

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

**Fiscal Year 2016 Financial Statement Audit  
Letter to Management**

**Report No. 17-03  
February 16, 2017**



**RAILROAD RETIREMENT BOARD**



UNITED STATES RAILROAD RETIREMENT BOARD

OFFICE OF INSPECTOR GENERAL

February 16, 2017

Office of the Chairman (Vacant)  
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 2016 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 7, 2016, except for matters relating to the net assets of the National Railroad Retirement Investment Trust (NRRIT) as of September 30, 2016, as to which the date is November 15, 2016.<sup>1</sup> 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. We also audited the RRB's closing package financial statements and issued our report thereon dated November 16, 2016. We have not considered internal control since we ended fieldwork for the general purpose audit opinion on November 7, 2016 and the closing package audit opinion on November 16, 2016.

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 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, 2016 and November 16, 2016, 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 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 2016 Financial Statements*, OIG Audit Report No. 17-01 (Chicago, IL: November 15, 2016).

In planning and performing the audit, 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  
Shawna Weekley, Chief Financial Officer  
Daniel J. Fadden, Senior Executive Officer/Director of Field Service  
Rachel L. Simmons, Acting General Counsel  
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

The following material weaknesses were originally reported for fiscal year 2016 in conjunction with the Office of Inspector General's (OIG) opinion on the Railroad Retirement Board's (RRB) financial statements for the fiscal years ended September 30, 2016 and 2015, as reported in OIG Audit Report number 17-01. This report contains new recommendations for the material weaknesses.

### MATERIAL WEAKNESSES

#### Financial Reporting

- Ineffective Controls

Ineffective controls continue to be a weakness during the fiscal year 2016 audit. The portion of the overall material weakness that was originally cited in fiscal year 2015 consisted of material recording errors, ineffective and untimely controls and reconciliations, inadequate supporting documentation for recorded transactions, and insufficiently documented internal control policies and procedures.<sup>2</sup> During our fiscal year 2016 audit, we continued to identify material transactions that were recorded without sufficient supporting documentation because RRB management has not implemented the necessary corrective actions to address our prior recommendations. Although RRB management updated its policies, procedures, and internal controls to address related audit recommendations, corrective actions had not been in place for a duration sufficient to complete our evaluation of the effectiveness of implementation.

RRB OIG auditors continued to identify ineffective controls for material transactions. During our audit, we found numerous transactions, representing approximately \$14.2 billion, that did not have adequate supporting documentation when they were recorded and approved in the RRB's financial reporting system. These transactions primarily consisted of benefit payment disbursements and RRB investments that were redeemed to fund benefit payments. The RRB's Bureau of Fiscal Operations (BFO) documents its official record of supporting documentation for each recorded transaction as attachments in its financial reporting system. Upon notification of inadequate supporting documentation by RRB OIG auditors, BFO staff provided the missing documents to validate the transactions; however, the official records were not updated to include the missing documents. Subsequent communication between RRB OIG auditors and BFO management resulted in revision of BFO procedures to allow additional documentation to be added to supporting attachments without altering any aspect of the previously recorded transactions.

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

## Letter to Management on Internal Control

BFO revised other portions of its procedures and holds quarterly internal quality assurance meetings to discuss voucher exceptions in an effort to address our recommendations for this portion of the material weakness. We have determined that the corrective actions taken are not sufficient and that additional corrective actions are needed to address these internal control deficiencies.

### Recommendation

1. We recommend that the Bureau of Fiscal Operations update the RRB's official record in its financial reporting system to include the missing documentation cited in this finding to ensure that they have adequate support to validate the transactions.

### Management's Response

The Bureau of Fiscal Operations concurred with reservation, stating that the supporting documentation for the referenced transactions was available in hardcopy.

The full text of management's response is provided in Appendix II.

