

**OFFICE OF INSPECTOR GENERAL**  
**Audit Report**

**Fiscal Year 2010 Financial Statement Audit  
Letter to Management**

**Report No. 11-03  
January 25, 2011**



**RAILROAD RETIREMENT BOARD**



UNITED STATES RAILROAD RETIREMENT BOARD

OFFICE OF INSPECTOR GENERAL

January 25, 2011

Michael S. Schwartz  
Chairman  
U.S. Railroad Retirement Board

The purpose of this letter is to transmit a memorandum on internal control communicating certain matters concerning internal control that came to our attention during our recent audit of the Railroad Retirement Board's (RRB) financial statements.

We have audited the RRB's general purpose financial statements and issued our report thereon dated November 5, 2010, except for matters relating to the fair market value of the net assets of the National Railroad Retirement Investment Trust as of September 30, 2010, as to which the date was November 15, 2010. We performed our audit in accordance with U.S. generally accepted government auditing standards and Office of Management and Budget (OMB) audit guidance as applicable to the scope of our audit.<sup>1</sup> We have not considered internal control since we obtained sufficient appropriate audit evidence to support the audit opinion on November 5, 2010; internal control was not among those matters to which we gave consideration between November 5<sup>th</sup> and November 15<sup>th</sup>.

During our audit, we noted certain matters involving the RRB's internal control structure and its operation that, individually, did not rise to the level of a significant deficiency, the details of which are presented in the attached memorandum. That memorandum also presents the full text of those matters previously reported as material weaknesses in conjunction with our opinion on the financial statements. However, neither this letter, nor the attached memorandum, modifies our report dated as of November 5, 2010, and November 15, 2010, referred to above.

Our observations concerning internal control were presented to responsible agency management who were offered the opportunity to review and comment on the draft memorandum. Their responses are also attached.

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<sup>1</sup> See our report on the RRB's financial statements for a full description of the scope and methodology.

In planning and performing this audit, we considered internal control in order to determine our auditing procedures for the purpose of issuing our report on the RRB's principal financial statements and not to provide assurance on internal control. The maintenance of adequate internal control designed to fulfill the RRB's control objectives is the responsibility of management. Because of inherent limitations in any system of internal control, errors or irregularities may nevertheless occur and not be detected. Also, controls found to be functioning at a point in time may later be found deficient because of the performance of those responsible for applying them. There can be no assurance that controls currently in existence will prove to be adequate in the future as changes take place in the organization.

Our work was not conducted for the primary purpose of making detailed recommendations about the RRB's system of internal control. Had we done so, other matters might have come to our attention that we would have reported to you.

We wish to express our appreciation for the many courtesies and cooperation extended to us during the audit.

Very truly yours,

Original signed by ...

Martin J. Dickman  
Inspector General

#### Attachments

cc: V.M. Speakman, Jr., Labor Member  
Jerome F. Kever, Management Member  
Kenneth P. Boehne, Chief Financial Officer  
Beatrice E. Ezerski, Secretary to the Board

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## Memorandum on Internal Control

**MATERIAL WEAKNESSES**

In conjunction with the Office of Inspector General's (OIG) opinion on the RRB's financial statements for the fiscal years (FY) ended September 30, 2010 and 2009, we reported the following material weaknesses.<sup>1</sup>

**Information Security**

During FY 2010 the OIG evaluated the RRB's information security program pursuant to the provisions of the Federal Information Security Management Act of 2002 (FISMA).<sup>2</sup> OIG auditors concluded that although the agency addressed the significant deficiency in access controls, some weaknesses continue to exist. However, weaknesses regarding the certification and accreditation process remain unresolved. Although a more detailed review process is being performed by the agency, changes in the agency's certification and accreditation control process are not yet sufficient.

RRB managers are working to address this weakness.

**Internal Control Over Non-Integrated Sub-Systems**

The RRB's financial reporting control structure is not comprehensive with respect to the reconciliation of the general ledger to non-integrated sub-systems. The OIG previously reported this issue as a result of its audits of the agency's financial statements performed during FYs 2000, 2001, 2008 and 2009.

During the fourth quarter of FY 2010, the agency created an inventory of the various non-integrated systems that support financial accounting. Although this shows that progress is being made to address this material weakness, the agency has not yet implemented a comprehensive reconciliation process with adequate separation of duties.

RRB managers are working to address this weakness.

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<sup>1</sup> "Report on the Railroad Retirement Board's Fiscal Year 2010 Financial Statements," OIG Report No. 11-02, November 15, 2010.

