

# **OFFICE OF INSPECTOR GENERAL**

## **Audit Report**

**Fiscal Year 2007 Financial Statement Audit  
Letter to Management**

**Report No. 08-01  
March 6, 2008**



**RAILROAD RETIREMENT BOARD**



UNITED STATES RAILROAD RETIREMENT BOARD

OFFICE OF INSPECTOR GENERAL

March 6, 2008

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

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

We have audited the RRB's general purpose financial statements and issued our report thereon dated November 2, 2007, except for matters relating to the fair market value of the net assets of the National Railroad Retirement Investment Trust as of September 30, 2007, as to which the date was November 15, 2007. We performed our audit in accordance with U.S. generally accepted government auditing standards and OMB audit guidance as applicable to the scope of our audit.<sup>1</sup> We have not considered internal control since we obtained sufficient appropriate audit evidence to support the audit opinion on November 2, 2007; internal control was not among those matters to which we gave consideration between November 2<sup>nd</sup> and November 15<sup>th</sup>.

During our audit, we noted certain matters involving the RRB's internal control structure and its operation that, individually, did not rise to the level of a significant deficiency, the details of which are presented in the attached memorandum. That memorandum also presents the full text of those matters previously reported as material weaknesses and significant deficiencies in conjunction with our opinion on the financial statements. However, neither this letter, nor the attached memorandum, modifies our report dated as of November 2, 2007 and November 15, 2007, referred to above.

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

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

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

RRB's control objectives is the responsibility of management. Because of inherent limitations in any system of internal control, errors or irregularities may nevertheless occur and not be detected. Also, controls found to be functioning at a point in time may later be found deficient because of the performance of those responsible for applying them. There can be no assurance that controls currently in existence will prove to be adequate in the future as changes take place in the organization.

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

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

Very truly yours,



Martin J. Dickman  
Inspector General

Attachments

cc: V.M. Speakman, Jr., Labor Member  
Jerome F. Kever, Management Member  
Kenneth P. Boehne, Chief Financial Officer  
John M. Walter, Chair, Management Control Review Committee  
Henry M. Valiulis, Director of Administration/Senior Executive Officer  
Steven A. Bartholow, General Counsel  
Frank J. Buzzi, Chief Actuary  
Beatrice E. Ezerski, Secretary to the Board

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## Memorandum on Internal Control

### MATERIAL WEAKNESSES AND SIGNIFICANT DEFICIENCIES

In conjunction with our opinion on the RRB's financial statements for the fiscal years ended September 30, 2007 and 2006, we reported the following material weaknesses and significant deficiencies.

#### Material Weaknesses

##### Information Security

During fiscal year (FY) 2007, the Office of Inspector General (OIG) evaluated information security pursuant to the provisions of the Federal Information Security Management Act.<sup>2</sup> Our review 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.

RRB efforts to strengthen information security continue and progress is being made; however, previously identified significant deficiencies in access controls, risk assessments, and periodic testing and evaluation continue to exist. In addition, the agency's information security program is not yet fully compliant with current requirements for risk based policies and procedures, a certification and accreditation program, a comprehensive remedial action process, continuity of operations planning, and inventory of systems.

Agency management is working to address the weaknesses in its information security program. Although some progress has been made, much work remains to be completed.

##### Social Insurance Fund Balance

The RRB does not have a consistent theory under which it computes the Railroad Retirement program's fund balance for social insurance reporting.

The actuarial assumptions and methods used to measure amounts in the statement of social insurance for financial accounting and disclosure purposes should represent the agency's best estimates. The program fund balance at the beginning of the period is important because it impacts estimated future tax rates on which estimates of future income are based. In addition, the availability of the fund balance to offset any long term estimated actuarial liability created by a shortfall of income over expense is important to understanding the financial condition of the Railroad Retirement program.

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<sup>2</sup> "Fiscal Year 2007 Evaluation of Information Security at the Railroad Retirement Board," OIG Report #07-08, September 27, 2007

## Memorandum on Internal Control

During our audit, we observed that the RRB had used different methods to compute its social insurance fund balance as of January 1, 2006, compared with January 1, 2007, including some amounts previously excluded and excluding other amounts that had been previously included. The impact of the social insurance fund balance on actuarial projections of income and expense for the Railroad Retirement program is described in Note 15 to the RRB's FY 2007 financial statements.

