

Review of Internal Control Over Budget Execution
Report No. 05-09, September 6, 2005

INTRODUCTION

This report presents the results of the Office of Inspector General's (OIG) review of internal control over budget execution.

Background

The RRB administers the retirement/survivor and unemployment/sickness insurance benefit programs for railroad workers and their families under the Railroad Retirement Act (RRA) and the Railroad Unemployment Insurance Act (RUIA). These programs provide income protection during old age and in the event of disability, death, temporary unemployment or sickness. The RRB paid nearly \$9.1 billion in benefits during fiscal year 2004.

The Federal government incurs obligations when orders are placed, contracts awarded or services are received. Obligations are liquidated when funds are disbursed; such payments are termed outlays or expenditures. Before obligations can be incurred by a Federal entity, an appropriation must be made available by Congress. Only Congress can appropriate funds or budget authority to permit expenditure of Federal money. By law, the Office of Management and Budget (OMB) has the responsibility to apportion the various funds appropriated by Congress to regulate the rate of fund use by agencies. Thus, OMB must approve all apportionment requests before a Federal agency can obligate the government or expend Federal funds.

Throughout the year, the RRB incurs obligations and makes outlays to carry out funded programs, projects, and activities. The agency is responsible for ensuring that appropriated funds are used within the specified time periods and only for the purposes and amounts authorized by Congress and OMB.

The Budget Section, within the agency's Bureau of Fiscal Operations (BFO), is responsible for preparing budget requests, recording budgetary transactions and monitoring budget execution. The Federal Financial System (FFS), the mainframe application that supports general ledger accounting, includes an integrated budget subsystem that supports recording and reporting of budget authority.

The RRB established the Management Control Review Committee (MCRC) to provide the Board Members and all RRB stakeholders with reasonable assurance that the RRB is taking systematic and proactive measures to develop and implement results-oriented, cost-effective management controls. The MCRC is also responsible for continually assessing the adequacy of management controls, identifying needed improvements, taking appropriate corrective actions,

and reporting annually on management controls. To this end, the MCRC issues guidance, provides advice on control issues referred by all levels of management, encourages and supports coordination of control issues crossing organizational lines and advises senior management on whether reported weaknesses are material.

One of the RRB's strategic goals is to serve as responsible stewards for the customers' trust funds and agency resources by ensuring that trust fund assets are projected, collected, recorded, and reported appropriately. This review supports the agency's efforts in meeting that goal.

Objective

The objective of this audit was to assess the effectiveness of internal control in ensuring that budgetary transactions are properly recorded, summarized and reported in accordance with applicable laws and regulations.

Scope

The scope of this audit was controls in effect during FY 2005. We extended our tests of transactions to include certain payments processed during October 2002 through December 2004 (27 months) in order to assess the effectiveness of controls over a longer period of time.

Methodology

In order to accomplish our objective, we

- interviewed responsible management and staff;
- identified controls;
- tested controls and transactions;
- analyzed FFS data extracts; and
- obtained and reviewed the management control review documentation for the Budget Execution assessable unit.

We used the Government Accountability Office's (GAO) Standards for Internal Control in the Federal Government as the primary criteria for this assessment.

Our work was performed in accordance with generally accepted government auditing standards as applicable to the objective. Fieldwork was performed at the RRB headquarters in Chicago, Illinois during January through May 2005.

RESULTS OF REVIEW

Our review disclosed that BFO has not implemented a comprehensive system of internal control for budget execution, and that the agency's management control review program was not effective in disclosing the system's deficiencies. Agency controls over budget execution are not adequate because they do not include:

- effective separation of duties in the recording and approval of transactions;
- adequate supporting documentation for transactions and reports; or
- controls to ensure timely recording of obligations to the correct fiscal year.

During our review, we also identified expenditures for membership fees during years when such expenditures from appropriated funds were prohibited.

Authorization & Segregation Of Duties

Existing controls over recording budgetary transactions are not effective in ensuring all transactions are fully authorized because they do not include effective segregation of duties. Our tests of transactions and FFS system settings disclosed that budgetary transactions are frequently entered and approved by the same individuals.

