee travel account status could be designated as inactive, they subsequently changed the status of the former employees to inactive. However, there are no documented policies or procedures for changing the account status for departing or former RRB employees.

Recommendation

16. We recommend that the Office of Administration, in collaboration with other agency management, develop policies and procedures to ensure that travel accounts in the RRB's travel system are deactivated in a timely manner when employees leave RRB employment.

Management's Response

The Office of Administration concurred with this recommendation.

STATISTICAL SAMPLING METHODOLOGY AND RESULTS

This appendix represents the methodology and results of our statistical sampling test of internal controls over obligations at the RRB.

Sample Objective

Our sampling objective was to assess the effectiveness of the internal controls over the recording of obligations.

Scope

We selected obligation transactions recorded during the period of October 1, 2014 through December 31, 2014 from two separate universes (excluding those originating with the OIG):

- obligating documents recorded in FMIS with a population of 3,895 transactions (which includes purchase card transactions, medical examinations, and consultative opinions); and
- travel authorizations recorded in FMIS with a population of 379 transactions.

Review Methodology

We used Attribute Sampling – One Step Acceptance using a confidence level of 90% and a critical error rate of 5%, which directed sample sizes of 104 for obligating documents and 96 for travel authorizations. The threshold for acceptance was two for each sample. Two or fewer errors would permit the auditors to infer with 90% confidence, that the internal controls were effective for the recording of obligations. Three or more errors would infer with 90% confidence, that the internal controls were not effective for the recording of obligations.

STATISTICAL SAMPLING METHODOLOGY AND RESULTS

Results of Review – Obligating Documents

We performed a statistically valid sample of 104 obligation documents, drawn from a population of 3,895 transactions, for the following attributes related to the internal controls over obligations.

Test Attributes for Internal Control Testing of Obligating Documents	Tested	Non-Exceptions	Exceptions
<u>Validity</u>			
The transaction was valid.	104	104	0
<u>Correct Fiscal Year for Obligation</u>			
The obligation was recorded in the correct fiscal year.	104	104	0
<u>Intended Purpose</u>			
The obligation was in accordance with laws and regulations.	104	104	0
<u>Timely Recording</u>			
The transaction was recorded timely.	104	104	0
<u>Accurate Recording</u>			
The transaction was recorded accurately.	104	104	0
<u>Certified Training and Retraining (for Purchase Card Transactions)</u>			
The RRB employee was trained and recertified every three years.	3	0	3
Total Exceptions			3

STATISTICAL SAMPLING METHODOLOGY AND RESULTS

Results of Review – Travel Authorizations

We performed a statistically valid sample of 96 travel authorizations, drawn from a population of 379 transactions, for the following attributes related to the internal controls over obligations.

Test Attributes for Internal Control Testing of Travel Authorizations	Tested	Non-Exceptions	Exceptions
<u>Validity</u>			
The transaction was valid.	96	96	0
<u>Correct Fiscal Year for Obligation</u>			
The obligation was recorded in the correct fiscal year.	96	96	0
<u>Intended Purpose</u>			
The obligation was in accordance with laws and regulations.	96	96	0
<u>Approval of Source Document</u>			
The source document was approved.	96	96	0
<u>Approval by Authorizing Official</u>			
The transaction was approved by the authorized official.	96	94	2
<u>Required Approvals</u>			
The transaction contained the required approvals.	96	94	2
<u>Timely Recording</u>			
The transaction was recorded timely.	96	96	0
<u>Accurate Recording</u>			
The transaction was recorded accurately.	96	96	0
Total Exceptions			4

STATISTICAL SAMPLING METHODOLOGY AND RESULTS

Audit Conclusion

- Obligating Documents

Our evaluation of the statistically valid sample of 104 obligating documents identified 3 transactions with noted deficiencies in internal controls. As a result, we cannot conclude that the internal controls were effective for the recording of obligations.

The 3 exceptions represent 100% of the purchase card transactions in our sample. No other exceptions were found. When projecting the 100% error rate to all purchase card transactions in the population, there could potentially be 221 purchase card transactions with the noted deficient internal controls.

- Travel Authorizations

Our evaluation of the statistically valid sample of 96 travel authorizations identified 4 exceptions (4.2%), which exceeded the sample acceptance threshold. As a result, we cannot conclude that the internal controls are effective for the recording of travel authorizations.

When projecting the 4 travel exceptions to the population of 379 transactions, there could potentially be 16 travel authorizations with approval deficiencies. No other exceptions were found.

