

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

**Audit of Internal Controls Over  
Dummy Vendor Transactions**

**Report No. 11-09**  
**August 4, 2011**



**RAILROAD RETIREMENT BOARD**

---

## EXECUTIVE SUMMARY

---

The Railroad Retirement Board (RRB), Office of Inspector General (OIG) reviewed the internal controls over dummy vendor transactions. Some funds are obligated in the Federal Financial System (FFS) without being associated with a specific person or a vendor, using “dummy vendor” as the vendor name for travel, relocation expense and service order transactions. The objective of the audit was to evaluate the RRB’s internal controls over dummy vendor transactions.

The RRB conducted this audit at the RRB’s headquarters in Chicago, Illinois from November 2010 through June 2011.

### Findings

The OIG identified the following weaknesses:

- Service order disbursements were not always consistently recorded in FFS.
- Travel disbursements did not always include required documentation.
- Travel agency fees were not reconciled to RRB travel vouchers.
- Service order obligations did not include the required approvals.
- Guidance for the use of dummy vendor transactions has not been officially documented.

### Recommendations

To improve the internal controls over dummy vendor transactions, we recommended that agency management:

- Identify, reconcile and post all erroneously purged transactions to the corresponding FFS vendor document cross-reference table.
- Develop procedures to reconcile and post FFS disbursements in the document reference table to the vendor document cross-reference table.
- Strengthen the review and approval controls for travel vouchers and supporting documentation.
- Issue a reminder notice to agency employees regarding appropriate documentation for travel vouchers.
- Strengthen controls to ensure that disbursements are supported by RRB travel vouchers.

- Remind travelers to include all fees on their travel vouchers.
- Take corrective action for the noted discrepancies to ensure that the appropriate reimbursements are made.
- Strengthen the second-level review and approval process for service order obligation approval requests submitted via e-mail.
- Issue formal guidance for the request of second-level approval for obligations.
- Develop procedures for dummy vendor transactions in FFS.

### **Management Responses**

The Bureau of Fiscal Operations agreed with the finding regarding the inconsistent recording for some service order disbursements, but they stated that the entries to the table were purged and that they can no longer be identified. They agreed to take corrective action for the other seven recommendations directed to them. The Office of Administration agreed to take corrective action on the three recommendations directed to them. The full text of the Bureau of Fiscal Operations' response is included in this report as Appendix III and the Office of Administration's response is included as Appendix IV.

# TABLE OF CONTENTS

## EXECUTIVE SUMMARY

### INTRODUCTION

Background .....	1
Audit Objective.....	2
Scope .....	2
Methodology.....	2

### RESULTS OF AUDIT

Service Order Disbursements were Not Always Consistently Recorded.....	4
Recommendations .....	5
Management's Response .....	5
RRB-OIG's Comments on Management's Response .....	5
Disbursements Made Based on Inadequate Travel Documentation .....	5
Recommendations .....	6
Management's Response .....	6
Credit Card Bills Used Instead of Travel Vouchers as Basis for Payments .....	6
Recommendations .....	7
Management's Response .....	7
Inadequate Support for Second-Level Approval of Service Order Obligations.....	7
Recommendations .....	8
Management's Response .....	8
No Documented Guidance for Dummy Vendor Transactions.....	8
Recommendation .....	9
Management's Response .....	9

### APPENDICES

Appendix I Non-Statistical Sampling - Service Order Transactions.....	10
Appendix II Non-Statistical Sampling - Travel Transactions .....	13
Appendix III Management's Response – Bureau of Fiscal Operations.....	15
Appendix IV Management's Response – Office of Administration.....	17

---

## INTRODUCTION

---

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

### **Background**

The RRB is an independent agency in the executive branch of the Federal government. The RRB administers the health and welfare provisions of the Railroad Retirement Act (RRA), which provide retirement survivor benefits for eligible railroad employees, their spouses, widows and other survivors. During fiscal year (FY) 2010, approximately 582,000 annuitants received benefits totaling \$10.8 billion under the RRA.

