

**Management Information Report - Opportunities to Improve the RRB's  
Performance and Accountability Report  
Audit Report No. 04-03, May 17, 2004**

**INTRODUCTION**

This management information report presents the results of the Office of Inspector General's (OIG) assessment of the identification of opportunities to improve the preparation, form and content of the Railroad Retirement Board's (RRB) Performance and Accountability Report (P&AR).

**Background**

The RRB is an independent agency in the executive branch of the Federal government. The RRB administers 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. These programs provide income protection during old age and in the event of disability, death or temporary unemployment and sickness.

The Accountability of Tax Dollars Act of 2002, Public Law 107-289, requires the RRB to prepare an annual P&AR that presents the agency's audited financial statements and other financial, performance and management information. Under that law, financial reporting requirements, previously imposed only on the major agencies subject to the Chief Financial Officers Act of 1990 (CFO Act), were formally extended to most Federal agencies.

The Bureau of Fiscal Operations (BFO) began preparing financial statements for use within the agency in 1986. The RRB published audited financial statements for the first time for the fiscal year ended September 30, 1993, the same fiscal year for which major agencies were required to submit audited financial statements under the CFO Act.

A P&AR consists of three sections: Management's Discussion and Analysis; a Performance Section; and a Financial Section which includes the financial statements, accompanying notes, required supplementary information, and the auditor's opinion. Only the financial statements and the accompanying notes are subject to audit. All other information accompanying the financial statements is subject to limited procedures designed to assess the adequacy of required disclosures and the consistency of unaudited information with the financial statements on which the auditors are offering an opinion.

The requirement to submit audited financial statements within the new format has increased the amount of information accompanying the financial statements. As the amount of accompanying information expands, the effort required to ensure consistency also increases. Accordingly, the form, content and preparation

process impacts the timing and nature of the audit tests that support the auditor's opinion.

Office of Management and Budget (OMB) Bulletin 01-09, "Form and Content of Agency Financial Statements," mandates the content of Federal financial statements. The Federal Accounting Standards Advisory Board (FASAB) is the authoritative standards-setting body whose Statements on Federal Financial Accounting Standards lead the hierarchy of Federal accounting standards. FASAB's Accounting and Auditing Policy Committee has authority to provide guidance related to existing accounting standards.

For purposes of this project, an "improvement" refers to any change in form, content or process that will enhance the ability of the agency to produce a P&AR that can be published within required timeframes and conforms to established guidance. We have also considered the impact of form and content on the readability and informative value of the document within the context of the objectives of Federal financial reporting.

This project, which was included in the OIG's Office of Audit Fiscal Year (FY) 2004 Work Plan, supports the RRB in meeting its strategic objective to ensure that trust fund assets are reported appropriately.

### **Objective, Scope and Methodology**

The objective of this project was to identify opportunities to improve the preparation, form or content of the RRB's P&AR. The scope of this project was limited to those sections of that report that are not subject to a detailed evaluation of form and content. The scope specifically excludes the basic financial statements which are evaluated for both form and content annually and the Statement of Social insurance, a required disclosure, which the OIG evaluated during FY 2003.<sup>1</sup>

To achieve our objective, we evaluated the RRB's FY 2003 P&AR as a means of identifying areas that could be improved in future reports. We considered applicable criteria as well as more subjective editorial issues that include report organization, manner of presentation and redundancy. We also read the P&ARs of other Federal agencies to enhance our understanding of how existing requirements have been interpreted and applied by outside organizations.

Our work was conducted during February and March 2004 at RRB headquarters in Chicago.

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<sup>1</sup> OIG report #03-07, "Compliance with SFFAS #17: Accounting for Social Insurance," dated May 22, 2003.

## **RESULTS OF REVIEW**

The RRB's FY 2003 P&AR was the result of an evolution from the simple stand-alone financial statements first published in 1986, to an amalgam of financial, performance and management information in a single integrated document. With the passage of time, the RRB's financial reporting has grown to meet expanding requirements. The change to the P&AR format is an opportunity for the agency to aggressively edit its report to ensure a concise, logically organized public presentation by minimizing redundancy and eliminating extraneous elements.

In this report, we recommend that BFO review and edit the various sections of the P&AR to eliminate redundancy, include only required information and ensure compliance with applicable guidance. We have also recommended that BFO facilitate the audit process by providing some documentation earlier in the audit process.

The OIG believes that the recommended changes will result in a more effective presentation and a more efficient audit process. In their response, BFO noted that FY 2003 represented the agency's first effort at implementing the P&AR format which is not required until FY 2004; they had planned to streamline the presentation for FY 2004. BFO has established November 15, 2004 as the target date for implementation of the OIG's recommendations.

The details of our observations and specific recommendations for improvement follow. The full text of management's response is presented as an appendix to this report.

### **Notes to the Financial Statements**

The FY 2003 financial statements were accompanied by 30 notes. The notes to the financial statements are subject to audit in conjunction with the basic financial statements. The RRB's notes include excessive technical detail which was more appropriate before the financial statements became widely circulated outside of the agency.

For example, the discussion of significant accounting policies, which includes basis of presentation, reporting entity, budgets and budgetary accounting, and basis of accounting, is very long. The note includes a high level of detail about individual trust funds that originally supported the fund-by-fund financial reporting published in supplementary schedules. Now that the fund-by-fund schedules are no longer published, the details of agency fund accounting are no longer necessary.

We have also observed that some of the notes could be more concise, combined with other notes, or eliminated entirely. For example,

- “Liabilities Not Covered by Budgetary Resources” includes information not required by the current standards;
- transfers to and from the National Railroad Retirement Investment Trust are discussed in separate notes which could be combined in a single disclosure; and
- notes detailing appropriations received, intragovernmental payables and transfers in/out present information that may not be required by current standards or that could be presented more effectively by combining multiple notes into a single disclosure.

