

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

**Fiscal Year 2013 Financial Statement Audit  
Letter to Management**

**Report No. 14-02  
February 20, 2014**



**RAILROAD RETIREMENT BOARD**



UNITED STATES RAILROAD RETIREMENT BOARD

OFFICE OF INSPECTOR GENERAL

February 20, 2014

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

The purpose of this letter is to transmit internal control matters that came to our attention during our fiscal year (FY) 2013 audits 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 December 5, 2013. We also audited the RRB's closing package financial statements and issued our report thereon dated December 16, 2013. 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 general purpose audit opinion on December 5, 2013 and the closing package audit opinion on December 16, 2013.

During our audits, we noted certain matters involving the RRB's internal control structure and its operation that, individually, did not rise to the level of a material weakness or a significant deficiency, the details of which are presented in the attached memorandum. We also present the full text of those matters previously reported as material weaknesses and a significant deficiency in conjunction with our opinion on the financial statements. However, neither this letter, nor the attached matters of internal control, modifies our reports dated as of December 5, 2013 and December 16, 2013, 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 report. Their responses are also attached.

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<sup>1</sup> "Report on the Railroad Retirement Board's Fiscal Year 2013 Financial Statements," OIG Report No. 14-01, December 16, 2013.

In planning and performing these audits, we considered internal control in order to determine our auditing procedures for the purpose of issuing our reports on the RRB's 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 these audits.

Very truly yours,

Original signed by...

Martin J. Dickman  
Inspector General

#### Attachments

cc: Walter A. Barrows, Labor Member  
Jerome F. Kever, Management Member  
George V. Govan, Chief Financial Officer  
Karl T. Blank, General Counsel  
Georgia C. Blalock, Executive Assistant  
John M. Walter, Chief of Accounting, Budget, and Financial Management  
Martha P. Rico, Secretary to the Board

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## **MATERIAL WEAKNESSES**

In conjunction with the Office of Inspector General's (OIG) opinion on the Railroad Retirement Board's (RRB) financial statements for the fiscal years (FY) ended September 30, 2013 and 2012, we reported the following material weaknesses and significant deficiency.<sup>2</sup>

### **Information Technology Security - Risk Management Framework**

During FY 2013, the OIG evaluated the RRB's information security program pursuant to the provisions of the Federal Information Security Management Act of 2002 (FISMA). OIG auditors found that weaknesses regarding the review of contractor deliverables associated with the risk management framework continue to be found. Although agency managers are working to strengthen controls, management action had either not been completed as of the end of the current reporting period, or had not been in place long enough to permit evaluation.

### **Information Technology Security - Configuration Management**

During FY 2013, the OIG evaluated the RRB's security configuration management program pursuant to the provisions of FISMA. OIG auditors found that weaknesses associated with the configuration management of some agency systems continue to be found. Although agency managers are working to remediate these weaknesses, management action had not been completed as of the end of the current period.

## **SIGNIFICANT DEFICIENCY**

### **Budgetary Reporting**

In FY 2011, we reported a material weakness for budgetary reporting and recommended that the Bureau of Fiscal Operations (BFO) provide training for the preparation of the statement of budgetary resources and implement a review process to ensure the accuracy of calculations, consistency in recorded amounts and effectiveness of controls. In an effort to address this material weakness, budgetary training was conducted for various BFO personnel in June 2013. During FY 2013, the OIG identified a significant improvement in the preparation of the statement of budgetary resources. Although errors were found, they did not exceed our materiality threshold. Further corrective action remains to be taken regarding an improved review process to ensure the accuracy of calculations, consistency in recorded amounts and effectiveness of controls.

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<sup>2</sup> "Report on the Railroad Retirement Board's Fiscal Year 2013 Financial Statements," OIG Report No. 14-01, December 16, 2013.

Letter to Management  
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## **OTHER MATTERS INVOLVING INTERNAL CONTROL**

During our audits, 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.

BFO is responsible for the preparation of the Performance and Accountability Report and most of the agency's financial statements. During FY 2013, key staffing changes occurred in BFO while at the same time, BFO began its transition from the Federal Financial System to a new financial management system, the Financial Management Integrated System, which became operational in FY 2014. As a result, we observed unanticipated financial errors that, in part, can be attributed to less experienced staff.

The details of our observations and recommendations for corrective action follow. The full text of management's responses is presented as Appendix II in this report.

### **Errors Caused by Ineffective Controls for Review and Approval**

We found numerous errors related to voucher preparation and general ledger entries. These errors were caused by ineffective internal controls for the review and approval of vouchers and general ledger entries.

#### Voucher Related Errors

Vouchers are not always approved by designated officials and voucher documentation is not always adequate. In addition, vouchers are not always prepared and approved at the proper time. Numerous errors are summarized below:

- eleven vouchers with a combined total of \$5.8 billion were not approved by the designated officials;
- twelve vouchers with a combined total of \$3.4 billion did not have adequate support;
- four vouchers with a combined total of \$390 million did not have adequate support and were not approved by the designated officials;
- one voucher totaling \$1.3 million did not contain evidence of review; and
- a transaction for \$3.8 billion was prepared and the first level of approval was provided prior to completion of the transaction.