<sup>2</sup> "Fiscal Year 2010 Evaluation of Information Security at the Railroad Retirement Board," OIG Report No. 11-01, November 5, 2010.

## Memorandum on Internal Control

**OTHER MATTERS INVOLVING INTERNAL CONTROL**

During our audit, we also noted certain other matters involving the RRB's internal control structure and its operation. Although these matters do not rise to the level of a material weakness or significant deficiency, either individually or in the aggregate, they represent areas in which control weaknesses increase the risk of error or mishandling.

Readers should be aware that the noted errors were corrected prior to the publication of the FY 2010 Performance and Accountability Report.

The details of our observations and recommendations for corrective action follow.

**Controls Over Report Preparation Are Not Fully Effective**

We previously recommended that the Bureau of Fiscal Operations (BFO):

Determine the cause of the errors identified during our audit, whether existing controls were in operation [throughout the year], and whether additional controls may be required to ensure that the financial statements, notes, and supporting schedules are properly [prepared].<sup>3</sup>

During the FY 2010 audit, we continued to find errors in the preparation of financial statements, notes and supporting BFO schedules as described below.

- An OIG appropriation was not recorded on the correct line of the June 30, 2010 Statement of Budgetary Resources, which created an understatement of \$8,186,000 on one line and an overstatement for the same amount on another line.
- A contingency was erroneously included as part of the financial statement line caption "Change in NRRIT Net Assets" on the June 30, 2010 Statement of Changes in Net Position as well as in the supporting workpapers. As a result, the amount recorded for the caption "Change in NRRIT Net Assets" was overstated by \$900,000.
- The June 30, 2010 earmarked funds note erroneously included an elimination that was for non-earmarked funds, causing an understatement of \$807,000 for the two net cost of operations amounts recorded in the note.

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<sup>3</sup> "Fiscal Year 2007 Financial Statement Audit Letter to Management," OIG Report No. 08-01, March 6, 2008, Recommendation 9. The text presented above has been corrected. Corrected text is presented in square brackets.

## Memorandum on Internal Control

- There was an insufficient audit trail for an adjustment included in the March 31, 2010 Statement of Budgetary Resources. The adjustment was not supported by BFO's adjusting entry worksheet. The offsetting effect of the \$600,000 adjustment had no financial impact.
- The September 30, 2010 earmarked funds note for the special-purpose financial statement included amounts that were not properly placed into the predefined categories as required by the Treasury Financial Manual. As a result, amounts provided for the category "investment revenue from Treasury securities" for FY 2010 and FY 2009 were overstated by \$442 million and \$2 billion, respectively. Amounts provided for the category "other taxes and receipts" for FY 2010 and FY 2009 were understated by \$442 million and \$2 billion, respectively.

According to the U. S. Government Accountability Office (GAO) *Standards for Internal Control in the Federal Government*, internal control is an integral component of an organization's management that provides reasonable assurance that the objective for the reliability of financial reporting is being achieved. Internal control and all transactions and other significant events need to be clearly documented, and the documentation should be readily available for examination. In addition, control activities help to ensure that all transactions are completely and accurately recorded.<sup>4</sup>

These errors occurred because the internal controls are not fully effective. The OIG's prior recommendation for corrective action is pending. Although BFO management has taken steps to address this recommendation, errors continue to occur. No additional recommendations will be offered at this time.

### Controls Over FFS Budgetary Entries

The RRB uses the Federal Financial System (FFS) to support general ledger accounting for proprietary and budgetary transactions. During our review, we identified an entry in FFS that was not supported by the amount appropriated by law. The annual appropriation of \$150,000 for fund 0113, Federal Payments to the Railroad Retirement Accounts was entered twice in FFS.

Public law provides the amount that should be appropriated annually. The amount recorded in FFS should agree to the appropriation.

Budgetary entries are recorded in the general ledger by individuals in BFO's Budget Section. This error occurred because BFO staff was uncertain about how to best represent the appropriation for this multi-year fund in FFS. In addition,

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<sup>4</sup> "Standards for Internal Control in the Federal Government," GAO/AIMD-00-21.3.1 (11/99) pages 4 and 15.

## Memorandum on Internal Control

BFO's review and approval procedures are not sufficient to ensure that the appropriations agree with the law.

As a result of the duplicate entry, RRB appropriations were overstated by \$150,000.

Recommendation

We recommend that BFO:

1. develop procedures to ensure that appropriations recorded in FFS agree with the law.

Management's Response

The Budget Division will develop procedures to ensure that appropriations recorded in FFS agree with the law.