In the past, auditors reviewed the notes to the financial statements in conjunction with the financial statements and requested additional supporting documentation as necessary. The audit process would be improved by advance preparation of supporting documentation for each note, including the specific requirement to which the note responds.

### Recommendations

We recommend that BFO:

1. review the notes to the financial statements to ensure that note disclosure is limited to information that is specifically required by applicable guidance, or has been included by mutual agreement between BFO and the OIG; and
2. prepare, and submit for audit, detailed documentation for each note including figures, legal citations and events.

### Management’s Response

BFO has established a target date of November 15, 2004, for implementation of the OIG’s recommendations.

### **Management’s Discussion and Analysis**

Management’s Discussion and Analysis includes excessive detail about some aspects of agency operations and may duplicate information presented elsewhere in the P&AR. Some examples follow.

- The improper payments discussion includes an excessive level of detail about the computational method used to determine the applicability of the Improper Payments Act.

- The efficiency of operations section includes a breakdown of program costs that does not appear to meet any specific requirement.
- The performance data presented is redundant of the information in the Performance Section of the P&AR. The double presentation increases the risk of contradiction within the document and may mislead a reader by simply offering too much data in different formats.
- The discussion of significant events is dominated by graphic displays at the expense of more meaningful verbal explanations.

### Recommendations

We recommend that BFO review and revise Management's Discussion and Analysis to:

3. develop a more concise presentation and ensure that the information presented does not unnecessarily duplicate information presented in other sections of the P&AR such as the notes to the financial statements, the Statement of Social Insurance and the related social insurance disclosures; and
4. ensure that the information presented is not excessively detailed and does not exceed the required scope of the document.

### Management's Response

BFO has established a target date of November 15, 2004, for implementation of the OIG's recommendations.

### **Preparation of Performance Data for Review**

OMB has established November 15, 2004, as the deadline for submission of agency P&AR. The RRB's historic desire to present information about performance during the most recent fiscal year will hamper agency efforts to prepare its FY 2004 P&AR within the timeframe established by OMB.

Although not subject to audit, performance data is subject to both control and substantive testing. Component bureaus submitted performance data to BFO for inclusion in the P&AR in October 2003. The OIG believes that the submission of performance data needs to be accelerated in order to permit sufficient time for completion of required testing.

### Recommendation

We recommend that BFO:

5. coordinate with responsible program bureaus to accelerate submission of performance information to facilitate a timely publication process.

## Management's Response

BFO has established a target date of November 15, 2004, for implementation of the OIG's recommendations.

## **Additional Schedules and Discussions Need to be Evaluated Against Requirements**

The RRB's FY 2003 P&AR included some material that should be reviewed to ensure that only required information has been presented and to determine the most appropriate editorial placement for that information.

## Schedule of Salaries and Expenses

The RRB has included, as required supplementary information, a schedule of salaries and expenses by budget object code. This detailed disclosure has been included in the agency's financial reports for many years and presents interesting, useful information. However, it is not required by either OMB or FASAB.

## Other Accompanying Information

The RRB has reported on several subjects in this section, none of which respond to an OMB requirement. For example, this section includes the RRB's discussion of the President's Management Agenda. OMB guidance places the discussion of the President's Management Agenda in Management's Discussion and Analysis. While the agency is probably not prohibited from discussing subjects that are not specifically required, the presentation should be carefully policed to ensure that the presentation only includes subject matter that could not be more properly addressed elsewhere in the report.

## Summary of Financial Highlights

The Summary of Financial Highlights introduces the RRB's P&AR. This section is not required by OMB and includes a high level of detail which is presented elsewhere in the P&AR.

Again, an extra section is not prohibited; however, this section includes a level of detail that goes beyond the description of "highlight." The description of the basis of accounting and the snapshots of the agency's net position, financing sources and benefit payments duplicate, in considerable detail, information presented in Management's Discussion and Analysis as well as the notes to the financial statements.

## Recommendations

We recommend that BFO evaluate:

6. the reasons for presenting the schedule of salaries and expenses and consider dropping it from the P&AR;
7. the Other Accompanying Information section of the P&AR to ensure that the information presented is not duplicated in other sections of the report; and
8. the introductory “Summary of Financial Highlights” of the P&AR to ensure that the information presented is not redundant of other sections of the report.

## Management's Response

BFO has established a target date of November 15, 2004, for implementation of the OIG's recommendations.



UNITED STATES GOVERNMENT

**MEMORANDUM**

APPENDIX

FORM G-1151 (1-92)

RAILROAD RETIREMENT BOARD

**MAY 12 2004**

**TO :** Henrietta B. Shaw  
Assistant Inspector General for Audit

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

**SUBJECT:** Opportunities to Improve the RRB's Performance and Accountability Report

Thank you for your comments on how we can improve the presentation of information in the Performance and Accountability Report. As you know, we voluntarily prepared a Performance and Accountability Report for fiscal year 2003 at our own initiative. The RRB was not required to do so until fiscal year 2004. Our goal was to set the stage for preparing the fiscal year 2004 report by the much-advanced deadline of November 15. So, the fiscal year 2003 report was our first cut at applying the guidelines and compiling the information. We realized that we would be streamlining the presentation the second year. Accordingly, we appreciate your input to the process. Our target date for implementing your recommendations is November 15, 2004.

We look forward to working with you and your staff on the fiscal year 2004 Performance and Accountability Report.

cc: Chief of Accounting, Treasury and Financial Systems  
Accounting Officer  
Budget Officer