

# OFFICE OF INSPECTOR GENERAL

## **Audit Report**

**Fiscal Year 2015 Financial Statement Audit  
Letter to Management**

**Report No. 16-04  
February 2, 2016**



**RAILROAD RETIREMENT BOARD**



UNITED STATES RAILROAD RETIREMENT BOARD

OFFICE OF INSPECTOR GENERAL

February 2, 2016

Office of the 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 2015 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 November 4, 2015, except for matters relating to the net assets of the National Railroad Retirement Investment Trust (NRRIT) as of September 30, 2015, as to which the date is November 13, 2015. 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 also audited the RRB's closing package financial statements and issued our report thereon dated November 16, 2015. We have not considered internal control since we ended fieldwork for the general purpose audit opinion on November 4, 2015 and the closing package audit opinion on November 16, 2015.

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 report. We also present the full text of the previously reported material weakness. However, neither this letter nor the attached matters of internal control modifies our reports dated as of November 4, 2015 and November 16, 2015, 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> Railroad Retirement Board Office of Inspector General (RRB OIG), *The Office of the Inspector General's Report on the Railroad Retirement Board's Fiscal Year 2015 Financial Statements*, OIG Audit Report No. 16-01 (Chicago, IL: November 16, 2015).

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.

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  
Steven J. Anthony, Management Member  
George V. Govan, Senior Executive Officer/Chief Financial Officer  
Karl T. Blank, General Counsel  
John M. Walter, Chief of Accounting and Budget  
Martha P. Rico, Secretary to the Board

# Letter to Management on Internal Control

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# Letter to Management on Internal Control

## INTERNAL CONTROL MATTERS PREVIOUSLY REPORTED IN OUR AUDIT OPINIONS

We reported the following material weakness that was originally reported in fiscal year 2014 in conjunction with the Office of Inspector General's (OIG) opinion on the Railroad Retirement Board's (RRB) financial statements for the fiscal years ended September 30, 2015 and 2014, as reported in OIG Audit Report number 16-01.

### MATERIAL WEAKNESS

#### Financial Reporting

- Ineffective Controls

Ineffective controls continue to be a weakness during the fiscal year 2015 audit. The portion of the overall material weakness that was originally cited in fiscal year 2014 consisted of material recording errors, ineffective and untimely controls and reconciliations, inadequate supporting documentation for recorded transactions, and insufficiently documented internal control policies and procedures.<sup>2</sup> During our fiscal year 2015 audit, we continued to find material transactions that were recorded without sufficient supporting documentation because RRB management has not completed the necessary corrective actions to address our recommendations. Although RRB management updated its policies, procedures, and internal controls to address related audit recommendations, corrective actions had not been in place for a duration sufficient to complete our evaluation of the effectiveness of implementation.

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<sup>2</sup> RRB OIG, *Fiscal Year 2014 Financial Statement Audit Letter to Management*, OIG Audit Report No. 15-05, Recommendations 2, 5, 6, 7 (Chicago, IL: March 31, 2015).

## Letter to Management on Internal Control

- Communication with the National Railroad Retirement Investment Trust's (NRRIT) Auditor

This portion of the material weakness results from RRB management's unwillingness to permit communication between NRRIT and OIG auditors. Despite the OIG's explanations of an American Institute of Certified Public Accountants (AICPA) requirement to obtain sufficient appropriate audit evidence of the audit procedures performed by component auditors (NRRIT auditors), RRB management continues to base its denial on legal circumstances that it believes precludes communication between NRRIT and OIG auditors. To affect resolution of this issue, in fiscal year 2014 OIG auditors recommended establishment of an independent committee to identify a functional solution that would enable compliance with the AICPA's mandatory requirements.<sup>3</sup> Despite a verbal response of non-concurrence from the RRB's Chief Financial Officer, OIG auditors will continue to cite this issue and pursue corrective action. RRB management's lack of action to address this issue from a legal standpoint or to identify an acceptable workaround directly impacts the governmentwide financial statements, as the RRB is one of the few agencies that receives a disclaimer of opinion.