The Bureau of Fiscal Operations (BFO) disburses payments through the Federal Financial System (FFS) to vendors and suppliers that provide goods and services to the RRB. BFO is the organizational owner of FFS, which is a mainframe application that supports financial management operations including purchasing, accounts payable and financial statement reporting. FFS includes features that support transaction recording and monitoring.

The RRB uses dummy vendor transactions to conceal personally identifiable information from most FFS screens. Some funds are obligated in FFS without being associated with a specific person or vendor, using "dummy vendor" as the vendor name for travel, relocation expense and service order transactions. During FY 2010, BFO processed 9,500 vouchers totaling \$16.5 million in travel, employee, and vendor payments, which included \$3.6 million in dummy vendor transactions. The RRB began using dummy vendors for service order transactions in FY 2005.

Travel transactions for employees are processed on-line through the E-2 Travel system, which is a General Services Administration contracted system with Carlson Wagonlit. Travel itineraries and travel vouchers are prepared using the E-2 Travel system. Travel obligations and expenses are established in the E-2 Travel system and these transactions are recorded in FFS via an interface. BFO's Accounts Payable section reviews the travel voucher and provides approval for reimbursement.

The RRB has contracted with the Bureau of Public Debt (BPD) to process relocation expense transactions for employees who have a change of workstation. The BPD interviews the RRB employee and provides an estimate of relocation expenses for items such as housing, rental, storage, and other expenses. These estimated expenses are used by the RRB bureau in which the employee works, to establish the obligation in FFS. The BPD disburses payments directly to vendors for moving expenses.

The Accounts Payable section records the disbursement in FFS from the Department of Treasury's Governmentwide Account Statement. These transactions impact financial statement reporting and are susceptible to fraud, waste and abuse.

The agency also uses dummy vendor transactions for service orders, which are recurring obligations and employee reimbursements for non-travel transactions. The dummy vendor transactions for recurring obligations facilitate disbursements to multiple vendors from one obligation, such as for electrical service for all RRB offices. The first level of obligation approval is provided within the respective bureau. Staff in the Office of Administration serves as the second-level approver in FFS for service order obligations.

The RRB's strategic plan includes effective, efficient and secure internal 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 the RRB in achieving this goal as well as the OIG's annual audit of the RRB's financial statements.

### **Audit Objective**

The audit objective was to evaluate the RRB's internal controls over dummy vendor transactions.

### **Scope**

The audit scope was limited to the evaluation of dummy vendor transactions recorded in FFS during FY 2010.

### **Methodology**

To accomplish the audit objective, we:

- identified criteria from Government Accountability Office's (GAO) "Standards for Internal Control in the Federal Government";
- identified and reviewed applicable laws, regulations, and agency procedures;
- obtained a download of dummy vendor transactions recorded in FFS during FY 2010;
- selected a non-statistical sample of service order transactions (see Appendix I);
- selected a non-statistical sample of travel transactions (see Appendix II);
- assessed internal controls; and
- interviewed agency management and staff.

We assessed the reliability of FFS data by performing electronic testing of required data elements, reviewing existing information about the data and the system that produced the data, and interviewing agency officials knowledgeable about the data. We determined that the FFS data were sufficiently reliable for the purposes of this audit.

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 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 2010 through June 2011.

---

## RESULTS OF AUDIT

---

Our audit determined that internal controls over dummy vendor transactions were not effective or adequate to ensure the completeness and accuracy of the transactions. We found that:

- service order disbursements were not always consistently recorded in FFS;
- travel disbursements did not always include required documentation;
- travel agency fees were not reconciled to the RRB travel vouchers;
- service order obligations did not include the required approvals; and
- there were no documented procedures for dummy vendor transactions in FFS.

The details of our findings and recommendations follow. Responses from agency management are included in this report as Appendices III and IV.

### **Service Order Disbursements were Not Always Consistently Recorded**

Service order disbursements were not always properly recorded in FFS. We found 3 out of 34 instances (9%) where disbursements were recorded in the FFS document reference table and not in the vendor document cross-reference table. These transactions totaled \$24,575.