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

RRB OIG auditors have rendered disclaimer opinions on the RRB's financial statements since fiscal year 2013 because of RRB management's unwillingness to provide OIG auditors with cooperation and communication from National Railroad Retirement Investment Trust (NRRIT) auditors. This lack of cooperation and communication prevents OIG auditors from obtaining sufficient appropriate audit evidence regarding the RRB's financial statements. Although American Institute of Certified Public Accountants (AICPA) AICPA AU-C Section 600 guidance requires that the group auditor (RRB OIG) communicate with and receive cooperation from the component auditor (NRRIT's auditor), RRB management continues to prevent this from occurring, citing that contact between RRB OIG and NRRIT auditors is inconsistent with the independent status of the NRRIT under section 15(j) of the Railroad Retirement Act.<sup>3</sup> During fiscal year 2014, we recommended that an independent committee be established to identify a functional solution that would enable communication between OIG and NRRIT's auditors. Although RRB management did not concur with this recommendation, we will continue to cite this issue and the need for corrective action.

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<sup>3</sup> AICPA, AICPA Professional Standards, *Special Considerations - Audits of Group Financial Statements (Including the Work of Component Auditors)*, AU-C Section 600 (New York, NY: June 1, 2015).

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## Control Environment

The RRB's control environment has been identified as a new material weakness because a principle control for the RRB's control environment, the enforce accountability principle, is ineffective. The Federal Managers' Financial Integrity Act (FMFIA) provides that internal accounting and administrative controls shall be established to provide reliable financial reporting and to maintain accountability over assets.<sup>4</sup> The Office of Management and Budget (OMB) issued additional guidance to further define management's responsibility for ensuring that organizations are committed to sustaining effective internal control environments.<sup>5</sup> One of the five principles of the control environment, the enforce accountability principle, states that management should hold individuals accountable for their internal control responsibilities. Management, with oversight from the oversight body, should take corrective action as necessary to enforce accountability for internal control in the entity. We have determined that RRB management has not taken corrective actions to address high level, monetarily significant matters that were not in accordance with authoritative guidance, previous agreements, and laws and regulations regarding matters that could have a detrimental effect on the reliability of financial reporting at RRB and governmentwide levels.

In addition, RRB management does not always communicate matters of audit significance with RRB OIG auditors and RRB management had not responded to numerous requests to reconsider its determinations and to discuss many of the matters detailed in this finding. AICPA AU-C Section 260, *The Auditor's Communication With Those Charged with Governance*, explains the importance of communication between auditors and agency management and indicates that inadequate two-way communication may indicate an unsatisfactory control environment, thereby impacting the risk of material misstatements.<sup>6</sup>

Detailed examples of our audit concerns are provided below.

- RRB management determined that the NRRIT should be a disclosure entity that would result in removal of its net assets from RRB and governmentwide financial statements. RRB management also determined that the RRB has no ownership interest in the NRRIT. These determinations were made in regard to new Federal Accounting Standards Advisory Board's Statement of Federal Financial Accounting Standards 47 (SFFAS 47), *Reporting Entity*, that becomes effective in fiscal year 2018. The RRB's General Counsel issued a legal opinion stating that the NRRIT meets the characteristics of a disclosure entity more than

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<sup>4</sup> Public Law 97-255 (September 8, 1982).

<sup>5</sup> OMB, *OMB Circular No. A-123, Management's Responsibility for Enterprise Risk Management and Internal Control*, M-16-17 (July 15, 2016).

<sup>6</sup> AICPA, AICPA Professional Standards, *The Auditor's Communication With Those Charged with Governance*, AU-C Section 260 (New York, NY: June 1, 2015).

## Letter to Management on Internal Control

a consolidating entity.<sup>7</sup> RRB OIG auditors reviewed applicable laws, regulations, and authoritative guidance and determined that the NRRIT should be classified as a consolidating entity, which would result in continuance of its net assets being reported in the RRB's financial statements. RRB OIG auditors are concerned about the precedent set as a result of RRB management's determination that it does not have legal ownership of NRRIT net assets. Discussions regarding these matters remain in progress with the SFFAS 47 working group.

BFO management concluded that NRRIT classification as a disclosure entity would resolve the basis for RRB financial statement disclaimers because such classification would remove NRRIT net assets from the RRB's financial statements. RRB OIG alone is responsible for assessing and opining on the RRB's financial statements. RRB OIG auditors did not agree or disagree with this conclusion.

RRB management did not inform RRB OIG auditors of these significant determinations regarding the NRRIT. Instead RRB OIG auditors were informed of these determinations through BFO's external communications with the SFFAS 47 working group.