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<sup>3</sup> RRB OIG, *Fiscal Year 2014 Financial Statement Audit Letter to Management*, OIG Audit Report No. 15-05, Recommendation 8 (Chicago, IL: March 31, 2015).

# Letter to Management on Internal Control

## OTHER MATTERS INVOLVING INTERNAL CONTROL

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

The details of our observations and recommendations for corrective action follow. The status of prior financial statement related audit recommendations is provided in Appendix I. The full text of management's response is provided in Appendix II.

### Non Disclosure of Automated Internal Control Exceptions

Financial transactions recorded in the RRB's financial management system were not always approved before they were processed in the RRB's Financial Management Integrated System (FMIS). During our audit, we discovered a \$17 million transaction recorded in FMIS that had not been approved.

According to Office of Management and Budget (OMB) Circular A-123, *Management's Responsibility for Internal Control*, management is responsible for developing and maintaining effective internal controls. Effective internal control provides assurance that significant weaknesses in the design or operation of internal control that could adversely affect the agency's ability to meet its objectives, would be prevented or detected in a timely manner.

The RRB's Accounting Procedures Guide requires approval of vouchers in FMIS. The Bureau of Fiscal Operation's (BFO) management representation disclosure requirements state that management is responsible for maintaining effective internal control over financial reporting. Management is also responsible for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements. Pursuant to auditor communication requirements promulgated by the American Institute of Certified Public Accountants (AICPA) in its Professional Standards in AU-C section 260, *The Auditor's Communication With Those Charged with Governance*, two-way communication between the auditors and agency management is important to obtain information relevant to the audit. Inadequate two-way communication may indicate an unsatisfactory control environment, which impacts the auditor's assessment of the risks of material misstatements.



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After OIG inquiries were made, BFO staff explained that this error occurred because the control was temporarily turned off and was not turned back on due to an error made by the financial management system contractor. The routine practice of turning this control off was to allow for automatic approval of pre-identified reversal transactions in FMIS. As a result of reviews conducted by BFO, they had previously discovered 25 recorded transactions that had not been approved in FMIS; however, BFO did not disclose their discovery to OIG auditors. The total dollar value of transactions related to the 25 vouchers was approximately \$5 billion.

The financial management system's approval controls were not effective to prevent and timely detect changes made in the internal control environment. The nature and material magnitude of this matter warranted that management disclose this control deficiency to OIG auditors in a timely manner. These transactions were subsequently reviewed and approved by BFO staff and all were determined to be accurate and valid. After OIG inquiries regarding this matter, BFO notified OIG that preventive action has been taken to ensure that such control deficiencies are eliminated in the future, because this automated approval process should no longer occur.

Non disclosure of known internal control deficiencies by BFO staff could prevent OIG auditors from properly assessing the overall reliability of financial reporting. If undetected, the nature and materiality of these transactions would increase the risk of financial inaccuracies.

### Recommendation

1. We recommend that the Bureau of Fiscal Operations develop and implement a policy to inform the financial statement auditors of significant internal control deficiencies as predefined by financial statement auditors each year.

### Management's Response

The Bureau of Fiscal Operations concurred with the recommendation.

### **No Evidence of Year End Financial Statement Review by Top Management in the Bureau of Fiscal Operations**

Our review did not disclose any evidence that the September 30, 2015 financial statements were reviewed for reasonableness by the Accounting Officer, Chief of Accounting and Budget, and the Chief Financial Officer (CFO), as required by BFO procedures.

## Letter to Management on Internal Control

According to the Government Accountability Office's (GAO) *Standards for Internal Control in the Federal Government* (GAO Standards), internal control is an integral component of an organization's management that provides reasonable assurance that the following objectives are being achieved: (1) effectiveness and efficiency of operations, (2) reliability of financial reporting, and (3) compliance with applicable laws and regulations.

BFO procedures require review of the final financial statements for reasonableness by designated BFO staff prior to issuance. BFO management indicated that the RRB's financial statements sent by the CFO by email to other Federal agencies showed evidence of approval. The review of the year-end financial statements by designated BFO management would increase the reliability of the financial statements.