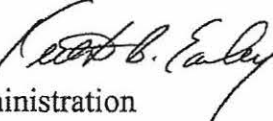


UNITED STATES GOVERNMENT
MEMORANDUM

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

August 12, 2015

TO : Heather J. Dunahoo
Assistant Inspector General for Audit

FROM : Keith B. Earley 
Director of Administration

SUBJECT: Draft Report – Improvements Needed in Internal Controls Over Obligations
at the Railroad Retirement Board

Thank you for the opportunity to review the Office of Inspector General's draft audit report entitled "Improvements Needed in Internal Controls Over Obligations at the Railroad Retirement Board." We have reviewed the draft report and concur with the recommendations. Accordingly, we are providing the following comments to the recommendations directed to the Office of Administration:

OIG Recommendation #1

We recommend that the Office of Administration, strengthen internal controls to ensure that purchase card training is completed by each purchase card holder within the timeframes required by OMB and agency guidance.

The Office of Administration concurs with the recommendation.

Target Completion Date: April 30, 2016

OIG Recommendation #2

We recommend that the Office of Administration, immediately revise and issue updated Delegation of Authority Letters for Purchase Cards to reflect changes in authorizing authority approvers, and changes in guidance.

The Office of Administration concurs with the recommendation with comments. We will revise the *Delegation of Authority Letters for Purchase Cards* to reflect changes in guidance. Since our position remains that barring any policy changes, Delegation of Authority letters should not be revised simply to reflect a change in the incumbent

occupying the position responsible for authorizing authority or approval authority, we will change the letters to only state the position and not the name of the incumbent, where applicable.

Target Completion Date: April 30, 2016

OIG Recommendation #3

We recommend that the Office of Administration, in collaboration with other agency management, develop and document formal agency procedure for changes made to authorized approvers in the travel system.

The Office of Administration concurs with the recommendation.

Target Completion Date: April 30, 2016

OIG Recommendation #4

We recommend that the Office of Administration, in collaboration with other agency management, review and revise approval privileges in the RRB's travel system to ensure that the principles for segregation of duties and proper execution of transactions are observed.

The Office of Administration concurs with the recommendation.

Target Completion Date: April 30, 2016

OIG Recommendation #11

We recommend that the Office of Administration, revise agency administrative circulars OA-14 and OA-21 and control activities when agency systems are replaced, or as needed.

The Office of Administration concurs with the recommendation.

Target Completion Date: April 30, 2016

OIG Recommendation #12

We recommend that the Office of Administration, ensure that the effectiveness of controls are tested and documented in a timely manner when new systems become operational, regardless of when the management control review is scheduled.

The Office of Administration concurs with the recommendation. We will ensure that the effectiveness of controls are tested and documented in a timely manner in accordance with agency-wide standard of when new systems becomes operational regardless of when the management control review is scheduled.

Target Completion Date: April 30, 2016

OIG Recommendation #13

We recommend that the Office of Administration, perform the management control review for the procurement assessable unit immediately.

The Office of Administration concurs with the recommendation and has already completed the management control review for the procurement assessable unit. It was submitted to the Management Control Review Committee on July 29, 2015.

Target Completion Date: **Implemented**

OIG Recommendation #16

We recommend that the Office of Administration, in collaboration with other agency management, develop policies and procedures to ensure that travel accounts in the RRB's travel system are deactivated in a timely manner when employees leave RRB employment.

The Office of Administration concurs with the recommendation.

Target Completion Date: April 30, 2016

If there is any additional information you need, please advise me.

cc: Jeffrey Baer, Director of Audit Affairs
Paul Ahern, Chief of Acquisition Management
David Jackson, Assistant to the Director of Administration
Michael Sanchez, Telecommunications and Property Manager



UNITED STATES GOVERNMENT
MEMORANDUM

August 4, 2015

TO : Heather Dunahoo
 Assistant Inspector General for Audit

FROM : Janet Hallman *Janet Hallman*
 Director of Program Evaluation and Management Services
 Through: Michael Tyllas *Michael A. Tyllas, Ph.D.*
 Director of Programs

SUBJECT: Draft – Improvements Needed in Internal Controls over Obligations at the Railroad Retirement Board

Office of Programs Response

Recommendation 6 We recommend that the Office of Programs increase the quantity of cases during its quality assurance review for medical examinations and consultative opinions to ensure that the cases reviewed are representative of the number of cases processed each quarter.

Office of Programs Response

The Office of Programs does not concur. The quarterly, judgmental sampling was initiated in response to concerns over separation of duties contained in an audit of agency-wide controls in place for accounts payable. Agency management asserted that an examiner, familiar with the medical evidence in file, was in the best position to assess whether an additional consultative exam was needed and that the report received met his/her adjudicative needs. A&T conducted a study (A&T 10-20) and going forward the Office of Programs indicated that A&T (now PEMS) would conduct a quarterly, judgmental sample of cases where 3 or fewer exams were ordered. This quarterly review began in October 2010 and has been ongoing. It was initiated in response to OIG Audit 09-05 Recommendation #3 and the recommendation was successfully closed out on June 3, 2011.

When implemented, the quarterly sampling was an additional management control in the context of all management controls in place for the process. DBD controls also included staff review of all cases where 4 or more exams were ordered regardless of entitlement (occupational, T&P, widow(er), and child) and were also receiving reports and printouts on exam orders from FFS that were being reviewed.