The RRB's actuarial projections also include estimates of future tax rates. Inquiries of management disclosed that neither the 2006 nor the 2007 fund balance had been computed on the same basis used to compute tax rates under the account benefit ratio method for which purpose the agency includes the net assets of the NRRIT as computed under generally accepted accounting principles (GAAP) for private investment companies, the same method used to report on NRRIT-held assets in the RRB's balance sheet.

Inconsistencies in fund balance methodology undermine management's assertion of best estimate and make comparative presentation less meaningful.

### Recommendation

We recommend that the Bureau of the Actuary:

1. work with the Bureau of Fiscal Operations to develop a consistent theory for computing and reporting the Railroad Retirement program's fund balances.

### Management's Response

The Bureau of the Actuary concurred with the recommendation. The full text of management's response is presented as Attachment 1 to this memorandum.

## Significant Deficiencies

### Financial Reporting

Over the years agency responsibility for financial reporting has grown from preparation of financial statements within six months of fiscal year-end, to publication of an annual performance and accountability report within 45 days of fiscal year-end. Publication of that report is an exercise in public accountability of which preparation of accurate, reliable financial statements is but a single part.

### **Memorandum on Internal Control**

The Bureau of Fiscal Operations (BFO) is responsible for preparing agency financial statements and publishing the RRB's annual performance and accountability report. During our FY 2006 audit, we observed that existing procedures and controls over its financial reporting process needed to be updated to fully ensure the quality of the RRB's response to the expanding responsibilities and short timeframes inherent to the Federal financial reporting process. We also observed that the existing control framework was overly reliant on the OIG's annual audit of the financial statements to ensure the completeness and accuracy of the performance and accountability report.

During FY 2007, we found the agency's reporting process much improved by the efforts of BFO management and staff. BFO responded to the OIG's prior year finding by implementing OIG-recommended corrective actions and by implementing an enhanced year-end financial statement review process of their own design.

Although the process has been strengthened, the corrective action has not yet been in operation for a full fiscal year. Accordingly, the OIG continues to cite financial reporting as an area of significant deficiency in internal control pending a full year of experience demonstrating the effectiveness of controls over time.



## Memorandum on Internal Control

*Readers should note that the errors found in the July 2007 version of the Performance and Accountability Report (P&AR) were corrected prior to the final publication of the report. The errors that were uncorrected at September 30, 2007, were provided to agency management on a Summary of Unadjusted Misstatements.*

### Implementation of the Modified Cash Basis of Accounting

During our audit, we questioned two reported year-end balances citing unrecorded accruals for carrier refunds of about \$7.7 million which had been reported to the agency by the Internal Revenue Service.

BFO stated that their treatment was consistent with the modified cash basis of accounting for tax revenue per Statement of Federal Financial Accounting Standard (SFFAS) #7. During our discussions, auditors noted that past decisions which resulted in current procedure were not fully documented and had been developed by managers who were no longer on staff. As a result, BFO was not able to fully support their application of the modified cash basis of accounting and the decision to exclude the accrual.

### Recommendation

We recommend that BFO:

2. review the applicable standard and make specific documented determinations concerning how the modified cash basis of accounting impacts the accounting and reporting of tax revenue.

### Management's Response

BFO has agreed to review the applicable standard and present in BFO's Accounting Procedures Guide how the modified cash basis of accounting impacts the accounting reporting of tax revenue.

The full text of management's response is presented as Attachment 2 to this memorandum.

**Memorandum on Internal Control****Interim Financial Statements Report Outdated Information about the National Railroad Retirement Investment Trust (NRRIT)**

The RRB does not receive timely information about the value of assets held and invested by the NRRIT to support quarterly financial reporting.

The NRRIT is not a Federal agency.<sup>3</sup> As a result, the RRB must rely on the NRRIT to provide monthly information which allows the RRB to calculate the change in the NRRIT's net asset value. This monthly information is provided pursuant to a memorandum of understanding between the RRB, NRRIT, Office of Management and Budget (OMB) and the Department of the Treasury that permits the NRRIT to report its balances on a one month delay. For example, for the period ended June 30, 2007, the RRB reported NRRIT net assets as valued on May 31, 2007, which resulted in an overstatement of the RRB's assets of about \$200,000,000.

In a letter dated October 30, 2007, the Department of the Treasury expressed concerns regarding timely and consistent reporting of NRRIT balances for interim periods and asked the RRB to place more emphasis on eliminating the one month delay.