### Recommendation

2. We recommend that the Bureau of Fiscal Operations improve its internal controls to ensure that the year-end financial statements are reviewed for reasonableness by the Accounting Officer, the Chief of Accounting and Budget, and the Chief Financial Officer, and that there is documented evidence of such review.

### Management's Response

The Bureau of Fiscal Operations concurred with the recommendation.

### **Ineffective Controls for Voucher Preparation, Review, and Approval**

We continued to find numerous errors related to voucher preparation and approval. Voucher supporting documentation is not always adequate and vouchers are not always properly prepared and recorded on a timely basis. The errors found are summarized below.

- Twenty one adjustments totaling approximately \$1.8 billion were prepared to correct recording errors not detected when the original transactions were recorded. This includes one transaction totaling approximately \$1 billion that was not recorded timely.
- Two transactions totaling approximately \$5 million were posted to incorrect general ledger accounts.
- One investment accrual transaction totaling \$1.4 million was not recorded.

According to 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. Transactions should be promptly recorded to maintain their

## Letter to Management on Internal Control

relevance and value to management in controlling operations and making decisions.

BFO's Accounting Procedures Guide requires that voucher documentation be complete, accurate, and facilitate tracing of the transaction from initiation and authorization, through its processing, to completion.

These errors were caused by ineffective internal controls for the preparation, review, and approval of vouchers. 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. The additional time and effort expended for corrections could be better spent, had the vouchers been recorded correctly the first time.

### Recommendations

In 2014, we made two recommendations to address voucher and general ledger weaknesses.<sup>4</sup> These recommendations remain open.

### **Posting Logic Non Compliance**

Some transactions were not recorded in complete compliance with the Department of Treasury's United States Standard General Ledger (USSGL). During our audit, we found that quarterly income tax receipts of approximately \$165 million were not recorded for all of the general ledger accounts, as required.

The USSGL provides the basic structure for posting logic used to record transactions in the general ledger. Treasury advised BFO of posting logic changes for some accounts, and BFO notified the financial management system contractor of the changes needed. As a result of additional discussions between BFO and the contractor, Treasury's guidance was misconstrued and a posting logic change was made for an additional transaction type. This change caused these transactions not to be recorded for all applicable accounts as defined in the USSGL.

Subsequent corrections were made by BFO in August 2015 to correct the posting logic. However, if these corrections had not been made, the September 30, 2015, financial statements would have been misstated.

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<sup>4</sup> RRB OIG, *Fiscal Year 2013 Financial Statement Audit Letter to Management*, OIG Audit Report No. 14-02, Recommendations 1 and 2 (Chicago, IL: February 20, 2014).

## Letter to Management on Internal Control

### Recommendation

3. We recommend that the Bureau of Fiscal Operations develop and implement controls to ensure that posting logic changes remain in compliance with USSGL guidance.

### Management's Response

The Bureau of Fiscal Operations concurred with the recommendation.

### **Unsupported Amounts in the Reconciliation of Net Cost to Budget Note**

We continued to find unsupported amounts during our review of the June 30, 2015 and September 30, 2015 notes that reconcile the net cost of operations to budget. This issue was originally reported in a fiscal year 2015 OIG audit report.<sup>5</sup> The unexplained differences were \$3.8 million and \$6.6 million on June 30, 2015 and September 30, 2015, respectively.

According to OMB Circular A-136, *Financial Reporting Requirements*, the objective of the reconciliation of net cost of operations to budget is to provide an explanation of the differences between budgetary and financial (proprietary) accounting.

GAO Standards state that transactions should be promptly recorded to maintain their relevance and value to management in controlling operations and making decisions. In addition, control activities help to ensure that all transactions are completely and accurately recorded.

BFO could not provide support or an explanation when it was requested by the OIG. They stated that they would try to explain the difference during next year's audit. Because all differences have not been reconciled, the reconciliation of net cost to budget was not a true reconciliation.

The September 30, 2015 reconciliation of the net cost to budget note, as published in the RRB's Fiscal Year 2015 Performance and Accountability Report, may have been inaccurate, as the financial data was not fully supported.