According to agency management, FFS disbursements are recorded in the document reference table and the vendor document cross-reference table.

BFO explained that these records were erroneously removed from the vendor document cross-reference table during a periodic purging process during the first part of FY 2010. Although this problem has been corrected, the erroneously purged records were not subsequently reposted to the vendor document cross-reference table.

As a result, the FFS audit trail for these transactions is incomplete.



## Recommendations:

We recommend that the Bureau of Fiscal Operations:

1. identify, reconcile and post all erroneously purged transactions to the corresponding FFS vendor document cross-reference table; and
2. develop procedures to reconcile and post FFS disbursements in the document reference table to the vendor document cross-reference table.

## Management's Response

In regard to recommendation 1, the Bureau of Fiscal Operations agreed that any variables used as a means to track accounting data should be appropriately identified, reconciled, and posted. They also stated that the entries to the table were purged and they can no longer be identified.

In regard to recommendation 2, the Bureau of Fiscal Operations agreed that accounting procedures should include appropriate reconciliation of FFS disbursements. They stated that they plan to write a script which will perform an automatic match of the day's processed transactions (which are associated with a vendor code) with the vendor document cross-reference table. The output will be a report which will be generated if there is an exception.

## RRB-OIG's Comments on Management's Response

In regard to recommendation 1, the OIG disagrees that the entries in the vendor document cross-reference table can no longer be identified. The OIG believes that a match between the document reference table and the vendor document cross-reference table could be performed to identify the erroneously purged transactions. An incomplete audit trail of disbursements by vendor could hinder the agency from a customer service perspective, such as responding to disbursement inquiries or identifying the frequency in which the RRB conducts business transactions with a particular vendor.

## **Disbursements Made Based on Inadequate Travel Documentation**

Internal controls were not sufficient to ensure that transactions are properly documented. During our review, we found that inadequate documentation was used to support agency disbursements for airline fares for 7 out of 45 (16%) travel transactions. The travelers' airline itineraries were provided instead of the airfare receipts. The agency disbursed \$2,059 in undocumented airfare fees.

The airline itinerary is only considered as an invoice when it includes the cost of travel. Also, agency procedure requires receipts for travel transactions over \$75.00.

The review and approval process of documentation used to support the vouchers is ineffective. BFO approved the disbursements without the required airline receipts.

The lack of adequate documentation not only represents non-compliance with the RRB's policies and procedures, it weakens the operational audit trail and affects the agency's financial statements.

### Recommendations:

We recommend that the Bureau of Fiscal Operations:

3. strengthen the review and approval controls for travel vouchers and supporting documentation; and
4. issue a reminder notice to agency employees regarding appropriate documentation for travel vouchers.

### Management's Response

In regard to recommendation 3, the Bureau of Fiscal Operations concurred with the recommendation and stated that they will strengthen the review and approval controls for travel vouchers and supporting documentation.

In regard to recommendation 4, the Bureau of Fiscal Operations concurred with the recommendation and stated that they will issue a reminder notice regarding appropriate documentation for travel vouchers.

### **Credit Card Bills Used Instead of Travel Vouchers as Basis for Payments**

The validation process for travel agency fees was ineffective. Internal controls were insufficient to ensure that travel agency fees are reconciled to RRB travel vouchers. During our review, we found 8 out of 45 instances (18%) where the RRB did not pay the travel agent or the disbursements did not agree with the fees recorded on the travel voucher. The discrepancies totaled \$313.

Transactions should be promptly recorded to maintain their relevance and value to management in controlling operations and making decisions. This applies to the entire process or life cycle of a transaction or event from the initiation and authorization through its final classification in summary records. In addition, control activities help to ensure that all transactions are completely and accurately recorded.<sup>1</sup>

---

<sup>1</sup> "Standards for Internal Control in the Federal Government," GAO/AIMD 00-21.3.1 (11/99) page 17.

Disbursements to the travel agent are made based on billed amounts rather than fees recorded on the individual travel vouchers. BFO explained that differences could result between the RRB records and the travel agent's records when the traveler does not record all fees incurred.

