

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

**Fiscal Year 2014 Financial Statement Audit  
Letter to Management**

**Report No. 15-05  
March 31, 2015**



**RAILROAD RETIREMENT BOARD**



UNITED STATES RAILROAD RETIREMENT BOARD

OFFICE OF INSPECTOR GENERAL

March 31, 2015

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

The purpose of this letter is to transmit internal control matters that came to our attention during our fiscal year (FY) 2014 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 7, 2014, except for matters relating to the net assets of the National Railroad Retirement Investment Trust (NRRIT), as of September 30, 2014 as to which the date is November 14, 2014. We also audited the RRB's closing package financial statements and issued our report thereon dated November 17, 2014. We performed our audit in accordance with U.S. generally accepted government auditing standards and Office of Management and Budget (OMB) audit guidance as applicable to the scope of our audit.<sup>1</sup> We have not considered internal control since we ended fieldwork for the general purpose audit opinion on November 7, 2014 and the closing package audit opinion on November 17, 2014.

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 7, 2014 and November 17, 2014, 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 2014 Financial Statements*, OIG Report No. 15-01 (Chicago, IL: November 17, 2014).

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  
Frank J. Buzzi, Chief Actuary  
Michael Tyllas, Director of Programs  
John M. Walter, Chief of Accounting, Budget, and Financial Management  
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

In conjunction with the Office of Inspector General's (OIG) opinion on the RRB's financial statements for the fiscal years ended September 30, 2014 and 2013, we reported the following material weakness and the related recommendations in OIG Audit Report Number 15-01.

### MATERIAL WEAKNESS

#### Financial Reporting

- Ineffective Controls

Controls related to financial reporting were not effective during FY 2014 and corrective actions for previously cited budgetary reporting deficiencies have not been completed.<sup>2</sup> Material financial recording errors were discovered and internal control procedures were not always performed timely or effectively. We also found that various reconciliations were performed after the year-end financial statements had been prepared and that the reconciliation for payroll was ineffective in FY 2014. Other significant audit concerns regarding the RRB's financial management system were noted in a separate audit, including: partial or no supporting documentation for many recorded transactions, and policies and procedures for internal controls and transactions had not been clearly documented or maintained.<sup>3</sup>

Treasury guidance provides specific requirements regarding accounting transactions, general ledger accounts, and the placement of those accounts to create the financial statements. Internal guidance requires approvers to review transactions and supporting documentation to ensure completeness and accuracy. According to the Government Accountability Office's (GAO) *Standards for Internal Control in the Federal Government*, policy and procedure documentation should appear in management directives, administrative policies, or operating manuals and may be in paper or electronic form. All documentation and records should be properly managed and maintained. Transactions should be promptly recorded to maintain their relevance and value to management in controlling operations and making decisions. This standard applies to the entire process or life cycle of a transaction or event from its initiation and authorization through its final classification in summary records. In addition, management should design control activities so that all transactions are completely and accurately recorded.

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<sup>2</sup> RRB OIG, *Report on the Railroad Retirement Board's Fiscal Year 2013 Financial Statements*, OIG Audit Report No. 14-01 (Chicago, IL: December 16, 2013).

<sup>3</sup> RRB OIG, *Audit of the Business Process Controls in the Financial Management Integrated System*, OIG Audit Report No. 14-10 (Chicago, IL: August 1, 2014).

## Letter to Management on Internal Control

Agency guidance requires monthly and quarterly reconciliations for various financial transactions. According to the *Financial Audit Manual*, regular reconciliation of entity records with Treasury records is a key control in maintaining the accuracy and reliability of entity fund balance records.<sup>4</sup> Effective reconciliations serve as a detection control for identifying unauthorized and unrecorded transactions at the entity and Treasury. Effective reconciliations are also important in preventing entity disbursements from exceeding appropriated amounts and providing an accurate measurement of the status of available resources.

Specifically, the Bureau of Fiscal Operations' (BFO) progress regarding corrective actions for budgetary reporting is ongoing, including plans to automate the statement. In addition, although the new financial management system has been operational for one year, the related internal controls have not been documented or assessed by agency staff. Further, reconciliations were not prepared timely due to their complex nature and because procedures do not specify the required completion date. Some reconciliations did not achieve their intended purpose due to an ineffective design, lack of procedures, and inadequate review and approval. Finally, insufficient supporting documentation was caused by inadequate review of the transactions and the lack of new procedures was due to time and personnel constraints.