### Recommendation

4. We recommend that the Bureau of Fiscal Operations design and implement new controls, policies, and/or procedures for the reconciliation of the statement of net cost to budget note to ensure that amounts are fully supported.

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<sup>5</sup> RRB OIG, *Fiscal Year 2014 Financial Statement Audit Letter to Management*, OIG Audit Report No. 15-05 (Chicago, IL: March 31, 2015).

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## Management's Response

The Bureau of Fiscal Operations concurred with the recommendation.

## **Errors in General Ledger Transactions**

We found that general ledger transactions are not always recorded timely in the financial management system. Transactions that should have been recorded in June 2015 were not recorded until after the trial balance submission to Treasury closes for the period in July 2015. Therefore, "pencil-in" adjustments were made to the June 30, 2015 balance sheet, statement of net cost, and statement of changes in net position to ensure they were presented accurately.

GAO Standards state that transactions should be promptly recorded to maintain their relevance and value to management in controlling operations and making decisions.

BFO stated that the transactions had to be recorded manually on the financial statements, as it was discovered that the transactions were needed after the period for trial balance submission to Treasury was already closed.

The June 30, 2015 balance sheet and statement of net cost that BFO submitted to OMB were not correct. Several lines on the balance sheet, the statement of net cost, and the statement of changes in net position were misstated as follows:

- balance sheet contained two separate misstatements of \$52,817,677, and \$166,664,348;
- statement of net cost of \$84,570; and
- statement of changes in net position of \$166,664,348.

## Recommendation

Corrective action is pending for a recommendation from a prior OIG audit report that remains open and addresses general ledger weaknesses.<sup>6</sup>

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<sup>6</sup> RRB OIG, *Fiscal Year 2013 Financial Statement Audit Letter to Management*, OIG Audit Report No. 14-02, Recommendation 2 (Chicago, IL: February 20, 2014).

# Letter to Management on Internal Control

## Errors in Financial Statements and Notes

Numerous monetary errors were found in financial statement related documentation prepared by BFO for both the June 30, 2015 and the September 30, 2015 reporting periods. Portions of the fiscal year 2015 draft Performance and Accountability Report, the June 30, 2015 statement of changes in net position, and financial statement notes prepared for governmentwide reporting had incorrect prior year data, current year data, and rounding errors. Other non-monetary errors requiring correction were also identified, such as incomplete note content and incorrect line captions.

According to GAO Standards, control activities should be designed and implemented to ensure all data is completely and accurately recorded.

For prior year's data, corrections made near the end of the fiscal year 2014 audit were not used as the source for input when prior year data was entered this year. In addition, errors were made by the preparer of the documents that were not detected during the review process. Additional time was needed for the OIG to identify the errors, notify BFO staff, have BFO make the corrections, and to review the corrected documents.

## Recommendation

5. We recommend that the Bureau of Fiscal Operations improve its internal controls to ensure the accuracy of data by the preparer, as well as the reviewer's responsibility as related to accuracy for financial statements and notes.

## Management's Response

The Bureau of Fiscal Operations concurred with the recommendation.

## Status of Prior Letter to Management Recommendations Since March 2015

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 current status of recommendations that were pending when we issued our Letter to Management dated March 31, 2015, in connection to our audit of the RRB's fiscal year 2014 financial statements.

Bureau and Audit Recommendation	Audit Area	Status of Corrective Action	
		Completed As Of	In Progress
<b>BUREAU OF FISCAL OPERATIONS (BFO)</b>			
BFO should 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. (RRB OIG Audit Report 08-01, Recommendation No. 9)	Accounting	9/3/2015	
BFO should implement a review process for the Statement of Budgetary Resources to ensure the accuracy of calculations, consistency in recorded amounts, and effectiveness of controls. (RRB OIG Audit Report 12-04, Recommendation No. 2)	Budgetary		X
BFO should develop and implement controls to ensure that documents received from other agency bureaus are accurate and prepared in accordance with applicable guidance. (RRB OIG Audit Report 12-04, Recommendation No. 6)	Accounting	9/29/2015	
BFO should 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. (RRB OIG Audit Report 14-02, Recommendation No. 1)	Accounting		X
BFO should strengthen its internal controls over the review and approval process to ensure that general ledger entries are recorded timely, completely and accurately. (RRB OIG Audit Report 14-02, Recommendation No. 2)	Accounting		X
BFO should expedite the control assessment of the general ledger. (RRB OIG Audit Report 15-05, Recommendation No. 1)	Accounting	11/20/2015	