Continued on next page

Office of Programs Response, Continued

Office of Programs Response (Cont'd)

The quarterly, judgmental sampling is an additional complementary management control meant to help provide reasonable assurance to the responsible official (RO) that:

- Exam orders were being placed for legitimate applications that had been filed
- That the exam(s) ordered appeared appropriate based upon the impairment(s) claimed on the AA-1d and/or upon information presented in the medical evidence in file
- That the agency was receiving reports for the orders
- There was documentation in file to show the examiner ordering and accepting the report (setting it up for payment) thereby providing an audit trail for exams

We believe that the judgmental sampling is functioning as intended in that it helps to provide reasonable assurance to the responsible office and provides an audit trail for exam orders. A statistically representative sample size would be an excessive management control.

Recommendation 7

We recommend that the Office of Programs revise its documented methodology in the quarterly quality assurance reviews to correct the source from which the medical examinations and consultative opinions were selected and the type of sampling performed.

Office of Programs Response

The Office of Programs concurs. Documentation of the source of exam/opinion records and sampling methodology will be updated by December 31, 2015.

Continued on next page

Office of Programs Response, Continued

Recommendation
8 We recommend that the Office of Programs revise management control documentation for the disability benefits assessable unit to include the quarterly quality assurance tests, thereby ensuring that it will be tested for effectiveness.

Office of Programs Response The Office of Programs concurs. Update of all control techniques in place for exams will be done with the next scheduled update of the management controls charts of control on January 2, 2019.



UNITED STATES GOVERNMENT
MEMORANDUM

APPENDIX IV
FORM G-115f (1-82)
RAILROAD RETIREMENT BOARD

August 5, 2015

TO : Heather Dunahoo
Assistant Inspector General for Audit

FROM : George V. Govan GEORGE
Chief Financial Officer GOVAN

SUBJECT: Draft – Improvements Needed in Internal Controls Over Obligations
at the Railroad Retirement Board

This is in response to your request for comments on the above draft report. Following are my comments on recommendations addressed to the Bureau of Fiscal Operations:

5. *Revise the obligation descriptions on Standard Form 132 and Standard Form 133 to ensure that they are consistently described in accordance with OMB guidance.*

Concur. We will revise the obligation descriptions on SF132 and SF133 for fiscal year 2016. Target date: January 31, 2016.

9. *Strengthen internal controls by establishing a due date for formal responses from all organizations with open obligations to ensure better management of these funds prior to the period of expiration.*

Non-concur. In accordance with Basic Board Order (BBO) 4 (which applies to finding #9 and 10), page 3, sec E—the language specifically states that individual bureaus and offices are responsible for liquidating obligations. Also, for finding #9 and 10, BFO forwards four times a year standard Unliquidated Obligation Review memos and supporting documentation to bureau/office heads and staff to address unliquidated obligations. The memos provide for bureaus/offices to close out unliquidated obligations upon notice. Therefore identifying a date only delays the effort. Of the four memos sent, one is an end of fiscal year memo with explicit instructions and due dates for bureaus/offices to close-out unliquidated obligations so that as part of the fiscal year-end closeout process more accountability of available funds can be obtained. In addition to above four recurring memos sent each fiscal year that address liquidating obligations, a separate year-end spending memo is sent to bureaus/offices which include text in the first paragraph for bureaus/offices to ensure obligations are in full compliance of requirements. Lastly, BBO 5, page 1 sec 1(A)(5), page 2 sec B(2), and page 6 sec C(2) provide explicit responsibility of Acquisition Management (AM) within the Office of Administration (OA) as the focal point to approve requisitions thus creating the official obligation for record in the financial system. AM must also approve the deobligation of funds for bureaus/offices as shown in BFO quarterly memos on subject. Based on this

guidance, to improve the process for liquidating obligations, bureaus/offices must coordinate with AM, regardless of BFO's notices or suspense because de-obligation authority is out of the scope of BFO authority to execute for the agency.

10. Establish a follow-up process when responses are not provided within the designated timeframe from all organizations with open obligations.

Non-concur. See response to finding #9.

14. Revise agency administrative circular BFO-1 and BFO-3 to reflect new operations and controls related to the implementation of FMIS.

Concur. Recommendation implemented.

15. Revise the accounts payable assessable unit documentation to ensure the control descriptions accurately reflect the current controls.

Concur. Recommendation implemented.

If you or your staff has any questions, please advise.

cc: Debra Stringfellow-Wheat, Supervisory Auditor
John Walter, Chief of ABFM
Thomas McCarthy, Chief of TADS
David Miller, Chief of Treasury Section
Shirley Bayliff, Accounting Officer
Herbert Kwan, Senior Accountant
Ralph Brandt, Senior Accountant
Rich Lannin, Senior Accountant
Jeffrey Baer, Director of Audit Affairs