- RRB management has taken no action to address communication and coordination between RRB OIG and NRRIT auditors for the communication portion of the material weakness for financial reporting. RRB Board members did not provide a written response for the corresponding recommendation despite six requests from RRB OIG auditors over a two month period; a verbal response of nonoccurrence was eventually provided by the RRB's former Chief Financial Officer.
- RRB management changed the social insurance valuation date from January 1, 2016 to October 1, 2015, despite a longstanding agreement among OMB, U.S. Department of Treasury, RRB, RRB OIG, and NRRIT for the continued valuation date of January 1, which would remain consistent with other social insurance reporting agencies. This change was made at the request of the NRRIT to save approximately \$200,000 per year by not having a second audit conducted by their independent auditors and to align the valuation timeline of RRB and NRRIT assets; however, RRB OIG auditors determined that this cost savings represents less than 0.3 percent of NRRIT annual expenses. RRB OIG auditors learned that the RRB's Bureau of the Actuary's workload has increased as a result of this change because records to support two valuation dates have to be maintained due to other mandated reporting requirements for RRB solvency reports.
- RRB management has not acknowledged inaccurate Medicare cost reimbursements, does not plan to take corrective action for these inaccuracies,

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<sup>7</sup> RRB General Counsel, *National Railroad Retirement Investment Trust Assets Statement of Federal Financial Accounting Standards 47, Reporting Entity*, Legal Opinion 2016-53 (Chicago, IL: October 31, 2016).



## Letter to Management on Internal Control

and does not plan to address nonadherence to applicable authoritative guidance regarding these computations despite RRB OIG findings that resulted from a separate audit.<sup>8</sup>

- RRB management planned to reclassify the RRB's financial interchange system that records approximately \$12 billion in transactions from a major application system to a minor application system despite being informed that this would result in being noncompliant with OMB guidance used as criteria in a separate information security audit that is also conducted by RRB OIG auditors. RRB management also did not provide a rationale to support this reclassification despite numerous requests from RRB OIG auditors. On November 2, 2016, RRB management informally notified the OIG that the financial interchange system had been reassessed in accordance with applicable guidance and that it would continue to be categorized as a major application system. On November 10, 2016, RRB OIG auditors received formal notification of RRB management's determination.
- RRB management uses an inaccurate definition of improper payments that impacts the accuracy and completeness of amounts reported for the RRB. Despite OIG findings from a separate audit that its improper payments are understated, RRB management did not concur with our recommendation to revise the process it uses although it is no longer sufficient for improper payment reporting purposes.<sup>9</sup>

The enforce accountability principle was ineffective because RRB management has not always been held accountable for their internal control responsibilities in regard to the application of authoritative guidance, laws, and regulations. In addition, RRB management communication with RRB OIG auditors was inadequate due to inaction by senior management officials. The RRB's Executive Committee, composed of directors from each RRB bureau, is responsible for daily agency operations to ensure conformance with laws, regulations, and policies. This committee also functions as the RRB's senior management council for internal control responsibilities outlined in OMB guidance.

### Recommendations

We recommend that the RRB's Executive Committee:

2. direct RRB management to elevate RRB OIG auditor concerns regarding application of authoritative guidance and laws and regulations for Executive Committee determinations when RRB management disagrees with RRB OIG auditor assessments;

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<sup>8</sup> RRB OIG, *Railroad Retirement Board Did Not Calculate Reimbursed Medicare Costs in Accordance with Federal Requirements*, OIG Audit Report No. 16-10 (Chicago, IL: August 22, 2016).

<sup>9</sup> RRB OIG, *Audit of the Railroad Retirement Board's Compliance with the Improper Payments Elimination and Recovery Act of 2010 in the Fiscal Year 2015 Performance and Accountability Report*, OIG Audit Report No. 16-07, Recommendation 1 (Chicago, IL: May 13, 2016).

## Letter to Management on Internal Control

3. develop and implement Executive Committee procedures for enforcement of RRB management responsibilities when RRB management does not take appropriate corrective actions in regard to the application of authoritative guidance and laws and regulations;
4. direct RRB management to ensure that RRB OIG auditors are provided with timely notification of significant matters that could impact the RRB's financial statements; and
5. direct RRB management to ensure that they meet with RRB OIG auditors to discuss matters of significant importance as requested by RRB OIG auditors.

