UNITED STATES RAILROAD RETIREMENT BOARD

OFFICE OF INSPECTOR GENERAL

Fiscal Year 2004 Financial Statement Audit
Letter to Management
Report No. 05-01, October 25, 2004

To the Board Members:

We audited the consolidated financial statements of the Railroad Retirement Board (RRB) and have issued our report thereon dated October 25, 2004, in which we rendered an unqualified opinion. We conducted our audit in accordance with U. S. generally accepted government auditing standards and the Office of Management and Budget's (OMB) audit guidance.

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.

A material weakness is a reportable condition that precludes the entity's internal controls from providing reasonable assurance that material misstatements in the financial statements would be prevented or detected on a timely basis. Reportable conditions are matters coming to our attention that, in our judgment, should be communicated because they represent significant deficiencies in the design or operation of internal control that could adversely affect the RRB's ability to meet its internal control objectives.

In our auditor's report dated October 25, 2004, we reported a material weakness in the RRB's information security program and a reportable condition in controls over implementation of changes to laws and regulations. During our audit, we also noted other matters involving the RRB's internal control structure and its operation. The details of our findings concerning internal control are presented in the attached summary memorandum. However, neither this letter, nor the attached memorandum, modifies our report dated October 25, 2004, referred to in the first paragraph of this letter.

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.

This report is intended solely for the information and use of the management of the RRB, OMB, and Congress, and is not intended to be and should not be used by anyone other than these specified parties.

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

Very truly yours,

Martin J. Dickman

Martin J. Dickman
Inspector General

October 25, 2004

Memorandum on Internal Control

Material Weakness

Information Security

During FY 2004, the OIG evaluated information security pursuant to the provisions of the Federal Information Security Management Act. Our reviews disclosed continued weaknesses in many areas of the RRB's information security program. Significant deficiencies in program management and access controls make the agency's information security program a source of material weakness in internal control.

The RRB has undertaken the job of strengthening information security and has implemented many corrective actions recommended by the OIG and other technical specialists. However, the agency has not completed the corrective action needed to eliminate the previously reported deficiencies in training and access controls that were the basis for the OIG's original finding of material weakness.

The details of our recent findings with respect to information security are presented in OIG audit report #04-11, "Fiscal Year 2004 Evaluation of Information Security at the Railroad Retirement Board," September 30, 2004.

Reportable Condition

The RRB's debt recovery program was not updated for changes to agency regulations that impact interest charges on program debt. As a result, some debtors were overcharged interest. Although this non-compliance would not have a material monetary impact in the aggregate, it indicates that the RRB does not have adequate controls to ensure that changes to laws and regulations are fully implemented. Agency operations should react timely to changes in laws and regulations.

The Code of Federal Regulations (CFR) provides for the assessment of interest after the expiration of the period during which debtors may request reconsideration of the agency's debt recovery decision and/or waiver of recovery. Effective December 17, 2002, amendments to the CFR changed the period during which debtors could request reconsideration and/or waiver of recovery from 30 to 60 days. The automated system that supports debt management was not updated for the corresponding change to the date from which interest accrues on delinquent debt.

1. We recommend that the Bureau of Law review and strengthen controls over implementation of changes to laws and regulations.

OTHER MATTERS INVOLVING INTERNAL CONTROL

Control Over the Timeliness of Recording Non-FFS Disbursements and Transfers

The Bureau of Fiscal Operations (BFO) needs to strengthen controls over disbursements and fund transfers that are not initiated through the Federal Financial System (FFS). In order to ensure the accuracy and timely preparation of the financial reports, transactions need to be recorded in the proper period. When disbursements and transfers are initiated through manual processes independent of FFS, the related journal entries must be entered into FFS manually. We have noted instances in which routine disbursements were not recorded timely resulting in the necessity of adjusting such transfers direct to the financial statements.

2. We recommend that BFO develop a control to ensure timely recording of all disbursements.

Controls Over FFS Budgetary Entries

BFO needs to strengthen controls over budgetary accounting. FFS controls the agency's budget execution process. Transactions entered into the system should be appropriately documented and authorized. We have observed that certain high level budgetary entries, such as those to record appropriations, apportionments and sub-unit allotments, are recorded in FFS without additional authorization, regardless of magnitude. In addition, BFO does not maintain documentation to support individual entries and adjustments.

3. We recommend that BFO develop additional controls to ensure that support and evidence of approval for FFS budgetary entries is maintained.

Controls Over RUIA Quality Assurance Review Process

The Office of Programs performs annual reviews of the quality of benefit adjudication under the Railroad Unemployment Insurance Act (RUIA) and publishes their interim findings quarterly. The existing pre-publication review process does not include sufficient independent review of results to ensure reporting accuracy. As a result, errors in the gathering or summarization of data may occur and not be corrected before results are published.

4. We recommend that the Office of Programs enhance the pre-publication review process for the RUIA quality assurance program.

Procedures for RUIA Quality Assurance Review Process

The procedures for the RUIA quality assurance review were last updated approximately 13 years ago. Informational Bulletin 91-08 references external guidance, sample sizes, and error definitions that are outdated. As a result, existing procedure does not accurately reflect current activity.