**Recommendations**

We recommend that BFO:

3. work with the NRRIT to obtain reports of NRRIT net assets within timeframes that will support the RRB's interim financial reporting responsibilities;
4. include footnote disclosure of the use of any out-of-date information; and
5. advise recipients of interim financial reports prepared with out-of-date information of the correct amount when it becomes available and the related discrepancy.

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<sup>3</sup> Under provisions of the Railroad Retirement Survivors' Improvement Act (RRSIA), the NRRIT is not a department, agency, or instrumentality of the Government of the United States and shall not be subject to Title 31, United States Code.

## Memorandum on Internal Control

### Management's Response

In regard to recommendation 3, the Chief Financial Officer contacted the NRRIT regarding elimination of a month from the current reporting cycle and reports that the NRRIT responded that they do not see how they can eliminate a month from the current cycle of financial reporting.

With respect to recommendation 4, BFO responded that they have already included a footnote disclosure to the balance sheet for the first quarter of FY 2008. In regard to recommendation 5, BFO responded that they have e-mailed the correct NRRIT balance to recipients of the balance sheet for the first quarter of FY 2008.

The full text of management's response is presented as Attachment 2 to this memorandum.

### **Incorrect Beginning Balances for the Statement of Budgetary Resources and the Statement of Changes in Net Position**

During our audit, we identified errors in the opening balances of three budgetary general ledger accounts as of June 30<sup>th</sup>. In addition, the statement of net position, as of June 30<sup>th</sup>, incorrectly reported the agency's beginning FY 2006 cumulative results of operation. In each case, the questioned balances did not agree with the audited balances reported as of the end of the prior period.

OMB Circular A-136 states that beginning balances for the current year should be in agreement with ending balances from the prior year.

### Recommendation

We recommend that BFO:

6. review its existing procedures and identify means to better ensure the accuracy of opening balances, including timely identification, to ensure the accuracy of interim reporting.

### Management's Response

BFO has agreed to review existing procedures and formalize them in a section of BFO's Accounting Procedures Guide. The full text of management's response is presented as Attachment 2 to this memorandum.

## Memorandum on Internal Control

### Documentation to Evidence Compliance with GAAP

During our audit, we observed that BFO had not retained the recommended documentation to evidence agency compliance with U.S. Generally Accepted Accounting Principles (GAAP).

The Government Accountability Office (GAO) has developed checklists to support such compliance assessments and has recommended their use for entities that prepare Federal financial statements. These checklists which provide a basis for assessing compliance with Federal accounting, reporting and disclosure requirements, can also serve as a tool to identify deficiencies in the form and content of agency statements.

BFO personnel have advised auditors that they had reviewed, but not formally completed, the GAO Checklist.

### Recommendation

We recommend that BFO:

7. complete the GAO checklist each year to evidence compliance with GAAP or develop an equivalent control.

### Management's Response

BFO has agreed to "revise the APG to formally complete the GAO Checklist." The full text of management's response is presented as Attachment 2 to this memorandum.

### Controls Needed to Ensure Timely Recording

Improvement is needed for the internal controls over the receipt of supporting documentation required for voucher preparation. During our audit we observed that Railroad Unemployment Insurance Act (RUIA) benefit payments totaling almost \$1 million were not recorded in March 2007, the month in which they were disbursed. The benefit payments were recorded in the next accounting period, April 2007, when the documentation was received from the Office of Programs.

BFO records benefit payment activity in the general ledger upon the advice of the Office of Programs which orders the payments. In this case, BFO did not receive the necessary documentation from the Office of Programs and was not alerted to the disbursement. As a control to prevent such errors, BFO performs a reconciliation of confirmations from the disbursement system to the general ledger. However, that control was not effective and did not detect the delay in recording the benefit payment disbursement.

**Memorandum on Internal Control**Recommendation

We recommend that BFO:

8. determine the reason the existing control was ineffective and take additional action to strengthen controls over this process.

Management's Response

BFO has agreed to take additional action to strengthen controls over this process. The full text of management's response is presented as Attachment 2 to this memorandum.

**Controls Over Financial Reporting**

During FY 2007, BFO acted on prior audit recommendations to strengthen controls over the financial reporting process. However, we continue to note some errors.

- The schedule of entries eliminating interfund transactions in consolidation lacked sufficient detail with respect to the affected funds. (September 30<sup>th</sup>)
- The reconciliation of the net cost of operations to the budget contained a balance which could not be supported. The supporting schedule also presented a total for several lines that did not agree to the mathematical sum of those lines. (June 30<sup>th</sup>)
- The Earmarked Funds Note was incorrect because an eliminating entry was omitted. (June 30<sup>th</sup>)

Recommendation

We recommend that BFO:

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

**Memorandum on Internal Control**Management's Response

BFO has agreed to add additional guidance on these matters in the BFO Accounting Procedures Guide. The full text of management's response is presented as Attachment 2 to this memorandum.