As a result, financial recording errors of \$4.5 billion were not detected in the June 30, 2014 Statement of Changes in Net Position and recorded transactions of approximately \$1.5 billion could not be validated for the period ending March 31, 2014. The effect of untimely reconciliations is the risk of potential material errors that may not be detected in a timely manner. Inaccurate reconciliations and untimely accruals and reversals of payroll expenses impact financial reporting and management's reliance on inaccurate data.

A recommendation to improve budgetary reporting and controls was previously made in OIG audit report No. 12-04.<sup>5</sup> Recommendations for sufficient supporting documentation and documented policies and procedures for the new financial management system were made in OIG audit report No. 14-10.

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<sup>4</sup> Government Accountability Office and the President's Council on Integrity and Efficiency, *Financial Audit Manual*, Volume 2, GAO-08-586G (Washington, D.C.: July 2008).

<sup>5</sup> RRB OIG, *Fiscal Year 2011 Financial Statement Audit Letter to Management*, OIG Audit Report No. 12-04, Recommendation 2 (Chicago, IL: January 31, 2012).

## Letter to Management on Internal Control

### Recommendations

We recommend that the Bureau of Fiscal Operations:

1. expedite the control assessment of the general ledger;
2. develop and implement new controls for financial reporting;
3. provide training for the preparation of the various reconciliations;
4. establish an adequate timeframe and deadline for completion of the reconciliations;
5. redesign the payroll reconciliation process to ensure that it achieves its intended purpose;
6. develop and implement procedures and controls for the payroll reconciliation; and
7. develop and implement procedures to ensure that payroll expenses are accrued and reversed timely and accurately.

### Management's Response

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

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

RRB management has not permitted the NRRIT's auditor (component auditor) to communicate with the RRB OIG auditors as required by American Institute of Certified Public Accountants (AICPA) standards.

RRB OIG auditors have specific requirements, which include establishing communication with the NRRIT's auditor, working with them to establish a cohesive financial reporting framework and consistent materiality levels, and to identify the relevant risks of material misstatement. The component auditor must agree to comply with these requirements and to communicate material weaknesses and significant deficiencies identified during its audit in a timely manner.

## Letter to Management on Internal Control

RRB management has identified the legal circumstances that it believes preclude communication between the RRB OIG and the component auditor. Further, RRB management has indicated that the legal precedent is overriding; thus, has not developed a legislative proposal to amend the legislation or established a functional workaround that would enable the audit to be performed in compliance with AICPA standards.

Without direct communication with the component auditor, undetected material misstatements could exist. Until communication with the component auditor is established, the RRB will continue to receive a disclaimer opinion, which also directly impacts the governmentwide financial statements. Of the 35 significant reporting entities included in the governmentwide financial statements for FY 2013, the RRB was 1 of the 2 agencies that received a disclaimer of opinion on its financial statements.

### Recommendation

8. We recommend that the Board 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 Management's Response and Our Comments

On January 7, 2015, we requested agency comments for this recommendation, which were requested by January 22, 2015. To date, we have not yet received a written response on this recommendation. We requested written comments six times over a period of more than two months in order to obtain the Board's input on this important recommendation. In oral communication from the Senior Executive Officer/Chief Financial Officer (SEO/CFO) to the Assistant Inspector General for Audit on February 18, 2015, our office was informed that the RRB was drafting its response and intended to non-concur with the recommendation and that the response was to be aligned with statutory limitations previously expressed by the agency for matters involving the NRRIT. Based on those oral comments, we are issuing this recommendation and classify it as non-concur. We notified the SEO/CFO of our intent to do so on March 23, 2015.

While the RRB management continues to cite statutory limitations as the basis for not permitting OIG auditors to communicate with the component auditor, we disagree with this interpretation of the legal provisions. The Railroad Retirement Survivors' Improvement Act of 2001 requires that the NRRIT annually engage an independent, qualified public accountant to audit the financial statements of the NRRIT, but it does not discuss communication between the NRRIT's auditors and the RRB's auditors. The OIG's communication with the component auditor would not require an audit of the NRRIT; rather it would consist of discussing and reviewing component auditor's procedures and documentation. This

## **Letter to Management on Internal Control**

recommendation was aimed at initiating communication as an initial step in this process. Although RRB management did not concur with this recommendation, until corrected, this finding will continue to be cited as a material weakness in future financial statement audit opinions.