Key duties and responsibilities need to be divided or segregated among different people to reduce the risk of error or fraud. This segregation should include separating the responsibilities for authorizing transactions, processing and recording them, reviewing the transactions, and handling any related assets.

BFO's implementation of FFS approval features for budgetary transactions permits some individuals to approve their own data entry. Although the Budget Section maintains manually prepared logs detailing approval of certain transactions, these logs do not include all transactions processed by the section and cannot prevent or detect errors. BFO previously implemented an OIG recommendation to segregate entry and approval of voucher transactions entered by its Accounting Section but did not extend implementation to the Budget Section.¹

As a result of the lack of segregation of duties, BFO has not ensured that only authorized transactions will be processed into its accounting system. Our review

¹ "Review of Internal Control Over Financial Accounting For Obligations, Expenditures and Accounts Payable," OIG Audit Report No. 01-04, April 6, 2001.

of budgetary transactions processed into FFS during the first quarter of FY 2005 showed that 106 of 284 (37%) had been entered and approved by the same individual. In response to an earlier audit recommendation, BFO reduced the number of such transactions during the second and third quarter of the fiscal year. During that period only 13 of 78 (17%) had been entered and approved by the same individual; however, the FFS system's security settings were not modified to prevent such transactions.

Recommendation

We recommend that:

1. BFO modify FFS system security settings to prevent system users from entering and approving the same transaction.

Management's Response

BFO has adjusted the FFS security settings to ensure that the same individual cannot enter and post budget allotments. In FY 2006, they will periodically review FFS records for other transactions to determine whether further security restrictions are needed. The full text of BFO's response is presented in Appendix II.

Supporting Documentation

BFO does not maintain adequate supporting documentation for budgetary transactions and reports.

Internal control, transactions and other significant events need to be clearly documented, and the documentation should be readily available for examination. Documentation should be complete, accurate and facilitate tracing the transaction or event, and related information, from authorization and initiation through processing to completion.

Current procedure does not include preparation and filing of comprehensive supporting documentation for all transactions and reports. During our audit we requested access to supporting documentation for budgetary transactions recorded in FFS and on Form SF-132, "Apportionment and Reapportionment Request."² The requested documentation was not readily available for review and, in some cases, not available at all.

The Budget Section maintains manual logs that document that section's review, approval and timing of most transactions; however, documentation to support the

²Form SF-132 "Apportionment and Reapportionment Request" is submitted to OMB to secure the required approval of apportionment of funds appropriated by Congress prior to obligation by the agency.

basis for the transaction is not always filed with the log. BFO does not maintain a single file of supporting documentation for forms SF-132 submitted to OMB. We were directed to a variety of sources to obtain verification of the accuracy of figures within the SF-132; none were comprehensive.

As a result, BFO is unable to adequately demonstrate the basis for recording and reporting budgetary transactions. A good system of supporting documentation preserves the documentation that was actually used in the preparation of the transaction or report. Typically, these are the same materials reviewed by the authorizer before approving transaction processing or document release.

Recommendations

We recommend that BFO retain more comprehensive supporting documentation for:

2. transactions entered into FFS by the Budget Section; and
3. Form SF-132, "Apportionment and Reapportionment Request."

Management's Response

Beginning with the first quarter of FY 2006, BFO will identify and retain source documents related to FFS transactions and SF-132's. The full text of BFO's response is presented in Appendix II.

Obligations Not Always Recorded Timely

Some obligations are not recorded timely. Our analysis of FFS data and detailed examination of selected transactions identified 26 vendor invoices that were paid from obligations recorded after services had begun or goods were delivered.³

These transactions included:

- 13 obligations recorded more than 30 days after the first full month of services had been rendered or after goods were delivered;
- three obligations recorded in an incorrect fiscal year;
- two obligations recorded in amounts exceeding the supporting documentation; and
- one vendor invoice that was overpaid.⁴

³The questioned transactions were identified by selecting a sample of obligations for which FFS data indicated that the related obligation had been established after the date of the invoice. This judgment sampling was intended to identify examples and is not representative of the entire population.