**Discrepancies in Manual Intragovernmental Confirmations**

The RRB uses electronic mail transmissions to confirm intragovernmental balances with selected Federal trading partners. During the reconciliation process that supported financial reporting at June 30, 2007, BFO asked four trading partners to confirm incorrect account balances because errors were made in preparing the electronic messages.

Although none of the differences were material, errors in the communications that initiate the confirmation process create a risk of further errors in the accounting processes that rely on such confirmations.

Recommendation

We recommend that BFO:

10. strengthen the existing review process to ensure the accuracy of confirmations sent to Federal trading partners.

Management's Response

BFO responded that they have recently modified the BFO Accounting Procedures Guide Section 9 on RRB Intragovernmental Policies and Procedures and will fully implement them for the next quarterly processing.

The full text of management's response is presented as Attachment 2 to this memorandum.

## Memorandum on Internal Control

### Preparation and Approval of Journal Vouchers

During FY 2007 BFO implemented new procedures in response to prior audit recommendations to strengthen controls over preparation of the paper vouchers and related support that document general ledger accounting. However, we continue to note some errors as described below.

#### Financial Interchange Advances

- BFO personnel prepared ten vouchers, including the preparer's signature, from the period November 2006 through August 2007 to record Treasury advances of approximately \$2.7 billion prior to completion of the transfer. Although not recorded in the general ledger until the advance was received, the vouchers should not have been signed by a preparer until the transfers took place because evidence of transfer is required to support the transaction.
- Seven of the ten vouchers were approved by a reviewer prior to the transfer. The vouchers should not have been approved because available documentation was inadequate to support the voucher.
- In preparing the above vouchers, BFO staff dated the voucher with the anticipated date of the transfer. As a result, the voucher date is after the preparation and, in seven cases, after the approval date.
- We also found one voucher with a computer-generated signature for the preparer for which initials were not provided.
- Eleven vouchers were not supported by RRB internal memoranda authorizing investment of the funds on receipt.

#### Transfers from the Department of Labor

Periodically, funds from the Department of Labor are transferred back to the RRB as needed to pay benefits.

We identified seven vouchers that did not include signed letters authorizing the cash transfers. Six vouchers were supported only by unsigned letters; one voucher did not include a letter.

Two of the seven incidents described above occurred in July 2007, after new BFO procedures had been implemented.

## **Memorandum on Internal Control**

### Reimbursement from the Social Security Administration

The Office of Programs prepares a memorandum requesting a transfer of funds from the Social Security Administration to fund the social security portion of the recurring monthly check issue. The memorandum is sent to BFO and it is used to initiate the request for the transfer of funds and to record the transaction.

During our audit, we identified two of the 12 monthly vouchers that were supported by memoranda that did not include the signatures of the "Authorizing Certifying Officer" and "Reviewer" in the Office of Programs. We did not see any evidence that these memoranda had been questioned by BFO.

### Inaccurate Supporting Schedule

During our audit, we identified a voucher used to record disbursement of RUIA benefit payments that was supported by incorrect information. Although the voucher was accurate as to amount, the supporting schedule was incorrect as to payment control numbers which link the recorded payments to documentation provided by the Office of Programs, where payment originates.

### Recommendation

We recommend that BFO:

11. instruct staff on the proper documentation needed to support transactions prior to the preparation of a voucher, the need to evidence proper voucher preparation even when automated signatures are used, and the need for accurate and consistent documentation to support journal vouchers.

### Management's Response

BFO plans to continue to instruct staff on the proper documentation for vouchers and will enhance BFO's Accounting Procedures Guide section on the preparation of vouchers.

The full text of management's response is presented as Attachment 2 to this memorandum.

### **Quality Assurance Process for Voucher Preparation**

During FY 2007, in response to prior OIG recommendations for improved controls over the voucher preparation process, BFO developed a quality assurance process. Our review of the documentation for this process indicates that this new process could be more effective.



## Memorandum on Internal Control

As presently designed, the quality assurance process relies on very small sample sizes (five vouchers a month) and does not provide for random selection (the same vouchers could be reviewed each month). In addition, the sample evaluation criteria may not flag errors for corrective action. For example, current procedure provides that if two exceptions are found, the voucher is considered acceptable; a voucher will only be identified as incomplete if three or more errors are found for that voucher. Existing procedures do not provide for an action plan that responds to errors once identified.