# 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 that were open as of February 20, 2014 is provided in Appendix I. The full text of management's responses is presented in Appendix II through Appendix V in this report.

### **Inaccurate and Untimely Financial Recording**

Financial transactions were not always recorded accurately or timely, and financial reporting was not always accurate. During our audit, we identified the following exceptions:

- inaccurate transactions that totaled \$102.3 million;
- unexplained differences were identified in the financial statement notes at June 30, 2014 and September 30, 2014, for the reconciliation of the statement of net cost to budget;
- untimely recording of transactions that totaled \$9.9 billion were not recorded in the timeframe defined in BFO's procedures and some were recorded as much as two months late;
- inaccurate financial reporting for the June 30, 2014 financial statements and notes that totaled \$28.2 million;
- numerous errors throughout the draft Performance and Accountability Report (P&AR) regarding financial data and notes prepared for the September 30, 2014 financial statements; and
- numerous errors in the data entered into the governmentwide financial reporting system for the reclassified financial statements and notes that were subsequently corrected.

## Letter to Management on Internal Control

According to GAO's *Standards for Internal Control in the Federal Government*, transactions should be promptly recorded to maintain their relevance and value to management in controlling operations and making decisions. This applies to the entire process or life cycle of a transaction or event from its initiation and authorization through its final classification in summary records. In addition, control activities help to ensure that all transactions are completely and accurately recorded.<sup>6</sup>

The RRB's Accounting Procedures Guide indicates that vouchers should be prepared within seven business days of the transaction occurrence or receipt of the documents. It also specifies a goal to record the transaction in the correct accounting period.

These errors were caused by outdated procedures, BFO staff not following documented procedures, learning curve for the financial management system that became operational in FY 2014, and interfaces with other external systems, insufficient training for the governmentwide financial reporting system, and changes in staff responsibilities.

These errors resulted in inaccurate account balances and financial reporting.

### Recommendations

We recommend that the Bureau of Fiscal Operations:

9. review the Accounting Procedures Guide and update it as necessary;
10. remind staff of the need to follow procedures as documented in the Accounting Procedures Guide; and
11. 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.

### Management's Response

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

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<sup>6</sup> Government Accountability Office, *Standards for Internal Controls in the Federal Government*, GAO/AIMD-00-21.3.1 (Washington, D.C.: November 1999).

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### Legal Representation Letter – Accompanying Documents were not Prepared or Contained Errors

Federal agencies are required to prepare legal representation letters to summarize and evaluate legal actions against the agency. Authoritative guidance requires completion of a management schedule and forms, which are submitted with the legal letter to the Department of Justice (DOJ).

The General Counsel's office within the RRB is responsible for preparing the legal management representation letter, as well as the forms for DOJ. BFO is responsible for preparing the management schedule that categorizes cases as having a probable, reasonably possible, or remote chance of a negative outcome for the agency. It also documents how the information provided in the legal representation letter was considered in preparation of the agency's financial statements.

#### Forms for the Department of Justice

The legal letter prepared by the General Counsel at the interim period did not include the required forms for the DOJ. This has been an issue in past years, but had not been formally reported.

Guidance provided by the DOJ indicates that preformatted forms should be completed to accompany the legal representation letters. The forms provide summarized information regarding pending or threatened litigation, unasserted claims and assessments, and claims reported in prior year that are no longer pending.

This omission continues to occur due to a lack of understanding of documented guidance provided by DOJ.

#### Management Schedule

As reported in prior years, the management schedule prepared and reviewed by BFO contained errors. BFO did not list a \$75 million contingency as a note disclosure. In addition, BFO did not properly categorize a \$5.6 million contingency as remote.

The GAO *Financial Audit Manual* requires that amounts recorded in the management schedule agree with the legal representation letter, as well as the planned recording for the financial statement audit. The management schedule is signed by three employees in BFO: one preparer and two reviewers.

These errors were made due to the misapplication of applicable guidance and ineffective review and approval. BFO has been cited for similar errors in previous years.

## Letter to Management on Internal Control

The timeliness of submitting these documents to the required recipient Federal agencies is impacted when corrections have to be made or additional forms have to be prepared. Late or incorrect submissions of these forms to the specified agencies could also impact the intended use of these documents.