⁴The vendor subsequently refunded the overpayment.

Some of the delayed recording was associated with annual agreements for services for which the obligation was recorded piecemeal. The details of the questioned obligations are presented in Appendix I.

All obligations should be recorded timely within the proper period to ensure accuracy of budgetary reporting and prevent violations of the Anti-Deficiency Act. The Anti-Deficiency Act places limitations on the obligation and expenditure of government funds. Expenditures and obligations may not exceed the amounts available in the related appropriation or fund accounts. Unless allowed by law, amounts may not be obligated before they are appropriated. Additionally, the amount of obligations and expenditures may not exceed the amount of the apportionments received.⁵

The RRB has not implemented controls to ensure that obligations are recorded timely. As a result, FFS does not always provide current information about the status of agency obligations with respect to available appropriations and the agency's risk of violating the Anti-Deficiency Act is increased.

Although BFO is not responsible for the recording of agency obligations, the Bureau of Fiscal Operations is responsible for monitoring and reporting on budget execution for which it relies on FFS system data. In addition, as owner of the FFS system, BFO is custodian of the data that would support identification of delayed recording.

Recommendations

We recommend that BFO:

4. develop a control to identify organizations that do not disclose and record obligations within timeframes acceptable to BFO;
5. establish controls to ensure the accuracy of obligations and payments when vendor invoices are paid piecemeal; and
6. provide training in the requirements of the Anti-Deficiency Act and the role FFS plays in ensuring compliance to managers and staff responsible for entering into agreements and recording obligations.

Management's Response

BFO has agreed to develop a procedure to provide for periodic review of cases in which obligations are not recorded timely based on FFS records and will provide the recommended training.

⁵ See 31 U.S.C. §§ 1341-1342, 1349-1351, and 1511-1517.

BFO has declined to take action in response to recommendation #5 because they believe that the procurement issues being addressed are primarily managed by the Office of Administration and the recommendation should be directed to that organization.

The full text of BFO's response is presented in Appendix II.

OIG's Comments on Management's Response

The OIG believes that recommendation #5 pertains directly to BFO's responsibility for oversight of the agency budget and payment processing. Although the Office of Administration is generally responsible for recording obligations, BFO experiences the consequences of recording errors when managing the budget and processing the payments. BFO's current payment procedures do not include controls to prevent overpayments of the kind identified during the audit.

Management Control Review Needs Improvement

The RRB's management control review process has not been effective in assessing risk, identifying control objectives or developing control techniques for budget execution.

A comprehensive system of internal control includes a risk assessment process, implementation of appropriate control activities, and monitoring to assess the quality of performance over time. The RRB has established the Management Control Review Committee (MCRC) to oversee the RRB's internal control assessment process and provide guidance to managers in performing the individual evaluations that support the assessment of the adequacy of internal control agencywide.

The management control review process did not identify control weaknesses in the Budget Execution system. The MCRC accepted BFO's assessment of risk and control effectiveness even though:

- 7 of the 15 control techniques were assertions that describe control objectives rather than control activities; and
- 6 of the 15 control techniques described procedures that are insufficiently detailed to determine how they function as management controls.

As a result, the management control review for Budget Execution does not provide higher levels of agency management with an adequate basis for reliance when providing assurance on the effectiveness of internal control agencywide.

Recommendation

We recommend that the MCRC:

7. work with BFO to develop an internal control assessment process for the Budget Execution System Assessable Unit that meets agency and GAO standards for internal control.

Management's Response

The MCRC has agreed to work with the Bureau of Fiscal Operations to document current Budget Execution controls. The full text of the MCRC's response is presented in Appendix III.

Prohibited Expenditure

The RRB needs to strengthen controls to ensure that appropriated funds are used only for authorized purposes.

During this review, OIG auditors questioned \$8,300 that the RRB paid for memberships in professional organizations during FYs 1999-2004. The membership fees were paid on behalf of a bureau head and two of his staff. The bureau head had authorized the expense based on his experience that payment of such fees was a common practice in private industry. The bureau charged the expenditure to the budget object code for "temporary services" instead of inquiring about the proper budget classification of the expense.