We also observed that quality assurance reviewers may be hampered by the lack of guidance concerning management's expectations concerning voucher documentation. The current process could be strengthened by examples of properly prepared vouchers as a reference for quality assurance reviewers and responsible staff.

### Recommendations

We recommend that BFO:

12. refine the quality assurance process to increase the sample size, allow for a wider selection of vouchers to be reviewed, and to redefine the number of acceptable errors;
13. support the quality assurance process by documenting examples of a properly completed voucher, including required documentation for each recurring voucher; and
14. develop a specific procedure for how the results of the quality assurance evaluation will be used to improve performance.

### Management's Response

In regard to recommendation 12 and 13, BFO has agreed to refine the quality assurance process and document examples of a properly completed voucher in BFO's Accounting Procedures Guide. With respect to recommendation 14, BFO has agreed to document in BFO's Accounting Procedures Guide a specific procedure for how results of the quality assurance evaluations will be used to improve performance.

The full text of management's response is presented as Attachment 2 to this memorandum.

## Memorandum on Internal Control

### Executing and Recording Transactions

During our audit, we observed that the individual responsible for executing transfers from the Treasury system is also responsible for recording the transaction in the general ledger. This practice does not provide for adequate separation of duties.

BFO documents the redemption of investments with memoranda prepared by the responsible staff accountant. Each memorandum is prepared for the Accounting Officer's signature and addressed to the BFO accountant responsible for executing the transaction. The accountant to which the memorandum is addressed not only executes the redemption transaction in the Treasury system, but also prepares the voucher to record the transaction in the general ledger. Key duties and responsibilities need to be divided or segregated among different people to reduce the risk of error or fraud.<sup>4</sup>

### Recommendation

We recommend that BFO:

15. review the procedures for redemption of investments to ensure proper segregation of duties.

### Management's Response

BFO has agreed to review the procedures for possible additional segregation of duties. The full text of management's response is presented as Attachment 2 to this memorandum.

### Documentation for Legal Representation Process

During our audit, we observed that the Office of General Counsel had not fully documented procedures and activities supporting the legal representations that they provided to auditors during the financial statement audit.

Internal control and all transactions and other significant events need to be clearly documented, and the documentation should be readily available for examination.<sup>5</sup>

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<sup>4</sup>“Standards for Internal Control in the Federal Government,” GAO/AIMD-00-21.3.1 (11/99) page 14

<sup>5</sup> “Standards for Internal Control in the Federal Government,” GAO/AIMD-00-21.3.1 (11/99), page 15

**Memorandum on Internal Control**Recommendation

We recommend that the Office of General Counsel:

16. develop an internal control process for legal representations that complies with applicable GAO internal control standards.

Management's Response

The Office of General Counsel concurs with the recommendation. The full text of management's response is presented as Attachment 3 to this memorandum.

**Internal Controls over Payroll Activities**

The RRB needs to improve its controls over time and attendance data to require the periodic reconciliation of data, proper separation of duties, and that the RRB's payroll responsibilities be clearly defined.

The GSA provides payroll processing service to the RRB. The RRB maintains salary information which is the basis for hourly pay rates and inputs bi-weekly time and attendance data. GSA computes the agency's payroll from this data and makes disbursement from the RRB's cash accounts at the U.S. Treasury. The RRB records payroll expense based on GSA's report of bi-weekly payroll activity.

The GSA payroll system is a distributed data processing system. RRB employees enter time and attendance information from locations throughout the agency. Data is entered by the time and attendance clerk and must be approved by a second employee, termed the certifier.

During our audit we observed that current agency procedure does not include periodic reconciliation with the GSA system or analysis to identify processing errors. In addition, we observed a lack of separation of duties which permits some individuals to certify their own payroll information.

We are also concerned that the RRB may not have clearly defined the agency's payroll responsibilities, including control functions that remain at the RRB. While GSA has primary responsibility for the accuracy of payroll processing, responsibility for certain control activities remain the responsibility of the RRB.

## Memorandum on Internal Control

Pursuant to the requirements of Statement on Auditing Standards (SAS) No. 70, Service Organizations, GSA provided the RRB with a copy of PriceWaterHouseCoopers' Report on GSA National Payroll Center (NPC), Payroll Accounting and Reporting (PAR) System Controls which states that "[t]he NPC's applications and payroll process were designed with the assumption that certain controls would be implemented by customer organizations." A list of those control responsibilities is presented below.