### Recommendations

12. The Office of the General Counsel should develop and implement procedures and controls to ensure that the required Department of Justice forms are prepared.
13. The Bureau of Fiscal Operations should provide training for the preparation, review, and approval of the management schedule.

### Management's Responses and Our Comments

The Office of General Counsel concurred with recommendation number 12, but stated that the DOJ forms were submitted under a separate cover memo on the same date as the interim report.

The OIG agrees that the DOJ forms were submitted on the same date as the interim report (legal letter). However, the DOJ forms did not accompany the legal letter as required, and it was not received until after the OIG notified agency management of the missing forms. As stated in the body of the finding, timeliness has been a noted concern in past years, including 2013, when delays from the Office of General Counsel prevented the OIG from meeting the mandated deadline to submit the required documents to the Department of Treasury, GAO, and DOJ.

The Bureau of Fiscal Operations concurred and will implement recommendation number 13.

### **Inaccurate Improper Payment Data**

Underlying financial data related to improper payment reporting for the Railroad Retirement Act (RRA) program was not accurately reported in the RRB's draft P&AR. A difference of \$257,000 between the reported accounts receivable balance and the supporting Treasury report was not detected by the Office of Programs or BFO. In addition, BFO's original computation of the outlay amount did not agree with the FY 2013 outlay amount reported by the Office of Programs.

## Letter to Management on Internal Control

The Improper Payments Elimination and Recovery Act of 2010 (Public Law 111-204) requires that Federal agencies report improper payment information to the President and Congress through their annual P&AR. The Office of Programs prepares the improper payment data and related financial balances and provides this section of the P&AR to BFO. At the request of the OIG auditors, BFO performs a reconciliation of the outlay amount received by the Office of Programs to ensure that the reported amount is not inconsistent with the data in the agency's financial statements.

The Office of Programs did not detect the error in the accounts receivable balance due to a lack of internal control procedures. BFO did not detect this error because they do not have documented procedures to review improper payment data, the outlay amount, or other financial data as reported by the Office of Programs. In addition, BFO does not have documented procedures to review the reconciliation of the outlay amount for accuracy. Management should design control activities so that all transactions are completely and accurately recorded.

Inaccurate financial data reported in the P&AR could impact the reader's perception of the state of the RRB's financial condition. In addition, improper payment data is critical to the determination of agency wide improper payment reporting, as mandated by Congress. Inaccurate improper payment amounts could impact the determination of whether improper payments are below the allowable percentage and threshold, as well as misinform users of the information process, including RRB management, the public, and the Congress.

### Recommendations

14. The Office of Programs should develop and implement procedures and controls for the verification and review of accounts receivable balances with underlying support.
15. The Bureau of Fiscal Operations 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.
16. The Bureau of Fiscal Operations should develop and implement procedures for the reconciliation, review, and approval of outlay amounts in accordance with improper payment reporting for the P&AR.

### Management's Responses

The Office of Programs agreed with recommendation number 14.

The Bureau of Fiscal Operations concurred and will implement recommendation numbers 15 and 16.

# Letter to Management on Internal Control

## Ineffective Controls for Checklists

BFO staff did not always complete its internal control related reviews in a timely manner. We found that BFO did not prepare financial statement checklists in a timely manner, with some prepared several months late.

According to GAO's *Standards for Internal Control in the Federal Government*, transactions should be promptly recorded to maintain their relevance and value to management in controlling operations and making decisions. This applies to the entire process or life cycle of a transaction or event from its initiation and authorization through its final classification in summary records. In addition, control activities help to ensure that all transactions are completely and accurately recorded.

The RRB's Accounting Procedures Guide indicates that the financial statement checklists are to be completed each quarter after the statements are prepared but before they are submitted for approval within BFO.

Delays in the completion of the financial statement checklists occurred because BFO procedures were not being followed regarding the timeframe for completion.

The effect of untimely checklist preparation is the risk of potential material errors that may not be detected in a timely manner.

## Recommendation

17. We recommend that the Bureau of Fiscal Operations develop and implement internal controls to ensure that checklists are completed in a timely manner.