Inaccurate disbursements result in potential overpayments or underpayments to the travel agent.

#### Recommendations:

We recommend that the Bureau of Fiscal Operations:

5. strengthen controls to ensure that disbursements are supported by RRB travel vouchers;
6. remind travelers to include all fees on their travel vouchers; and
7. take corrective action for the noted discrepancies to ensure that the appropriate reimbursements are made.

#### Management's Response

In regard to recommendation 5, the Bureau of Fiscal Operations concurred with the recommendation and stated that they will strengthen controls to ensure that disbursements are supported.

In regard to recommendation 6, the Bureau of Fiscal Operations concurred with the recommendation and stated that they will remind travelers to include all fees on the travel voucher.

In regard to recommendation 7, the Bureau of Fiscal Operations concurred with the recommendation and stated that they will research the noted exceptions and take the necessary actions to ensure the appropriate reimbursements.

#### **Inadequate Support for Second-Level Approval of Service Order Obligations**

Agency procedures were not always followed for the approval process for service order obligations. During our review, we found second-level approval of the obligation was provided without evidence of bureau-head approval in 2 out of 10 cases (20%), totaling \$779. The authority to obligate funds per bureau-head approval is not always provided.

The procedure established by the Office of Administration requires that a request for second-level approval be made through an e-mail request and it should state that the request has been approved by the bureau head. In addition, the procedure for second-level approval requests was issued informally by e-mail rather than by official, documented guidance.

These exceptions resulted from an inadequate review and approval process provided by the second-level approver. Approving obligations without evidence of bureau-head approval could result in the improper use of funds available for agency obligations.

#### Recommendations:

We recommend that the Office of Administration:

8. strengthen the second-level review and approval process for service order obligation approval requests submitted via e-mail; and
9. issue formal guidance for the request of second-level approval for obligations.

#### Management's Response

In regard to recommendation 8 and recommendation 9, the Office of Administration concurred with both recommendations.

#### **No Documented Guidance for Dummy Vendor Transactions**

Internal controls were not sufficient to ensure that agency guidance for dummy vendor transactions was documented. The agency does not have official documented guidance for the use of dummy vendor transactions established in FFS.

Internal controls, all transactions, and other significant events need to be clearly documented, and the documentation should be readily available for examination. The documentation should appear in management directives, administrative policies, or operating manuals and may be in paper or electronic form. All documentation and records should be properly managed and maintained.<sup>2</sup>

The agency did not recognize the need to document procedures for dummy vendor transactions. The lack of formal guidance could cause inefficient completion and errors for travel and service order transactions.

---

<sup>2</sup> "Standards for Internal Control in the Federal Government," GAO/AIMD 00-21.3.1 (11/99) page 17.

Recommendation:

We recommend that the Bureau of Fiscal Operations and the Office of Administration:

10. develop procedures for dummy vendor transactions in FFS.

Management's Response

In regard to recommendation 10, the Bureau of Fiscal Operations concurred with the recommendation and stated that they will work with the Office of Administration to develop procedures for the use of dummy vendors in FFS.

In regard to recommendation 10, the Office of Administration concurred with the recommendation.

## **SAMPLING METHODOLOGY AND RESULTS**

### **Non-Statistical Sampling**

### **Service Order Transactions**

This appendix presents the methodology and results of our non-statistical sampling test for service order transactions.

#### **Sample Objective**

The objective of our sample was to determine if dummy vendor transactions were processed accurately and to assess the effectiveness of the internal controls. The control activities tested included appropriate documentation of transactions; proper approvals; proper authorizations; segregation of duties; accurate recording of transactions; and pre-existing obligations for transactions.

#### **Scope**

The universe of dummy vendors for service order transactions consisted of 157 service orders totaling \$2,507,533. Each service order transaction included payments to one or more vendors (e.g., one obligation for a gas utility could have 22 separate payment vouchers, whereas another could have 169 payment vouchers). All dummy vendors in the universe were subject to selection.