Historically, the use of appropriated funds to pay for memberships in organizations (professional and otherwise) for the benefit of individual employees was prohibited under 5 U.S.C. § 5946. In December 2001, Public Law 107-107, (5 U.S.C. § 5757(a)) authorized agencies to, in their discretion, use appropriated funds to pay expenses incurred by employees to obtain professional credentials, state imposed and professional licenses, and professional certifications. Under this law, an agency may only pay employee expenses necessary to qualify for a particular profession. Agency payment of fees for voluntary memberships in organizations of already-credentialed professionals remains prohibited under 5 U.S.C. § 5946.

OIG auditors brought this matter to the attention of the bureau head who had requested the payments. At his request, the agency's Bureau of Law reviewed the issue and advised that the membership fees paid prior to December 2001 were prohibited pursuant to the restrictions of 5 U.S.C. § 5946 but could be properly approved for payment after December 2001.

Based on the opinion of the Bureau of Law, the bureau head and the one staff member affected by the Bureau of Law's opinion formally reported the improper payments to the RRB's Chief Financial Officer and requested waiver of recovery of the \$2,835 paid prior to December 2001. Action on that request is pending.

Recommendations

We recommend that BFO:

8. ensure that management and staff who negotiate for goods and services, and authorize obligations are aware of the limitations on the use of appropriated funds.

Since the agency is not required to pay for membership fees, and other agency professionals may be eligible, the RRB should establish a policy concerning such expenditures. Accordingly, we recommend that BFO:

9. refer the issue of an agencywide policy concerning payment of fees for membership in professional organizations to the appropriate organizational component.

Management's Response

BFO has agreed to provide the recommended training and to refer the issue of the payment of fees for memberships to the General Counsel's office. The full text of BFO's response is presented in Appendix II.

RECORDING OF OBLIGATIONS IN FFS DELAYED

We analyzed payments processed during the 27 month period October 1, 2002 through December 31, 2004 to identify obligations established after the date of the vendor’s invoice. The following listing presents the details of the 26 obligations questioned because they were recorded after services began or goods were delivered.

√ indicates the 13 obligations that were recorded more than 30 days after the first full month of service had been rendered or goods had been delivered.

* indicates the 3 obligations that were not recorded against the correct fiscal year’s appropriation.

We have also noted the two items for which the agency’s recorded obligation or payment exceeded the amounts supported by the vendor invoice.

The data analysis and review of supporting documentation was intended to determine whether delays occur, and to identify examples to illustrate the discussion. The results of this test will not support inferences about the frequency of delayed recording or the length of delays.

I. Obligations Recorded with a Single Purchase Order

In the following 18 cases, a single purchase order was used to record the agency’s obligation.

	INVOICE DATE	SERVICES PERIOD OR GOODS DELIVERED	PURCHASE ORDER DATE	AMOUNT OBLIGATED	
1	8/31/2004	Software Upgrade circa August 2004	09/21/2004	\$15,716.00	
2	01/7/2003	03/08/03 - 03/07/04	03/12/2003	\$17,615.00	
3	10/1/2003	10/01/03 - 10/31/03	12/17/2003	\$13,343.00	√
4	11/1/2003	11/01/03 - 11/30/03	12/17/2003	\$13,343.00	
5	07/01/2002	07/01/02-06/30/03	11/19/2002	\$1,694.59	√*
6	10/01/2002	10/01/02 - 10/31/02	11/05/2002	\$13,343.00	
7	04/01/2004	10/01/03 - 03/31/04	09/29/2004	\$133.50	√
8	04/01/2004	10/01/03 - 03/31/04	09/29/2004	\$1,208.00	√
9	04/01/2004	10/01/03 - 03/31/04	09/29/2004	\$253.50	√
10	02/01/2003	10/01/02 - 10/28/02	11/01/2002	\$1,679.47	