### Management's Response and Our Comments

In its overall response, the Executive Committee stated that the material weakness for the control environment is unfounded due to insufficient evidence and stated that the OIG did not provide evidence that management's accountability enforcement mechanisms were evaluated. The full text of management's response is provided in Appendix III.

The OIG disagrees that the material weakness is unfounded and we stand by our documented finding regarding this matter and the numerous examples that support the material weakness. The Executive Committee cites a portion of the Government Accountability Office's *Standards for Internal Control in the Federal Government* regarding accountability mechanisms such as performance appraisals and disciplinary actions. These are examples of accountability enforcement, not the only type of accountability measures. Deficiencies can be noted because management does not take necessary corrective actions. The oversight body is to oversee evaluation of the significance of the deficiency to ensure that it has been properly considered. As previously stated, RRB management has not taken the necessary corrective actions to address the high level, monetarily significant matters detailed in our finding that could impact protection of customer trust funds and reliability of financial reporting for the RRB.

Management's response questions why our recommendations are directed to the Executive Committee, since the examples cited in our finding were initiated at the Executive Committee level. Our recommendations are directed to the Executive Committee because they fall to the responsibility of said committee, whose documented purpose in agency administrative guidance is:

## Letter to Management on Internal Control

Under the direction and oversight of the Senior Executive Officer, oversee day-to-day operations of the agency in conformance with existing laws, regulations, policies, and orders administered or promulgated by the Board Members; make recommendations to the Board Members on agency-related policy issues; promote coordination and communication on matters of agency-wide policy and direction. The Executive Committee is also responsible for oversight and problem-solving regarding cross-organizational internal control issues, and functions as the agency's senior management council with respect to the responsibilities outlined in Revised OMB Circular No. A-123.<sup>10</sup>

Our recommendations are directly aligned with the Executive Committee's responsibilities and Executive Committee reasons for nonconurrence for recommendations 2 and 3 further justify our identification of a material weakness for the RRB's control environment. The Executive Committee did not concur with recommendation numbers 2 and 3 and stated that these recommendations imply that the RRB does not have the authority or prerogative to disagree with OIG audit findings or recommendations and that ceding that authority to the OIG will compromise audit independence.

The OIG disagrees that these recommendations remove management's authority or prerogative to disagree with OIG audit findings and recommendations. The intent of these recommendations is to ensure that the Executive Committee fulfills its responsibilities as provided in RRB administrative guidance, which defines the committee's purpose. OIG recommendations 2 and 3 are directly aligned with the Executive Committee's responsibilities to provide oversight for issues concerning potential misapplication of authoritative guidance and laws and regulations, as well as the need for enforcement upon confirmation that the appropriate corrective actions have not been taken by RRB management.

In response to recommendation number 4, the Executive Committee stated that corrective action would be addressed in response to a separate recommendation in OIG audit report number 16-04 recommendation number 1. The OIG has determined that the intent of recommendation number 4 in this audit is not the same as that provided in OIG audit report 16-04 recommendation number 1, as that recommendation called for RRB management to notify OIG auditors of significant internal control deficiencies.<sup>11</sup> Recommendation number 4 in this report encompasses any significant matter that could impact the RRB's financial statement and is not limited to notification of internal control deficiencies. As a result, separate corrective actions will be required for this recommendation.

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<sup>10</sup> RRB, *Committees at the Railroad Retirement Board*, Administrative Circular REF(RRB)-2, (August 28, 2015).

<sup>11</sup> RRB OIG, *Fiscal Year 2015 Financial Statement Audit Letter to Management*, OIG Audit Report No. 16-04, Recommendation 1 (Chicago, IL: February 2, 2016).

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In regard to recommendation number 5, the Executive Committee indicated that corrective action has been completed. OIG auditors have not assessed completion of the stated corrective action.

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## OTHER MATTERS INVOLVING INTERNAL CONTROL

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

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

### Proper Approvals Not Provided in Supporting Documentation

All required approvals were not always provided for calculations used as the basis for transactions recorded in the RRB's financial management system, Financial Management Integrated System (FMIS). We discovered seven transactions, totaling approximately \$694 million, that lacked required approvals in supporting voucher documentation. These transactions included calculations of monthly cash transfer requests from the NRRIT, Department of Labor, and quarterly adjustments of NRRIT net assets.