#### **Review Methodology**

We used GAO “Standards for Internal Control in the Federal Government” as criteria for our assessment. For each service order transaction in the sample, we evaluated whether the dummy vendor transaction included:

- appropriate documentation;
- proper approvals;
- proper authorization;
- pre-existing obligations recorded in FFS;
- segregation of duties; and
- accurate recording in FFS.

**SAMPLING METHODOLOGY AND RESULTS**  
**Non-Statistical Sampling**  
**Service Order Transactions**

**Sampling Methodology and Results**

We randomly selected 10 service orders from the universe. These 10 service orders resulted in 34 payment vouchers.

Our evaluation identified 5 instances where the service order transactions did not meet GAO internal controls standards. Each transaction was subject to multiple tests; as a result, each transaction could be cited for multiple exceptions. See the results of the following attributes:

<b>Obligations for Service Orders</b>			
Test Attributes for Obligations	Obligations Tested	Non-Exceptions	Exceptions
Appropriate documentation for second approval of obligation	10	8	2
Proper authorizations	10	10	0
Pre-existing obligations recorded in FFS	10	10	0
Segregation of duties	10	10	0
<b>Total Exceptions</b>			<b>2</b>

<b>Payment Vouchers for Service Orders</b>			
Test Attributes for Disbursements	Tested	Non-Exceptions	Exceptions
Appropriate documentation to support the disbursement	34	34	0
Proper approvals by BFO staff for disbursements	34	34	0
Proper authorizations from bureau management	34	34	0
Accurate recording of transactions in FFS	34	31	3
<b>Total Exceptions</b>			<b>3</b>

**SAMPLING METHODOLOGY AND RESULTS**  
**Non-Statistical Sampling**  
**Service Order Transactions**

**Audit Conclusion**

Our non-statistical sampling test identified 5 exceptions. As a result, we concluded that improvements are needed for appropriate documentation for second approval of obligations and for accurate recording in FFS for dummy vendor service order transactions. The internal controls over dummy vendor service order transactions relative to appropriate documentation and accurate recording of transactions were found to be ineffective.

No exceptions were found for proper authorizations, pre-existing obligations recorded in FFS, segregation of duties, appropriate documentation to support the disbursements, proper approvals by BFO for disbursements, or proper authorizations by bureau management.



## **SAMPLING METHODOLOGY AND RESULTS**

### **Non-Statistical Sampling**

### **Travel Transactions**

This appendix presents the methodology and results of our non-statistical sampling test for travel transactions.

#### **Sample Objective**

The objective of our sample was to determine if dummy vendor transactions were processed accurately and to assess the effectiveness of the internal controls. The control activities tested included appropriate documentation of transactions; proper approvals; proper authorizations; segregation of duties; accurate recording of transactions; and pre-existing obligations for transactions.

#### **Scope**

The universe consisted of 1,020 travel transactions totaling \$1,142,690 recorded in FFS during FY 2010. All dummy vendors in the universe were subject to selection.

#### **Review Methodology**

We used GAO “Standards for Internal Control in the Federal Government”, as criteria for our assessment. For each travel transaction in the sample, we evaluated whether the dummy vendor transaction included:

- appropriate documentation;
- proper approvals;
- proper authorization;
- segregation of duties;
- accurate recording in FFS; and
- pre-existing obligations recorded in FFS.

**SAMPLING METHODOLOGY AND RESULTS**  
**Non-Statistical Sampling**  
**Travel Transactions**

**Sampling Methodology and Results**

We randomly selected 45 travel transactions from the universe. Our evaluation identified 15 instances where the transactions did not meet GAO internal control standards. See the results of the following attributes:

Test Attributes for Obligations and Disbursements	Tested	Non-Exceptions	Exceptions
Appropriate documentation	45	38	7
Proper approvals by BFO staff for FFS disbursements	45	45	0
Proper authorizations from bureau management for travel transactions and travel vouchers	45	45	0
Segregation of duties	45	45	0
Accurate recording of transactions in FFS based on supporting documentation	45	37	8
Pre-existing obligations recorded in FFS	45	45	0
<b>Total Exceptions</b>			<b>15</b>

**Audit Conclusion**

Our non-statistical sampling test identified 15 exceptions. As a result, we concluded that improvements are needed for appropriate documentation and for accurate recording in FFS for dummy vendor travel transactions. The internal controls over dummy vendor travel transactions relative to appropriate documentation and accurate recording of transactions were found to be ineffective.