- access to GSA's PAR system is restricted to authorized users;
- authorized users in customer organizations behave in an appropriate manner based on applicable security guidelines and recommendations;
- personnel transactions are properly authorized within the user organization, and are input completely and accurately or sent to GSA for processing in a timely manner;
- time and attendance data is properly authorized within the user organization, and is input completely and accurately in a timely manner;
- output reports are reviewed by appropriate individuals for completeness and accuracy; and
- output received from the NPC is routinely reconciled to relevant user organization control totals.

The Management Control Review Committee provides oversight to the control assessment process that supports the RRB's reporting under the Federal Manager's Financial Integrity Act (FMFIA). The most recent management control review of payroll processing was in 1999, more than five years before the RRB began using the GSA system.

### Recommendations

We recommend that BFO:

17. perform quarterly reconciliations of cumulative general ledger totals with the GSA system to coincide with financial reporting cut-off dates;
18. analyze GSA reports to identify trends that could identify processing errors; and
19. review and update procedures and controls for recording time and attendance.

## Memorandum on Internal Control

We recommend that the Management Control Review Committee:

20. work with BFO to update the risk assessment, chart of controls and flowcharts to clearly identify the RRB's payroll responsibilities and to identify new controls, such as periodic reconciliations and the proper separation of duties.

We recommend that the RRB's Executive Committee:

21. implement an agencywide policy prohibiting employees from certifying their own time and attendance or develop a compensating control.

### Management's Response

In regard to recommendation 17, BFO responded that they have performed the first reconciliation on the first quarter FY 2008 totals. With respect to recommendation 18, BFO responded that they have prepared trend data on a biweekly basis. In regard to recommendation 19, BFO has agreed to review and update the Payroll User Guide which provides guidance for time and attendance. The full text of BFO's response is presented as Attachment 2 to this memorandum.

With respect to recommendation 20, the Management Control Review Committee has agreed to work with BFO to update documentation of payroll controls. The full text of the Management Control Review Committee's response is presented as Attachment 4 to this memorandum.

In regard to recommendation 21, the Executive Committee has agreed to develop a compensating control to monitor time and attendance certification activity. The full text of the Management Control Review Committee's response is presented as Attachment 5 to this memorandum.

### **Controls Over the Actuarial Projection Process and Social Insurance Reporting**

The RRB's Bureau of the Actuary is responsible for preparing the statement of social insurance. During our audit, we identified several areas in which controls over the actuarial projection process and social insurance reporting could be improved.

During our audit we observed that the Bureau of the Actuary's quality assurance process is limited to a high-level review of the final work product prior to release. An effective quality assurance process should also include a detailed post-release review of the documentation and work product for conformance with established internal and external standards by a professional who did not participate in its preparation.

## Memorandum on Internal Control

We noted that the sign-off sheet which is retained as evidence that planned control procedures were performed does not reference the related requirements in the applicable procedure manual and that it does not capture the date that the procedure was performed. In addition, we noted that the procedure manual did not reflect several recent updates to bureau procedure.

### Recommendations

We recommend that the Bureau of the Actuary:

22. develop additional quality assurance procedures;
23. reference the sign-off sheet to the procedure manual to ensure that the sign-off process is complete with respect to required procedures;
24. require that the internal control sign-off sheet include the date procedures are performed; and
25. update the procedure manual to ensure that it reflects current approved practice.

### Management's Response

The Bureau of the Actuary concurred with the recommendations. With respect to recommendation 24, the Bureau of the Actuary has agreed to include the last date on the sign-off sheet for procedures performed on multiple dates.

The full text of management's response is presented as Attachment 1 to this memorandum.



UNITED STATES GOVERNMENT  
**MEMORANDUM**

FORM G-1151 (1-92)  
RAILROAD RETIREMENT BOARD

February 13, 2008

TO: Letty Benjamin Jay  
Assistant Inspector General for Audit

FROM: Frank J. Buzzi *Frank J. Buzzi*  
Chief Actuary

SUBJECT: Draft Letter to Management  
FY 2007 Financial Statement Audit

Thank you for the opportunity to review and comment on the subject draft letter to management.

We concur with recommendations 1, 22, 23, 24, and 25. With respect to recommendation 24, we will include the last date on the sign-off sheet for procedures performed on multiple dates.