## Status of Prior Letter to Management Recommendations Since March 2015

Bureau and Audit Recommendation	Audit Area	Status of Corrective Action	
		Completed As Of	In Progress
<b>BFO CONTINUED</b>			
BFO should develop and implement new controls for financial reporting. (RRB OIG Audit Report 15-05, Recommendation No. 2)	Accounting		X
BFO should provide training for the preparation of the various reconciliations. (RRB OIG Audit Report 15-05, Recommendation No. 3)	Accounting	12/3/2015	
BFO should establish an adequate timeframe and deadline for completion of the reconciliations. (RRB OIG Audit Report 15-05, Recommendation No. 4)	Accounting	7/14/2015	
BFO should redesign the payroll reconciliation process to ensure that it achieves its intended purpose. (RRB OIG Audit Report 15-05, Recommendation No. 5)	Accounting		X
BFO should develop and implement procedures and controls for the payroll reconciliation. (RRB OIG Audit Report 15-05, Recommendation No. 6)	Accounting		X
BFO should develop and implement procedures to ensure that payroll expenses are accrued and reversed timely and accurately. (RRB OIG Audit Report 15-05, Recommendation No. 7)	Accounting		X
BFO should review the Accounting Procedures Guide and update it as necessary. (RRB OIG Audit Report 15-05, Recommendation No. 9)	Accounting	9/2/2015	
BFO should remind staff of the need to follow procedures as documented in the Accounting Procedures Guide. (RRB OIG Audit Report 15-05, Recommendation No. 10)	Accounting	5/18/2015	
BFO should ensure that staff is provided with additional training in a timely manner for the new financial system, governmentwide financial reporting system, and new job responsibilities. (RRB OIG Audit Report 15-05, Recommendation No. 11)	Accounting	7/17/2015	



## Status of Prior Letter to Management Recommendations Since March 2015

Bureau and Audit Recommendation	Audit Area	Status of Corrective Action	
		Completed As Of	In Progress
<b>BFO CONTINUED</b>			
BFO should provide training for the preparation, review, and approval of the management schedule. (RRB OIG Audit Report 15-05, Recommendation No. 13)	Legal Representation Letter	7/17/2015	
BFO should develop and implement procedures to review financial data in other portions of the P&AR to ensure the consistency of other financial data in the P&AR with the financial statements. (RRB OIG Audit Report 15-05, Recommendation No. 15)	Accounting	7/21/2015	
BFO should develop and implement procedures for the reconciliation, review, and approval of outlay amounts in accordance with improper payment reporting for the P&AR. (RRB OIG Audit Report 15-05, Recommendation No. 16)	Accounting	9/17/2015	
BFO should develop and implement internal controls to ensure that checklists are completed in a timely manner. (RRB OIG Audit Report 15-05, Recommendation No. 17)	Accounting	11/20/2015	
<b>RAILROAD RETIREMENT BOARD (BOARD)</b>			
The Board should establish an independent committee that will work to identify a functional solution that will enable communication between the OIG and the NRRIT's component auditor and achieve compliance with the AICPA's standards. (RRB OIG Audit Report 15-05, Recommendation No. 8)	Accounting	Despite a response of non-concurrence, the OIG believes this recommendation should be implemented and will track its status.	
<b>OFFICE OF PROGRAMS</b>			
Office of Programs should identify and correct cases in which an incorrect Medicare Part B penalty is being collected. (RRB OIG Audit Report 09-02, Recommendation No. 12)	Medicare		X
Office of Programs should assess the current control environment to determine what action may be necessary to minimize the risk of errors in Medicare Part B premiums. (RRB OIG Audit Report 09-02, Recommendation No. 13)	Medicare		X
Office of Programs should develop and implement procedures and controls for the verification and review of accounts receivable balances with underlying support. (RRB OIG Audit Report 15-05, Recommendation No. 14)	Accounting	1/14/16	