RECORDING OF OBLIGATIONS IN FFS DELAYED

	INVOICE DATE	SERVICES PERIOD OR GOODS DELIVERED	PURCHASE ORDER DATE	AMOUNT OBLIGATED	
11	01/23/2003	02/04/03 - 05/03/03	04/15/2003	\$1,067.50	√
12	01/23/2003	11/01/02 - 01/31/03	04/15/2003	\$555.00	√
13	05/30/2003	05/09/2003	01/29/2004	\$604.50	√*
14	10/31/2002	01/01/03 - 12/31/03	01/28/2003	\$5,610.00	
15	12/27/2002	BEFORE 12/27/02 - BILLED AFTER SERVICE	04/10/2003	\$2,023.87	√
16	10/28/2003	10/01/03 - 12/31/03	10/23/2003	\$73,828.50	
17	10/01/2004	10/01/04 - 10/31/04	11/22/2004	\$13,343.00	
18	11/01/2004	11/01/04 - 11/30/04	11/22/2004	\$13,343.00	

II. Obligations Recorded Using Multiple Purchase Orders

In the following 8 cases, multiple purchase orders were entered to record the agency's obligation for recurring services that had been billed on a single invoice. The auditor's determination of timeliness was made by comparing purchase order amounts with estimated accrued cost based on the amounts billed by the vendor.

	INVOICE DATE	INVOICE AMOUNT	PERIOD OF SERVICE	PURCHASE ORDER DATE	AMOUNT OBLIGATED	
1	03/08/2005	\$295,314.00	10/01/04 - 09/30/05	11/18/2004	\$49,220.00	
	03/08/2005	\$295,314.00	10/01/04 - 09/30/05	01/21/2005	\$246,093.00	
2	09/02/2003	\$4,032.00	10/01/03 - 09/30/04	12/08/2003	\$1,344.00	√
	09/02/2003	\$4,032.00	10/01/03 - 09/30/04	02/23/2004	\$2,688.00	

APPENDIX I

RECORDING OF OBLIGATIONS IN FFS DELAYED

	INVOICE DATE	INVOICE AMOUNT	PERIOD OF SERVICE	PURCHASE ORDER DATE	AMOUNT OBLIGATED	
3	08/01/2002	\$95,449.25	10/01/02 - 09/30/03	10/31/2002	\$15,912.20	
	08/01/2002	\$95,449.25	10/01/02 - 09/30/03	12/12/2002	\$7,954.10	
	08/01/2002	\$95,449.25	10/01/02 - 09/30/03	01/30/2003	\$4,954.10	
	08/01/2002	\$95,449.25	10/01/02 - 09/30/03	02/04/2003	\$2,996.00	
	08/01/2002	\$95,449.25	10/01/02 - 09/30/03	03/26/2003	\$63,632.60	
4	11/20/2002	\$118,920.56	10/01/02 - 09/30/03	10/31/2002	\$10,804.00	
	11/20/2002	\$118,920.56	10/01/02 - 09/30/03	12/12/2002	\$14,419.00	\$130,222.00
	11/20/2002	\$118,920.56	10/01/02 - 09/30/03	01/24/2003	\$4,500.00	Total
	11/20/2002	\$118,920.56	10/01/02 - 09/30/03	01/29/2003	\$9,921.00	Obligated
	11/20/2002	\$118,920.56	10/01/02 - 09/30/03	03/20/2003	\$90,578.00	See Note 1
						Below
5	08/01/2003	\$102,130.60	10/01/03 - 09/30/04	12/09/2003	\$34,045.00	√
	08/01/2003	\$102,130.60	10/01/03 - 09/30/04	03/02/2004	\$68,085.60	
						\$153,581.64
6	10/07/2004	\$140,258.44	10/01/04 - 09/30/05	11/17/2004	\$23,377.40	Total
	10/07/2004	\$140,258.44	10/01/04 - 09/30/05	01/21/2005	\$130,204.24	Obligated
						See Note 2
						Below
7	09/23/2004	\$1,200.00	September 2004	11/24/2004	\$1,200.00	√*
8	07/28/2003	\$140,619.92	10/01/03 - 09/30/04	12/09/2003	\$52,403.60	√
	07/28/2003	\$140,619.92	10/01/03 - 09/30/04	03/09/2004	\$88,216.32	

Note 1

The total amount paid exceeded the amount of the supporting invoice by \$11,301.44. This overpayment was refunded by the vendor approximately 5 months after the last payment was issued but prior to this audit.