Our target completion date for these recommendations is July 31, 2008.

cc: Chief Financial Officer



UNITED STATES GOVERNMENT  
**MEMORANDUM**

FORM G-1157 (1-82)  
 RAILROAD RETIREMENT BOARD

**FEB 21 2008**

**TO** : Letty B. Jay  
 Assistant Inspector General for Audit

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

**THROUGH:** Kenneth P. Boehne  
 Chief Financial Officer *Kenneth P. Boehne*

**SUBJECT:** Letter to Management – Fiscal Year 2007 Financial Statement Audit

Thank you for giving us the opportunity to comment on your draft Letter to Management. We appreciate that you recognize the financial reporting process has expanded responsibilities and shorter time frames. The process has expanded from preparation of financial statements within 6 months of the fiscal year-end, to publication of an annual Performance and Accountability Report within 45 days of the fiscal year-end. We have reviewed the above draft memorandum dated February 6, 2008, and our comments on recommendations are as follows:

**Recommendations:**

**We recommend that BFO:**

2. ***review the applicable standard and make specific documented determinations concerning how the modified cash basis of accounting impacts the accounting and reporting of tax revenue.***

We will review the applicable standard and present in BFO's Accounting Procedures Guide (APG) how the modified cash basis of accounting impacts the accounting and reporting of tax revenue. Target date: June 2008.

3. ***work with the NRRIT to obtain reports of NRRIT net assets within timeframes that will support the RRB's interim financial reporting responsibilities;***

On October 31, 2007, the Chief Financial Officer contacted the NRRIT regarding elimination of a month from the current reporting cycle. NRRIT's Senior Administrative Officer responded as follows: "Regarding the 1<sup>st</sup> paragraph on the second page concerning the lag in reporting data to the



RRB, to be candid, we do not see how we can eliminate a month from the current cycle of reporting financial information as required in the MoU. If we remove a month from the reporting cycle, the data would be due the 2nd business day after a month end. It is not possible at this time (nor in the foreseeable future) to get final valuations of the NRRIT portfolio (data gathered and MoU reports completed) 2 days after the close of the month. The reality is that account valuations for all of the different types of investments are not finalized until 6-8 business days after the month end. We would not want to try to produce MoU reports based on preliminary data.”

**4. *include footnote disclosure of the use of any out-of-date information;***

We implemented this recommendation by, beginning with the first quarter of fiscal year 2008, adding a footnote to the balance sheet.

**5. *advise recipients of interim financial reports prepared with out-of-date information of the correct amount when it becomes available and the related discrepancy.***

We implemented this recommendation by, beginning with the first quarter of fiscal year 2008, emailing the NRRIT balance to recipients of the balance sheet.

**6. *review its existing procedures and identify means to better ensure the accuracy of opening balances including timely identification to ensure the accuracy of interim reporting.***

We will review existing procedures and formalize them in a section of BFO's APG. Target date: June 30, 2008.

**7. *complete the GAO checklist each year to evidence compliance with GAAP or develop an equivalent control.***

We currently use Section 2 (pages 2-17 and 2-18) of BFO's APG and reference the GAO Checklist to evidence compliance with GAAP. We will revise the APG to formally complete the GAO Checklist. Target date: December 1, 2008.

**8. *determine the reason the existing control was ineffective and take additional action to strengthen controls over this process.***

We will take additional action to strengthen controls over this process. Target date: June 30, 2008.

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

BFO's APG will have additional guidance added on these matters. Target date: June 30, 2008.

- 10. strengthen the existing review process to ensure the accuracy of confirmations sent to Federal trading partners.**

We have recently modified BFO's APG Section 9 on RRB Intragovernmental Policies and Procedures and will fully implement them for the next quarterly processing. Target date: June 30, 2008.

- 11. instruct staff on the proper documentation needed to support transactions prior to the preparation of the voucher, the need to evidence proper voucher preparation even when automated signatures are used, and the need for accurate and consistent documentation used to support journal vouchers.**

We will continue to instruct staff on the proper documentation for vouchers and will enhance BFO's APG section on the preparation of vouchers. Target date: June 30, 2008.

- 12. refine the quality assurance process to increase the sample size, allow for a wider selection of vouchers to be reviewed, and to redefine the number of acceptable errors;**

We will refine the quality assurance process. Target date: June 30, 2008.

- 13. support the quality assurance process by documenting examples of a properly completed voucher, including required documentation for each recurring voucher;**

We will document examples of a properly completed voucher in BFO's APG. Target date: June 30, 2008.