## Status of Prior Letter to Management Recommendations Since March 2015

Bureau and Audit Recommendation	Audit Area	Status of Corrective Action	
		Completed As Of	In Progress
<b>OFFICE OF GENERAL COUNSEL</b>			
The Office of General Counsel should develop and implement procedures and controls to ensure that the required Department of Justice forms are prepared. (RRB OIG Audit Report 15-05, Recommendation No. 12)	Legal Representation Letter		X
<b>BUREAU OF ACTUARY</b>			
Bureau of the Actuary should implement an expanded review and approval process to ensure that all statements and supporting schedules are accurate and consistent. (RRB OIG Audit Report 09-02, Recommendation No. 9)	Social Insurance		X
Bureau of the Actuary should review and update management control review documentation. (RRB OIG Audit Report 09-02, Recommendation No. 10)	Social Insurance		X
Bureau of the Actuary should develop and implement controls to ensure compliance with accounting standards and OMB requirements that impact social insurance reporting. (RRB OIG Audit Report 12-04, Recommendation No. 3)	Social Insurance		X
Bureau of the Actuary should update the quality assurance steps and checklists in their Policies and Procedures for Actuarial Projections to include requirements for the Statement of Changes in Social Insurance Amounts. (RRB OIG Audit Report 12-04, Recommendation No. 4)	Social Insurance		X
Bureau of the Actuary should modify their procedure for updating the Policies and Procedures for Actuarial Projections to include a comprehensive review of all sections and checklists, and ensure timely and full compliance with the new requirements. (RRB OIG Audit Report 12-04, Recommendation No. 5)	Social Insurance		X

Status of Prior Letter to Management Recommendations Since March 2015

Bureau and Audit Recommendation	Audit Area	Status of Corrective Action	
		Completed As Of	In Progress
<b>BUREAU OF ACTUARY CONTINUED</b>			
Bureau of the Actuary should develop and implement additional procedures to maintain the integrity of the file to be used by the OIG contractor and ensure that it cannot be altered. (RRB OIG Audit Report 15-05, Recommendation No. 18)	Social Insurance		X
Bureau of the Actuary should develop and implement controls to ensure that the unaltered file is provided as a deliverable for the OIG contractor. (RRB OIG Audit Report 15-05, Recommendation No. 19)	Social Insurance		X



UNITED STATES GOVERNMENT  
**MEMORANDUM**

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

January 28, 2016

**TO** : Heather J. Dunahoo  
 Assistant Inspector General for Audit

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

**SUBJECT:** Draft Letter to Management  
 Fiscal Year 2015 Financial Statement Audit

This is in response to your request for comments on the above draft report. Following are my comments on recommendations below.

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

1. **Develop and implement a policy to inform the financial statement auditors of significant internal control deficiencies as predefined by financial statement auditors each year.**  
 Concur. Target Date: 30 June 2016
2. **Improve its internal controls to ensure that the year-end financial statements are reviewed for reasonableness by the Accounting Officer, the Chief of Accounting and Budget, and the Chief Financial Officer, and that there is documented evidence of such review.**  
 Concur. Target Date: 30 June 2016
3. **Develop and implement controls to ensure that posting logic changes remain in compliance with USSGL guidance.**  
 Concur. Target Date: 30 June 2016
4. **Design and implement new controls, policies, and/or procedures for the reconciliation of the statement of net cost to budget note to ensure that amounts are fully supported.**  
 Concur. Target Date: 30 June 2016
5. **Improve its internal controls to ensure the accuracy of data by the preparer, as well as the reviewer's responsibility as related to accuracy for financial statements and notes.**

Concur. Target Date: 30 June 2016

cc: John Walter, Chief of ABD  
Debra Stringfellow-Wheat, Supervisory Auditor  
Lawrence Haskin, Executive Assistant  
Jeffery Baer, Financial Management & Program Analyst Manager  
Shirley Bayliff, Supervisor Accounting Integration Team  
Herbert Kwan, Supervisor Accounting Transaction Team