**Agreement with U.S. Standard General Ledger**

Some RRB general ledger accounts are not in agreement with the U. S. Standard General Ledger (USSGL). During the FY 2010 audit, we found that BFO continued to record investment interest, which has a debit balance, in a general ledger account whose definition had been revised to an investment allowance for loss account, which should have a credit balance. Although the USSGL revisions had been made in December 2009, BFO continued to use incorrect general ledger accounts through May 2010. The corrections to the general ledger were made as a result of the OIG's notification.

The USSGL is the core of financial reporting. It provides detailed information through general ledger accounts and transactions that ultimately provide information to readers of financial statements. Any changes or updates as a result of legislative enactment affect the USSGL. In order to comply with Governmental guidance set forth by bodies such as the Department of Treasury, Federal Accounting Standards Advisory Board, the Office of Management and Budget, and new systems requirements, USSGL accounts and transactions are established to reflect new reporting requirements.

BFO reviews the USSGL in August of each year for changes that need to be made to the financial statement template or the general ledger. However, this review is not timed to coincide with the periodic updates published by the Department of the Treasury. As a result, the RRB's investment interest general ledger accounts were not properly classified per the latest USSGL chart of accounts.



Memorandum on Internal Control

Recommendation

We recommend that BFO:

2. develop procedures to review the periodic revisions made to the U. S. Standard General Ledger to ensure that appropriate changes are made to the RRB's general ledger.

Management's Response

The Accounting Section will develop procedures to review the periodic revisions made to the U.S. Standard General Ledger to ensure that appropriate changes are made to the RRB's general ledger.

## Memorandum on Internal Control

**Status of Prior and Current Year Recommendations**

We have reviewed the implementation of recommendations resulting from prior audits of the RRB's financial statements. The table below presents a summary of the status of recommendations that were pending when we issued our "Letter to Management" dated March 11, 2010, in connection to our audit of the RRB's FY 2009 financial statements. The additional recommendations resulting from our audit of the agency's FY 2010 financial statements are also included.

Bureau	Report and Recommendation Number	Current Status	
		Implemented	In Progress
BUREAU OF FISCAL OPERATIONS	07-01 #11	X	
	08-01 #9		X
	08-01 #11	X	
	09-02 #2	X	
	09-02 #4	X	
	09-02 #7	X	
	09-02 #8	X	
	10-03 #1	X	
	10-03 #2		X
	10-03 #3		X
	10-03 #4		X
	10-03 #5	X	
	10-03 #6	X	
	10-03 #7	X	
	10-03 #8	X	
	10-03 #9	X	
	11-03 #1		X
	11-03 #2		X
MANAGEMENT CONTROL REVIEW COMMITTEE	10-03 #12	X	
	10-03 #13	X	
EXECUTIVE COMMITTEE	10-03 #11	X	
OFFICE OF GENERAL COUNSEL	10-03 #10	X	
BUREAU OF ACTUARY	09-02 #9		X
	09-02 #10		X
OFFICE OF PROGRAMS	09-02 #12		X
	09-02 #13		X
TOTALS		16	10



UNITED STATES GOVERNMENT  
**MEMORANDUM**

ATTACHMENT

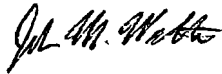
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RAILROAD RETIREMENT BOARD

JAN 24 2011

**TO** : Diana Kruei  
Assistant Inspector General for Audit

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

**SUBJECT:** Draft Letter to Management – Fiscal Year 2010 Financial Statement Audit

Thank you for the opportunity to comment on the Draft Letter to Management. Our comments on the recommendations are as follows:

**Recommendations:**

***We recommend that BFO:***

1. ***develop procedures to ensure that appropriations recorded in FFS agree with the law.***

The Budget Division will develop procedures to ensure that appropriations recorded in FFS agree with the law. Target date: July 1, 2011.

2. ***develop procedures to review the periodic revisions made to the U. S. Standard General Ledger to ensure that appropriate changes are made to the RRB's general ledger.***

The Accounting Section will develop procedures to review the periodic revisions made to the U. S. Standard General Ledger to ensure that appropriate changes are made to the RRB's general ledger. Target date: September 30, 2011.

cc: Georgia Blalock, Budget Officer  
Ed Fleming, Accounting Officer  
Rich Lannin, Senior Accountant  
Liz Stubits, Accountant  
Edie Natividad, Accountant  
Bill Flynn, Executive Assistant  
Debra Stringfellow-Wheat, Supervisory Auditor