## Management's Response

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

## Letter to Management on Internal Control

### Undetected Errors in the Social Insurance Valuation Data

Errors in the social insurance mortality table were not detected by the staff in the Bureau of the Actuary. The OIG contractor for the statements of social insurance found errors in the spreadsheet deliverable prepared by the Bureau of the Actuary. The mortality rate table data are used to support the social insurance valuation model, which is used in computing the open group surplus amount.

The Bureau of the Actuary prepares an Excel workbook that contains data used to calculate and report the social insurance data, as well as the presentation of the social insurance statements. The Bureau of the Actuary provides a copy of the Excel workbook to the Office of Inspector General for use by the OIG contractor.

The errors were the result of Bureau of the Actuary staff inadvertently altering the file. Actuary internal controls were not sufficient to detect or prevent this error from occurring and indicate a control weakness that allowed unintended changes to program data.

While these errors did not impact the social insurance statements, the data is essential to the actuarial model designed for the RRB's social insurance program. These inaccuracies caused delays in the review of the social insurance model.

### Recommendations

We recommend that the Bureau of the Actuary:

18. 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; and
19. develop and implement controls to ensure that the unaltered file is provided as a deliverable for the OIG contractor.

### Management's Response and Our Comments

In regard to recommendation number 18, the Bureau of the Actuary stated that to maintain the integrity of any file to be used by the OIG contractor, the Bureau of the Actuary will ensure that the file is first password protected.

In response to recommendation number 19, the Bureau of the Actuary stated that when one bureau employee compiles any information to be provided to the OIG, a second employee will verify that the information is correct before it is submitted.

## **Letter to Management on Internal Control**

In regard to the finding, the Bureau of the Actuary stated that they take issue with the description of the problem and that the problem occurred in a test file that was inadvertently sent to the OIG.

During the audit, the Bureau of Actuary did not inform the OIG auditors that the altered file was a test file. Instead, we were told that the file had been accidentally modified. Despite this new information, the Bureau of the Actuary's planned corrective actions are found to be acceptable by the OIG auditors.

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### Status of Prior Audit Recommendations Since February 2014

We have reviewed the implementation of recommendations resulting from prior audits of the RRB's financial statements. The table below presents a summary of the status of recommendations that were pending when we issued our "Letter to Management" dated February 20, 2014, in connection to our audit of the RRB's FY 2013 financial statements.

Bureau and Audit Recommendation	Audit Area	Status of Corrective Action	
		Completed	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		X
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		X
BFO should strengthen its internal controls over the review and approval process to ensure that all vouchers are properly prepared after completion of 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

## Status of Prior Audit Recommendations Since February 2014

Bureau and Audit Recommendation	Audit Area	Status of Corrective Action	
		Completed	In Progress
<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
<b>OFFICE OF GENERAL COUNSEL</b>			
Office of General Counsel should strengthen its internal controls to ensure that information relevant to cases discussed in quarterly reports of litigation, claims and assessments or legal representation letters is maintained in the "Board Financial Statements File". (RRB OIG Audit Report 13-03 Recommendation No. 5)	Legal Representation Letter	X	

Status of Prior Audit Recommendations Since February 2014

Bureau and Audit Recommendation	Audit Area	Status of Corrective Action	
		Completed	In Progress
<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



UNITED STATES GOVERNMENT  
**MEMORANDUM**

FORM G-1151 (1-82)  
RAILROAD RETIREMENT BOARD

January 22, 2015

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

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

Digitally signed by George  
Govan  
DN: cn=George Govan, o=RRB,  
email=ggovan@rrb.gov,  
c=US,  
Date: 2015.01.22 15:11:06  
UTC

**SUBJECT:** Draft Letter to Management  
Fiscal Year 2014 Financial Statement Audit

This is in response to your request for comments on the above reports. Following are my comments on recommendations addressed to the Bureau of Fiscal Operations.

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

***1. expedite the control assessment of the general ledger.***

We concur. BFO will expedite the control assessment of the general ledger.

Target Completion Date: July 31, 2015

***2. develop and implement new controls for financial reporting.***

We concur. BFO will develop and implement new controls for financial reporting effective with third quarter 2015 financial statements.

Target Completion Date: July 31, 2015

***3. provide training for the preparation of the various reconciliations.***

We concur. BFO will provide training for the preparation of the various reconciliations.

Target Completion Date: July 31, 2015

**4. establish an adequate timeframe and deadline for completion of the reconciliations.**

We concur. BFO will establish an adequate timeframe and deadline for completion of the reconciliations.