**14. develop a specific procedure for how the results of the quality assurance evaluation will be used to improve performance.**

We will document in BFO's APG a specific procedure for how results of the quality assurance evaluations will be used to improve performance. Target date: June 30, 2008.

**15. review procedures for redemption of investments to ensure proper segregation of duties.**

The current responsibilities of authorizing, processing, and recording investments involve at least two individuals. However, we will review the procedures for possible additional segregation of duties. Target date: June 30, 2008.

**17. perform quarterly reconciliations of cumulative general ledger totals with the GSA system to coincide with financial reporting cut-off dates;**

This recommendation was implemented when the first quarterly reconciliation was performed on the 1<sup>st</sup> quarter fiscal year 2008 totals.

**18. analyze GSA reports to identify trends that could identify processing errors; and**

We implemented this recommendation by preparing trend data on a biweekly basis.

**19. review and update procedures and controls for recording time and attendance.**

We will review and update the *Payroll User Guide* which provides guidance for time and attendance. Target date: August 30, 2008.

cc: Ed Fleming, Accounting Officer  
Rich Lannin, Senior Accountant  
Liz Stubits, Accountant  
Edie Natividad, Accountant  
Dave Miller, Finance Officer  
Kris Garmager, Financial Systems Manager  
Hattie Fitzgerald, Financial Compliance Officer  
Bill Flynn, Executive Assistant  
Jill Roellig, Management Analyst



UNITED STATES GOVERNMENT

**MEMORANDUM**

FORM G-115f (1-92)

RAILROAD RETIREMENT BOARD

**FEB 11 2008**

**TO** : Letty Benjamin Jay  
Assistant Inspector General for Audit

**FROM** : Steven A. Bartholow  
General Counsel

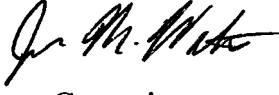
A handwritten signature in black ink, appearing to read "S. Bartholow", written over the printed name of the sender.

**SUBJECT** : Draft Letter to Management  
FY 2007 Financial Statement Audit

This is in response to your memorandum on the above subject dated February 6, 2008. I have reviewed the Draft Letter to Management, including recommendation 16 concerning documentation for the legal representation process. I concur with recommendation 16.

UNITED STATES GOVERNMENT  
**MEMORANDUM**FORM G-1161 (1-82)  
RAILROAD RETIREMENT BOARD**FEB 25 2008**

**TO** : Letty B. Jay  
Assistant Inspector General for Audit

**FROM** : John M. Walter, Chair   
Management Control Review Committee

**SUBJECT:** Draft Letter to Management – FY 2007 Financial Statement Audit

Thank you for the opportunity to review and comment on the above draft report dated February 6, 2008. Our comment on the recommendation is as follows:

**Recommendation 20:** We recommend that the Management Control Review Committee work with BFO to update the risk assessment, chart of controls and flowcharts to clearly identify the RRB's payroll responsibilities and to identify new controls, such as periodic reconciliations and the proper separation of duties.

**MCRC Comment:** The MCRC and staff will work with the Bureau of Fiscal Operations to update documentation of payroll controls by the end of August 2008.

We have no comments on the other recommendations in this draft report. If you have any questions concerning our comments, please advise.

cc: Kenneth P. Boehne, Chief Financial Officer  
David Miller, Finance Officer  
Hattie Fitzgerald, Financial Compliance Officer  
Management Control Review Committee  
Jill Roellig, Management Analyst  
Bill Flynn, Executive Assistant



UNITED STATES GOVERNMENT

**MEMORANDUM**FORM G-115f (1-92)  
RAILROAD RETIREMENT BOARD

February 13, 2008

**TO** : Letty Benjamin Jay  
Assistant Inspector General for Audit

**FROM** : Henry M. Valitullis  
Director of Administration/Senior Executive Officer

**SUBJECT:** Draft Letter to Management  
FY 2007 Financial Statement Audit

This is in response to your draft "Letter to Management" which was prepared in conjunction with the Railroad Retirement Board's FY 2007 financial statements audit. In the letter you had asked for a statement of concurrence or non-concurrence with the finding and recommendation directed to the Executive Committee.

*#21. We recommend that the RRB's Executive Committee implement an agencywide policy prohibiting employees from certifying their own time and attendance or develop a compensating control.*

The Executive Committee considered your recommendation and agreed to develop a compensating control to monitor time and attendance certification activity. The control will be implemented by each organization by May 31, 2008, or sooner.

Thank you for the opportunity to respond to the draft recommendation.

cc: Executive Committee