According to the Government Accountability Office's (GAO) *Standards for Internal Control in the Government* (GAO Standards), authorization is a principal means to ensure that only valid transactions are initiated.<sup>12</sup> BFO internal procedures require various levels of review and approval for cash transfer requests and other transactions.

The absence of all required approvals in supporting documentation is due to the lack of implementing effective review and approval controls. Recorded transactions that lack all required approvals increases the risk of financial reporting errors and decreases the agency's ability to safeguard RRB assets.

### Recommendation

In 2014, we made a recommendation to address the approval process for vouchers.<sup>13</sup> This recommendation remains open.

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<sup>12</sup> GAO, *Standards for Internal Control in the Federal Government*, GAO-14-704G (Washington, D.C.; September 2014).

<sup>13</sup> RRB OIG, *Fiscal Year 2013 Financial Statement Audit Letter to Management*, OIG Audit Report No. 14-02, Recommendation 1 (Chicago, IL; February 20, 2014).

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## Discrepancies Between Vouchers and Recorded Entries

General ledger accounts provided on voucher input forms did not always agree with FMIS entries made by BFO staff. We identified seven transactions with these discrepancies, totaling approximately \$761 million, consisting of recordings for quarterly income tax receipts and the cash accounts used for some benefit payment disbursements. In addition, general ledger accounts recorded on voucher input forms did not always agree with accounts provided on underlying support used to record financial interchange calculations.

GAO Standards state that control activities help to ensure that all transactions are completely and accurately recorded. BFO records general ledger transactions on a voucher that captures essential portions of the transaction, includes the general ledger accounts, and the amounts for each aspect of the transaction. BFO also makes adjusting entries in FMIS using ad hoc journal vouchers to ensure all of the correct accounts have been debited and credited for the receipt of quarterly income taxes.

Inadequate review of transactions recorded on the voucher was the main cause for these exceptions. In addition, discrepancies for the recording of quarterly income tax receipts are due to BFO's continued noncompliance with the Department of Treasury's United States Standard General Ledger requirements for these transactions that were originally cited in our 2015 audit report.<sup>14</sup> Instead of complying with the United States Standard General Ledger for the recording of this transaction on a standard voucher, BFO used a separate adjusting journal voucher entry to record the remaining aspects of this transaction. BFO explained that they separate the entry for this transaction across vouchers of two separate types because having a standard voucher entry as prescribed for this transaction could impact other transactions. RRB OIG auditors reviewed FMIS transactions and found that this transaction was the only one that used this accounting entry.

For the cited differences in general ledger accounts used for the financial interchange, general ledger account changes were made in fiscal year 2014, but BFO has not updated their underlying supporting documents to reflect these changes.

Differences in general ledger accounts listed on standard voucher input forms, supporting schedules, and actual debit and credit posting in FMIS can be misleading to a reviewer and could potentially lead to financial recording errors.

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<sup>14</sup> RRB OIG, *Fiscal Year 2015 Financial Statement Audit Letter to Management*, OIG Audit Report No. 16-04, Recommendation 3 (Chicago, IL; February 2, 2016).

# Letter to Management on Internal Control

## Recommendations

We recommend that the Bureau of Fiscal Operations:

6. improve controls to ensure consistency between transactions recorded on the voucher input form and the actual entry in FMIS; and
7. ensure that general ledger accounts used in supporting schedules for financial interchange calculations are consistent with those used on the face of the voucher.

## Management's Response

The Bureau of Fiscal Operations concurred with these recommendations.

## **Financial Statement Audit Checklist Errors**

On an annual basis, BFO staff completes financial statement checklists as part of the financial statement audit. These checklists are issued by GAO and the President's Council on Integrity and Efficiency for completion by the entity to help ensure that the financial statements are prepared in accordance with U.S. Generally Accepted Accounting Principles and for auditors to ensure that the audit was conducted in accordance with U.S. Generally Accepted Government Auditing Standards. We found that BFO responses for some of the checklist questions were not accurate. Upon notifying BFO staff of the inaccurate responses, BFO personnel agreed that their responses were not accurate for the noted discrepancies.