Note 2

The total amount obligated exceeds the amount of the supporting invoice by \$13,323.20. This discrepancy was referred to BFO on July 11, 2005.

RAILROAD RETIREMENT BOARD



UNITED STATES GOVERNMENT

MEMORANDUM

AUG 30 2005

TO : Henrietta B. Shaw
Assistant Inspector General, Audit

FROM : Kenneth P. Boehne
Chief Financial Officer

A handwritten signature in cursive script, appearing to read "Kenneth P. Boehne".

SUBJECT: Draft Report – Review of Internal Control Over Budget Execution

Thank you for the opportunity to review and comment on your draft audit report. Following are our comments concerning the recommendations directed to the Bureau of Fiscal Operations (BFO).

- 1. BFO should modify FFS system security settings to prevent system users from entering and approving the same transaction.**

We have adjusted the FFS security settings to ensure that the same individual cannot enter and post budget allotments. In fiscal year 2006, we will periodically review FFS records for other transactions to determine whether further security restrictions are needed.

- 2. BFO should retain more comprehensive supporting documentation for transactions entered into FFS by the Budget Section.**

Beginning with the first quarter of fiscal year 2006, the Budget Division will identify the source documents related to transactions entered into FFS and retain copies in an associated reference file.

- 3. BFO should retain more comprehensive supporting documentation for Form SF-132, Apportionment and Reapportionment Request.**

Beginning with the first quarter of fiscal year 2006, the Budget Division will identify the source documents related to the SF-132's and retain copies in an associated reference file.

- 4. BFO should develop a control to identify organizations that do not disclose and record obligations within timeframes acceptable to BFO.**

BFO staff will develop a procedure in fiscal year 2006 to provide for periodic review of cases in which obligations are not recorded timely based on FFS records. Cases will be referred back to the originating organizations for further action when it appears that processing errors have been made.

- 5. BFO should establish controls to ensure the accuracy of obligations and payments when vendor invoices are paid piecemeal.**

This recommendation addresses procurement issues which are primarily managed by the Office of Administration. Although BFO staff would be willing to participate in making any needed changes, we believe that the recommendation should be addressed to the Office of Administration.

- 6. BFO should provide training in the requirements of the Anti-Deficiency Act and the role FFS plays in ensuring compliance to managers and staff responsible for entering into agreements and recording obligations.**

We will arrange to provide training on this topic to managers and staff involved with the process during fiscal year 2006.

- 7. BFO should ensure that management and staff who negotiate for goods and services, and authorize obligations are aware of the limitations on the use of appropriated funds.**

We will include this topic in training provided to managers and staff during fiscal year 2006.

- 8. BFO should refer the issue of an agency-wide policy concerning payment of fees for membership in professional organizations to the appropriate organizational component.**

We will refer this issue to the General Counsel's office within 60 days after you release your final report.

Please let me know if you would like to discuss our planned actions.

cc: Director of Administration



UNITED STATES GOVERNMENT

MEMORANDUM

FORM G-115f (1-82)

RAILROAD RETIREMENT BOARD

AUG 22 2005

TO : Henrietta B. Shaw
Assistant Inspector General, Audit

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

SUBJECT: Draft Report – Review of Internal Control Over Budget Execution

Thank you for the opportunity to review and comment on the above draft report dated August 10, 2005. Our comments on the recommendations are as follows:

Recommendation 7: We recommend that the MCRC work with the Bureau of Fiscal Operations to develop an internal control assessment process for the Budget Execution System Assessable Unit that meets agency and GAO standards for internal control.

MCRC Comment: The MCRC and staff will work with the Bureau of Fiscal Operations to document current Budget Execution controls by the end of August 2006.

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
Georgia C. Blalock, Budget Officer
Hattie Fitzgerald, Financial Compliance Officer
Management Control Review Committee
✓ Linda Wimbourne, Management Analyst
Bill Flynn, Executive Assistant