Target Completion Date: May 29, 2015

**5. redesign the payroll reconciliation process to ensure that it achieves its intended purpose.**

We concur. BFO will redesign the payroll reconciliation process to ensure that it achieves its intended purpose.

Target Completion Date: June 30, 2015

**6. develop and implement procedures and controls for the payroll reconciliation.**

We concur. BFO will develop and implement procedures and controls for the payroll reconciliation.

Target Completion Date: June 30, 2015

**7. develop and implement procedures to ensure that payroll expenses are accrued and reversed timely and accurately.**

We concur. BFO will develop and implement procedures to ensure that payroll expenses are accrued and reversed timely and accurately.

Target Completion Date: June 30, 2015

**9. review their Accounting Procedures Guide and update it as necessary.**

We concur. BFO will review the Accounting Procedures Guide and update it as necessary.

Target Completion Date: May 29, 2015

**10. remind staff of the need to follow procedures as documented in the Accounting Procedures Guide.**

We concur. BFO will remind staff of the need to follow procedures as documented in the Accounting Procedures Guide.

Target Completion Date: March 31, 2015

**11. 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.**

We concur. BFO will 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.

Target Completion Date: June 30, 2015

**13. provide training for the preparation, review, and approval of the management schedule.**

We concur. BFO will provide additional training for the preparation, review, and approval of the management schedule.

Target Completion Date: June 30, 2015

**15. 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.**

We concur. BFO will 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.

Target Completion Date: July 31, 2015

**16. develop and implement procedures for the reconciliation, review, and approval of outlay amounts in accordance with improper payment reporting for the P&AR.**

We concur. BFO will develop and implement procedures for the reconciliation, review, and approval of outlay amounts in accordance with improper payment reporting for the P&AR.

Target Completion Date: July 31, 2015

**17. develop and implement internal controls to ensure that checklists are completed in a timely manner.**

We concur. BFO will develop and implement internal controls to ensure that checklists are completed in a timely manner.

Target Completion Date: July 31, 2015

- 4 -

If there is any additional information you need, please advise me.

cc: John Walter, Chief of ABFM  
Shirley Bayliff, Accounting Officer  
Richard Lannin, Senior Accountant  
Herbert Kwan, Senior Accountant  
Ralph Brandt, Senior Accountant  
Jenny Fultz, Accountant



UNITED STATES GOVERNMENT

**MEMORANDUM**

FORM G-115f (1-92)

RAILROAD RETIREMENT BOARD

JAN 16 2015

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

**FROM :** Karl T. Blank *Karl T. Blank*  
General Counsel

**SUBJECT :** Response to Fiscal Year 2014 Financial Statement Audit Letter to Management

This memorandum is in response to Fiscal Year 2014 Financial Statement Audit Letter to Management (Audit Letter) in which Recommendation 12 refers to the Office of General Counsel's responsibility to report legal representation letters. Recommendation 12 states, "The Office of the General Counsel should develop and implement procedures and controls to ensure that the required Department of Justice forms are prepared." The Office of General Counsel (OGC) concurs with the Recommendation although not with all of the statements related to the Recommendation.

The Audit Letter states that the legal letter prepared by the General Counsel at the interim period did not include the required forms for the Department of Justice (DOJ). It states that guidance provided by the DOJ indicates that the preformatted forms should be completed to accompany the legal representation letters and that the forms provide additional information regarding pending or threatened litigation, unasserted claims and assessments, and claims reported in prior year that are no longer pending.

I would like to clarify that regarding the DOJ forms, the guidance from the DOJ states that "all existing, pending, and threatened litigation as well as unasserted claims should be reported using the format found below." See [www.justice.gov/civil/documents-and-forms](http://www.justice.gov/civil/documents-and-forms). The format found below refers to the same forms to which the Audit Letter refer. Also, OMB Circular No. A-136, September 18, 2014 states in Section V.4 that agencies should use the DOJ forms found on its website for legal representation letters but that if the forms are infeasible, agencies may provide DOJ with an editable text file (e.g. Word or WordPerfect) identical in format and content to the forms available on the DOJ website. In keeping with these provisions, the report submitted by OGC under "Suits Involving Potential Liability in Excess of \$2,000,000" is in the same format and contains the same information as provided for in the DOJ forms. Contrary to the statement in the Audit Letter, there is no additional information in the DOJ forms that is not included in the OGC's report. The OGC report and DOJ forms are duplicative. If anything, the OGC report contains more detailed information than the DOJ forms. I have attached copies of the Financial Statement legal letter and the DOJ forms for comparison.