GAO Standards state that control activities help management fulfill responsibilities and address identified risk responses in the internal control system. There are two separate checklists: Financial Audit Manual Checklist 2010, *Checklist for Federal Accounting* and Checklist 2020, *Checklist for Federal Reporting and Disclosures*. The checklists provide a systematic, organized, and structured approach to preparing or reviewing federal entity financial statements. Preparers of the RRB's financial statements complete the checklists as part of the audit to document that applicable accounting, reporting, and disclosure items have been addressed. Auditors then review the checklists for completeness and accuracy.

Incorrect responses provided by BFO resulted from the checklists being prepared by staff with insufficient knowledge of financial accounting transactions and insufficient review of checklist responses. The inaccurate responses indicate an incomplete and inaccurate understanding of RRB operations and financial reporting by checklist preparers.

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### Recommendation

8. We recommend that the Bureau of Fiscal Operations implement document review and approval procedures to ensure that accurate responses are provided for the financial statement checklists as provided in the Financial Audit Manual.

### Management's Response

The Bureau of Fiscal Operations concurred with this recommendation.



**Status of Prior Letter to Management Audit Recommendations  
Since February 2016**

We have reviewed the implementation of recommendations resulting from prior audits of the RRB's financial statements. The table below presents a summary of the current status of recommendations that were pending when we issued our Letter to Management dated February 2, 2016, in connection to our audit of the RRB's fiscal year 2015 financial statements.

<b>Bureau and Audit Recommendation</b>	<b>Audit Area</b>	<b>Status of Corrective Action</b>	
		<b>Completed As Of</b>	<b>In Progress</b>
<b>BUREAU OF FISCAL OPERATIONS</b>			
The Bureau of Fiscal Operations 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	10/04/16	
The Bureau of Fiscal Operations should strengthen its internal controls over the review and approval process to ensure that all vouchers are properly prepared, are only prepared after completion of a transaction, have sufficient documentation, and are approved by designated officials. (RRB OIG Audit Report 14-02, Recommendation No. 1)	Accounting		X
The Bureau of Fiscal Operations 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	09/29/2016	
The Bureau of Fiscal Operations should develop and implement new controls for financial reporting. (RRB OIG Audit Report 15-05, Recommendation No. 2)	Accounting		X
The Bureau of Fiscal Operations should redesign the payroll reconciliation process to ensure that it achieves its intended purpose. (RRB OIG Audit Report 15-05, Recommendation No. 5)	Accounting	09/15/2016	
The Bureau of Fiscal Operations should develop and implement procedures and controls for the payroll reconciliation. (RRB OIG Audit Report 15-05, Recommendation No. 6)	Accounting	09/27/2016	

**Status of Prior Letter to Management Audit Recommendations  
Since February 2016**

Bureau and Audit Recommendation	Audit Area	Status of Corrective Action	
		Completed As Of	In Progress
<b>BUREAU OF FISCAL OPERATIONS CONTINUED</b>			
The Bureau of Fiscal Operations should develop and implement procedures to ensure that payroll expenses are accrued and reversed timely and accurately. (RRB OIG Audit Report 15-05, Recommendation No. 7)	Accounting	09/27/2016	
The Bureau of Fiscal Operations should develop and implement a policy to inform the financial statement auditors of significant internal control deficiencies as predefined by financial statement auditors each year. (RRB OIG Audit Report 16-04, Recommendation No. 1)	Accounting		X
The Bureau of Fiscal Operations should improve its internal controls to ensure that the year-end financial statements are reviewed for reasonableness by the Accounting Officer, the Chief of Accounting and Budget, and the Chief Financial Officer, and that there is documented evidence of such review. (RRB OIG Audit Report 16-04, Recommendation No. 2)	Accounting	11/30/2016	
The Bureau of Fiscal Operations should develop and implement controls to ensure that posting logic changes remain in compliance with USSGL guidance. (RRB OIG Audit Report 16-04, Recommendation No. 3)	Accounting		X
The Bureau of Fiscal Operations should design and implement new controls, policies, and/or procedures for the reconciliation of the statement of net cost to budget note to ensure that amounts are fully supported. (RRB OIG Audit Report 16-04, Recommendation No. 4)	Accounting		X
The Bureau of Fiscal Operations should improve its internal controls to ensure the accuracy of data by the preparer, as well as the reviewer's responsibility as related to accuracy for financial statements and notes (RRB OIG Audit Report 16-04, Recommendation No. 5)	Accounting	12/13/2016	