No exceptions were found for proper approvals by BFO staff for FFS disbursements, proper authorizations from bureau management, segregation of duties or pre-existing obligations recorded in FFS.



UNITED STATES GOVERNMENT  
**MEMORANDUM**

FORM G-1161 (1-82)  
 RAILROAD RETIREMENT BOARD

**AUG 03 2011**

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

**FROM** : George V. Govan   
 Chief Financial Officer

**SUBJECT:** Draft Audit of Internal Controls Over Dummy Vendor Transactions

This is in response to your request for comments on the above draft audit report. After stakeholder comments to me, following are my comments on recommendations addressed to the Bureau of Fiscal Operations (BFO).

**We recommend that the Bureau of Fiscal Operations:**

- 1. identify, reconcile and post all erroneously purged transactions to the corresponding FFS vendor document cross-reference table;**

Concur with comment. We agree that any variables used as a means to track accounting data should be appropriately identified, reconciled, and posted. However, the entries to the table were purged, and they can no longer be identified. The software error that caused the purge of the document reference table to vendor document cross-reference table was resolved by IT staff. It was related to the annual core clearing function, not daily processing of transactions. Therefore we consider this item closed.

- 2. develop procedure to reconcile and post FFS disbursements in the document reference table to vendor document cross-reference table.**

Concur with comment. Our plan is to write a script which will perform an automatic match of the day's processed transactions (which are associated with a vendor code) with the vendor cross-reference table. The output will be a report which will be generated if there is an exception. I believe this will satisfactorily close recommendation 2 enabling use of the table by current agency users. Target date: August 15, 2011.

- 3. strengthen the review and approval controls for travel vouchers and supporting documentation;**

Concur. We will strengthen the review and approval controls for travel vouchers and supporting documentation. Target date: October 31, 2011.

**4. issue a reminder notice regarding appropriate documentation for travel vouchers.**

Concur. We will issue a reminder notice regarding appropriate documentation for travel vouchers. Target date: September 30, 2011.

**5. strengthen controls to ensure that disbursements are supported by RRB travel vouchers;**

Concur. We will strengthen controls to ensure that disbursements are supported. Target date: October 31, 2011.

**6. remind travelers to include all fees on travel voucher;**

Concur. We will remind travelers to include all fees on travel voucher. Target date: September 30, 2011.

**7. take corrective action for the noted exceptions to ensure that the appropriate reimbursements are made; and**

Concur. We will research the noted exceptions and take necessary actions to ensure of the appropriate reimbursements. Target date: October 31, 2011.

**10. develop procedures for the use of dummy vendors in FFS.**

Concur. We will work with the Office of Administration to develop procedures for the use of dummy vendors in FFS. Target date: December 31, 2011.

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

cc: Henry M. Valiulis, Senior Executive Officer  
John Walter, Chief of ATFS  
Dave Miller, Finance Officer  
Kris Garmager, Financial Systems Manager  
Bill Flynn, Executive Assistant  
Debra Stringfellow-Wheat, Supervisory Auditor



UNITED STATES GOVERNMENT

**MEMORANDUM**

FEB 21 2011

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

**FROM:** Henry M. Valulis  
Director of Administration

**SUBJECT:** Draft Report -- Audit of Internal Controls Over Dummy Vendor Transactions

This is in response to your memorandum of July 14, 2011. I have reviewed the findings and recommendations in the draft report, and I concur with all of the recommendations addressed to the Office of Administration (OA). All recommendations addressed to OA should be implemented by December 31, 2011.

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

cc: Chief Financial Officer

RECEIVED  
FEB 21 2011