In addition, the Audit Letter states that the OGC interim report did not include the DOJ forms. However, OGC did complete and submit to the Inspector General the DOJ forms on the same date as the interim report was submitted. Although these forms are submitted under a separate cover memo, they were indeed provided and the cover memo reiterates that the information included in the forms are also found in the Financial Statement report sent to the Inspector General on the same date.

Although I disagree with the facts asserted in the Audit Letter, I concur with the recommendation that OGC should have procedures and controls to ensure that the DOJ forms are prepared. Please refer to my memorandum of January 7, 2015 entitled, "Request to Close Audit Recommendation 5 in Report No. 13-03, Incomplete Letter File" which summarizes steps taken by OGC to improve reporting in the legal representation letters. As noted in that memorandum, OGC has assigned two attorneys to matters relating to the financial statement. Training two attorneys to track and evaluate the status of cases provides staffing depth which insures that the status of cases are regularly monitored and properly documented for the required reports. I believe that this improved training of two attorneys addresses the recommendation made in the Audit Letter.

Attachments:           Financial Statement- Fiscal Year 2014 amended, August 22, 2014  
                              Legal Representation Letter Information for the Department of Justice,  
                              August 22, 2014

cc:     Debra Wheat  
          Office of Inspector General

          Jeffrey Baer  
          Director of Audit Affairs

JANUARY 13, 2015



UNITED STATES GOVERNMENT

**MEMORANDUM**

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

**FROM:** Janet M. Hallman  
Acting Director of Programs

**SUBJECT:** Draft Letter to Management: Fiscal Year 2014 Financial Statement Audit

In response to the January 7, 2015 memo *Draft Letter to Management: Fiscal Year 2014 Financial Statement Audit*, the Office of Programs has provided the following comment on Recommendation 14.

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**Recommendation 14** The Office of Programs should develop and implement procedures and controls for the verification and review of accounts receivable balances with underlying support.

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**Office of Programs Response** The Office of Programs agrees. We will implement an analyst sign-off requirement to ensure and document that PEMS reviewed/compared 1) the accounts receivable numbers contained in the narrative in the Performance and Accountability Report with 2) the supporting documentation spreadsheet, both provided from the Bureau of Fiscal Operations. We will implement this with the FY 2015 Performance and Accountability Report.

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cc: Director of Audit Affairs  
Director of Program Evaluation and Management Services



UNITED STATES GOVERNMENT

**MEMORANDUM**

RAILROAD RETIREMENT BOARD

January 21, 2015

TO: Heather J. Dunahoo  
Assistant Inspector General for Audit

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

SUBJECT: Draft letter to Management  
Fiscal Year 2014 Financial Statement Audit

Thank you for the opportunity to comment on the recommendations made to the Bureau of the Actuary in the Draft Letter to Management for the Fiscal Year 2014 Financial Statement Audit.

The Bureau of the Actuary takes issue with the description of the problem, that there were "errors in the social insurance mortality table" that were "the result of Bureau of the Actuary staff inadvertently altering the file." There were no "unintended changes to program data" and no errors in the Statement of Social Insurance (SOSI) itself or the files used to prepare the SOSI. The problem that occurred involved a test file inadvertently being sent to the OIG rather than the final version of the Excel file actually used in the preparation of the SOSI. The contractor quickly discovered that the wrong file had been provided, and the Bureau of the Actuary immediately sent the correct file to the Office of the Inspector General.

Although, in the past, we have not had formal procedures for providing information to the OIG, we agree that steps should be taken to ensure that this does not happen again. Our planned actions in response to your recommendations are detailed below.

**18. We recommend that the Bureau of the Actuary 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.**

To maintain the integrity of any file to be used by the OIG contractor, we will ensure that the file is first password-protected.

**19. We recommend that the Bureau of the Actuary develop and implement controls to ensure that the unaltered file is provided as a deliverable for the OIG contractor.**

In the future, when one employee of the Bureau of the Actuary compiles any information to be provided to the OIG, a second employee will verify that the information is correct before it is submitted.

cc: Chief Financial Officer