## Letter to Management Matters of Internal Control

BFO's Accounting Procedures Guide requires that only properly approved vouchers with appropriate supporting documentation be input into the general ledger and it designates the names or titles for staff authorized to review the vouchers. Voucher documentation should be complete, accurate and facilitate tracing the transaction from initiation and authorization, through its processing, to completion.

According to the U.S. Government Accountability Office *Standards for Internal Control in the Federal Government* (GAO Standards), transactions and other significant events should be authorized and executed only by persons acting within the scope of their authority. Control activities help to ensure that all transactions are completely and accurately recorded.

Without adequate supporting documentation and approval by designated officials, and evidence of completed transactions, there is an increased risk of financial recording errors which could impact the agency's financial statements.

### General Ledger Errors

Approval of general ledger entries is not always provided by the designated officials. In addition, general ledger entries are not always timely, complete or accurate. These errors are summarized below:

- entries in the general ledger totaling \$1.5 billion were approved by BFO staff other than the designated officials;
- a portion of an adjusting entry that was included in the June 30, 2013 balance sheet was not recorded in the general ledger until July 2013 and it was not included in BFO's reconciliation with Treasury;
- a portion of an entry that should have been recorded in March 2013 was not recorded until April 2013; and
- a voucher number manually transcribed from the paper based document was input incorrectly in the general ledger.

BFO's Accounting Procedures Guide requires voucher approval in the general ledger to be provided by the Senior Accountant or the Accounting Officer and also requires permanent adjusting journal entries to be recorded in the general ledger. According to GAO Standards, 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 are initiated or entered into. Transactions should be promptly recorded to maintain their relevance and value to management in controlling operations and making decisions.

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When vouchers are reviewed by less experienced personnel, there is a potential risk that material misstatements would not be prevented or detected on a timely basis.

These errors resulted in: (1) a \$100,000 discrepancy between the administrative funds in BFO's supporting workpapers and BFO's reconciliation with Treasury; (2) a \$3.6 million understatement of benefit payments in the March 2013 general ledger; and (3) an incorrect audit trail.

Recommendations

We recommend that the Bureau of Fiscal Operations:

1. strengthen its internal controls over the review and approval process to ensure that all vouchers are properly prepared, are only prepared after completion of a transaction, have sufficient documentation, and are approved by designated officials; and
2. strengthen its internal controls over the review and approval process to ensure that general ledger entries are recorded timely, completely and accurately.

Management's Response

The Bureau of Fiscal Operations concurred and will implement the recommendations.

**Errors in Financial Statement Preparation, Closing Package Notes and Supporting Schedules**

Errors continue to be found in financial statement preparation, agency notes and supporting schedules. These errors were caused by ineffective internal controls over financial statement reporting. Similar errors were cited in a prior OIG audit report and we recommended that BFO:

determine the cause of errors identified during our audit, whether existing controls were in operation, and whether additional controls may be required to ensure the financial statements, notes, and supporting schedules are properly designed and operating as intended throughout the year.<sup>3</sup>

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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 No. 9.



## Letter to Management Matters of Internal Control

In response to this recommendation, BFO created a checklist to address the preparation of the financial statements and selected notes, and revised a supporting schedule. We found that this corrective action was not sufficient and as a result, that audit recommendation remains open.

### Financial Statement Preparation

Financial statements are not always prepared accurately. BFO omitted two new lines and additional captions from the September 30, 2013 balance sheet.

Preparers of the Performance and Accountability Report are required to review updated authoritative guidance, which includes OMB Circular No. A-136, *Financial Reporting Requirements*. The new lines and additional captions were required by the October 2013 version of the OMB guidance.

Financial statements not prepared in accordance with applicable guidance substantially increase the risk of inaccurate financial reporting and noncompliance with required reporting standards.

### Closing Package Notes

Closing package notes, prepared for governmentwide reporting, are not always accurate. Various notes entered into the Governmentwide Financial Report System contained errors in text and financial balances that totaled more than \$618 million.

Treasury Financial Manual Chapter 4700 provides guidance for the notes portion of the closing package. The manual provides specific guidance for the presentation of balances for dedicated collections. The presentation consolidates balances from various financial statement lines, and therefore requires recomputation of amounts that include assets, liabilities, revenue and expenses.

These errors resulted in additional review and coordination, which impacted the efficiency of the audit, and they could have impacted the accuracy of data consolidated into the governmentwide financial statement notes.

### Supporting Schedules

Financial statement adjusting and eliminating entries are not always properly prepared, properly approved, or approved in a timely manner. Numerous errors are summarized below:

- one voucher adjustment entry with a total of \$141 million was not properly prepared based on supporting documentation;
- four adjusting entries had no evidence of approval;

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- five adjusting entries had no support and no evidence of approval;
- one eliminating entry had incorrect debit and credit amounts; and
- ten eliminating entries were approved after they were recorded in the financial statements.