5. We recommend that the Office of Programs review and update Informational Bulletin 91-08.

FFS Overwrites Some Table Entries

The Federal Financial System (FFS) over-writes some previously entered data if the journal voucher or standard voucher transaction number duplicates an earlier entry. We observed that the convention used to number payroll-related vouchers resulted in duplication that caused the Journal Voucher Line Table (JVLT) entries for the October 2003 agency payroll to be overwritten by October 2004 data.

6. We recommend that the BFO revise the numbering convention for payroll transactions to ensure that no data is overwritten.

Timing of Transaction Processing

During our review of transfers from the Department of Labor, we observed that BFO had recorded some transfers into FFS before the date of transfer shown on the supporting documentation.

7. We recommend that the BFO review the questioned transactions and revise or clarify its procedures as appropriate.

Accounting Procedures for GSA Payroll Information

BFO’s procedures for recording, reconciling and verifying payroll transactions processed by the General Services Administration (GSA) are not documented.

The RRB implemented GSA’s Electronic Time and Attendance Management System to record and certify pay and leave data for federal employees beginning in June 2004. GSA transmits payroll information to the RRB electronically. The RRB uses that information to update general ledger accounts, generate payroll reports, and perform related reconciliations. BFO has not yet documented the new procedures associated with the recently implemented system.

Procedures and controls should be documented to reduce the risk that unforeseen management and/or personnel changes could disrupt accounting activities.

8. We recommend that BFO document its procedures and internal controls for recording payroll transactions processed by GSA.

Accounting for Financial Interchange Advances

Pursuant to the financial interchange provisions of the RRA, the RRB obtains advances from the Department of the Treasury. BFO tracks and records interest on advances separately for current and prior fiscal years. BFO's analysis allocates interest according to fiscal year of obligation rather than financial interchange settlement period. Although all interest is recorded in the same general ledger account, this misallocation gives the appearance of under-accrual because it results in additional, unnecessary upward and downward adjustments to the account.

When repayment of the advances takes place each June, BFO's analysis indicates that interest has been significantly under-charged through the date of payoff and they record additional interest expense to account for the excess of disbursement over accrual. That upward adjustment is unnecessary and causes interest expense to be over-accrued until it is adjusted back down at the end of the month.

9. We recommend that BFO revise their method of accounting for interest on financial interchange borrowings.

Accounting for the Financial Interchange Receivables

The RRB's financial statements report interest and principal receivable from the Social Security Administration's Old Age and Survivors Insurance and Disability Insurance trust funds pursuant to the financial interchange provisions of the Railroad Retirement Act (RRA). The amount recognized is an estimate.

In January 2004, shortly after the OIG opined on the RRB's financial statements for FY 2003, BFO increased the accrual for amounts due through September 30, 2003. This adjustment was based on the Bureau of the Actuary's communication of subsequent events in connection with the financial statement audit. This adjustment appears to have been inconsistent with management's assertion that the September 30 accrual was the best available estimate.

10. We recommend that BFO review its policy concerning post-balance sheet adjustments to financial interchange receivables for amounts due at September 30.

Contracting and Appropriation Management

The RRB needs additional controls to ensure that obligations are recorded consistent with the law and agency policy, and that sufficient documentation is maintained to support management oversight.

- We noted a year-end obligation of FY 2004 funds for non-severable services that were not expected to be provided until FY 2005. The amount of the obligations was $5,000 recorded as a service order (SO) with a "dummy" vendor.[1]

  Although the responsible manager had identified a need for services in the forthcoming fiscal year, Federal appropriations law requires that non-severable services be funded from the appropriation in effect at the time services are rendered. No services were provided during FY 2004.
- "Dummy" vendors are frequently used to record obligations including travel and services which increases the risk of errors in applying appropriations law.
- We noted an invoice in the amount for $1,349 for services rendered during FY 2001 for which billing was delayed until FY 2004. The invoice was paid during FY 2004 from FY 2003 funds. It could not be readily determined why FY 2003 funds were used rather than FY 2001.
- We identified three invoices for maintenance and repair services that were dated October 7, 2004, and paid from previous fiscal year funds. We were unable to determine the date services were rendered. The invoices did not include the date services were rendered and we were advised that the agency does not maintain documentation for the date work is performed.
- We identified an obligation of approximately $24,000 in FY 2001 for services recorded with a credit card company as the vendor. We could not readily determine whether services had been rendered or payment made.
- We identified many unexpended prior-year obligations dating back to FY 2000, some in large amounts and a few that had been established with a dummy-type vendor. We question whether these remain valid obligations.

We recommend that:

11. the Bureau of Fiscal Operations provide additional training to agency managers with authority to incur obligations to ensure they are aware of the restrictions on the use of single-year appropriations;
12. the Bureau of Fiscal Operations review and research unexpended obligations and identify those items that should be de-obligated or that may represent errors;

[1] The term "dummy" vendor refers to entries in the FFS purchasing subsystem that do not identify a specific provider of goods or services.

13. the Office of Administration - Division of Acquisition Management periodically review the use of "dummy" vendors to ensure that their use is appropriately restricted and limited to those situations for which they have been specifically authorized; and

14. the Office of Administration - Division of Acquisition Management should establish minimum requirements for documenting the dates of contractor performed services.

MANAGEMENT'S RESPONSE

Management has agreed to review our findings and recommendations and will advise the OIG of their planned actions through the regular audit follow-up process.