BFO's Accounting Procedures Guide requires individuals preparing adjusting entries to enter them in the supporting worksheet along with their initials and date. Approval is to be provided by the Accounting Officer. Eliminating entries should flow through the financial statements vertically and horizontally and the signs (+/-) must agree with the supporting BFO worksheet. Reviewers of vouchers are required to look for correctness, completeness, and consistency. In addition, only properly approved vouchers with appropriate supporting documentation should be recorded in the general ledger.

Transactions not properly prepared, approved or approved prior to being recorded in the financial statements, substantially increase the risk that misstatements will not be prevented, detected or corrected.

Recommendation

Agency action to implement a prior recommendation for corrective action is pending; the OIG has no additional recommendations to offer at this time.

**Internal Controls over Budgetary Reporting**

The internal controls over budgetary reporting still require improvement. We found an error of \$16 million in the June 30, 2013 Statement of Budgetary Resources (SBR). There were also errors of \$34 million and line captions errors in the September 30, 2013 SBR and the related notes. Similar errors were cited in a prior OIG audit report and we recommended that BFO:

implement a review process for the Statement of Budgetary Resources to ensure the accuracy of calculations, consistency in recorded amounts, and effectiveness of controls.<sup>4</sup>

According to GAO Standards, control activities help to ensure that all transactions are completely and accurately recorded. Authoritative guidance provided in Treasury's United States Standard General Ledger and OMB Circular No. A-136, detail the presentation and content of the financial statements, including the SBR.

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<sup>4</sup> "Fiscal Year 2011 Financial Statement Audit Letter to Management," OIG Report No. 12-04, January 31, 2012, Recommendation No. 2.

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The review and approval process for the SBR is not effective. The errors we identified would have impacted the accuracy and form and content of the financial statements. The errors in the September 30, 2013 SBR were corrected prior to publication.

Recommendation

Agency action to implement a prior recommendation for corrective action is pending; the OIG has no additional recommendations to offer at this time.

### 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 January 28, 2013, in connection with our audit of the RRB's FY 2012 financial statements. The additional recommendations resulting from our audit of the agency's FY 2013 financial statements are also included.

| Bureau                      | Report and Recommendation Number | Current Status |             |
|-----------------------------|----------------------------------|----------------|-------------|
|                             |                                  | Implemented    | In Progress |
| BUREAU OF FISCAL OPERATIONS | 08-01 #9                         |                | X           |
|                             | 10-03 #2                         | X              |             |
|                             | 10-03 #3                         | X              |             |
|                             | 10-03 #4                         | X              |             |
|                             | 11-03 #1                         | X              |             |
|                             | 11-03 #2                         | X              |             |
|                             | 12-04 #1                         | X              |             |
|                             | 12-04 #2                         |                | X           |
|                             | 12-04 #6                         |                | X           |
|                             | 13-03 #1                         | X              |             |
|                             | 13-03 #2                         | X              |             |
|                             | 13-03 #3                         | X              |             |
|                             | 13-03 #4                         | X              |             |
|                             | 14-02 #1                         |                | X           |
|                             | 14-02 #2                         |                | X           |
|                             |                                  |                |             |
| BUREAU OF ACTUARY           | 09-02 #9                         |                | X           |
|                             | 09-02 #10                        |                | X           |
|                             | 12-04 #3                         |                | X           |
|                             | 12-04 #4                         |                | X           |
|                             | 12-04 #5                         |                | X           |
|                             |                                  |                |             |
| OFFICE OF PROGRAMS          | 09-02 #12                        |                | X           |
|                             | 09-02 #13                        |                | X           |
|                             |                                  |                |             |
| OFFICE OF GENERAL COUNSEL   | 13-03 #5                         |                | X           |
|                             |                                  |                |             |
| TOTALS                      |                                  | 10             | 13          |



UNITED STATES GOVERNMENT  
**MEMORANDUM**

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

February 18, 2014

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

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

**SUBJECT:** Draft Letter to Management – FY 2013 Financial Statement Audit

Below are responses to recommendations for Bureau of Fiscal Operations identified in the draft audit report. Note, in fiscal year 2013, the Accounting section experienced significant turnover in key positions where corporate knowledge and continuity on voucher processing once existed. To date, the majority of vacant positions are filled and a training plan will be created and implemented to reinforce internal controls on a recurring basis.

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

- 1. strengthen its internal controls over the review and approval process to ensure that all vouchers are properly prepared, are only prepared after completion of a transaction, have sufficient documentation, and are approved by designated officials.***

Concur. We will strengthen our internal controls over the review and approval process for vouchers.

Target Completion Date: September 30, 2014

- 2. strengthen its internal controls over the review and approval process to ensure that general ledger entries are recorded timely, completely and accurately.***

Concur. We will strengthen our internal controls over the review and approval process to ensure that general ledger entries are recorded timely, completely and accurately.

Target Completion Date: September 30, 2014

- 2 -

If there is any additional information you need, please forward.

cc: John Walter, Chief of ABFM  
Rich Lannin, Senior Accountant  
Herbert Kwan, Accountant  
Ralph Brandt, Accountant  
Debra Stringfellow-Wheat, Supervisory Auditor