**Status of Prior Letter to Management Audit Recommendations  
Since February 2016**

Bureau and Audit Recommendation	Audit Area	Status of Corrective Action	
		Completed As Of	In Progress
<b>RAILROAD RETIREMENT BOARD</b>			
The Board Members should establish an independent committee that will work to identify a functional solution that will enable communication between the OIG and the NRRIT's component auditor and achieve compliance with the AICPA's standards. (RRB OIG Audit Report 15-05, Recommendation No. 8)	Accounting	Despite a response of non-concurrence, the OIG believes this recommendation should be implemented and will track its status.	
<b>OFFICE OF PROGRAMS</b>			
The 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
The 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
<b>OFFICE OF GENERAL COUNSEL</b>			
The Office of General Counsel should develop and implement procedures and controls to ensure that the required Department of Justice forms are prepared. (RRB OIG Audit Report 15-05, Recommendation No. 12)	Legal Representation Letter		X
<b>BUREAU OF THE ACTUARY</b>			
The 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
The Bureau of the Actuary should review and update management control review documentation. (RRB OIG Audit Report 09-02, Recommendation No. 10)	Social Insurance		X
The 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

**Status of Prior Letter to Management Audit Recommendations  
Since February 2016**

Bureau and Audit Recommendation	Audit Area	<u>Status of Corrective Action</u>	
		Completed As Of	In Progress
<b>BUREAU OF THE ACTUARY CONTINUED</b>			
The 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
The 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
The Bureau of the Actuary should develop and implement additional procedures to maintain the integrity of the file to be used by the OIG contractor and ensure that it cannot be altered. (RRB OIG Audit Report 15-05, Recommendation No. 18)	Social Insurance	8/5/16	
The Bureau of the Actuary should develop and implement controls to ensure that the unaltered file is provided as a deliverable for the OIG contractor. (RRB OIG Audit Report 15-05, Recommendation No. 19)	Social Insurance	8/5/16	



UNITED STATES GOVERNMENT  
**MEMORANDUM**

Appendix II

FORM 6-1151 (1-82)

RAILROAD RETIREMENT BOARD

February 9, 2017

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

**FROM :** Shawna R. Weekley **SHAWNA**  
Acting Chief Financial Officer **WEEKLEY**

**SUBJECT:** Response to Draft Letter to Management  
Fiscal Year 2016 Financial Statement Audit

Digitally signed by SHAWNA WEEKLEY  
DN: c=US, o=U.S. Government, ou=Railroad  
Retirement Board, cn=SHAWNA WEEKLEY,  
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The Railroad Retirement Board responses to the recommendations directed toward the Bureau of Fiscal Operations (BFO) are included below:

- 1. Update the RRB's official record in its financial reporting system to include the missing documentation cited in this finding to ensure that they have adequate support to validate the transactions.**

We reject the characterization that "...transactions, representing approximately \$14.2 billion, did not have adequate supporting documentation when they were recorded and approved..." That statement is inaccurate and grossly overstates the magnitude of the observation. Supporting documentation for the referenced transactions was, in fact, available for review in hardcopy and promptly provided upon request as noted on page one of the draft document. Further, the OIG did not take exception to the accuracy or completeness of the documentation RRB provided to support the validity of the transactions representing approximately \$14.2 billion as discussed on page one of the draft document.

The supporting documentation was stored in a manner that complied with the Government Accountability Office guidance, *Standards for Internal Control in the Federal Government* (GAO-14-704G). Page 48, of the Federal Internal Control Standards, under the heading *appropriate documentation of transactions and internal control*, states:

*"Management clearly documents internal control and all transactions and other significant events in a manner that allows the documentation to be readily available for examination. The documentation may appear in management directives, administrative policies, or operating manuals, in either paper or electronic form. Documentation and records are properly managed and maintained."*

While we disagree with the characterization and the auditor's perception regarding the magnitude of the issue, we will upload the previously provided supporting documentation into FMIS, for transactions referenced in this finding.

Concur with reservation, target date: March 31, 2017

**6. Improve controls to ensure consistency between transactions recorded on the voucher input form and the actual entry in FMIS.**

The OIG did not take exception to the accuracy of transactions recorded in FMIS. While we acknowledge inconsistency between the supporting data entry forms and the recorded transactions, there was no financial impact from the differences identified.

Concur, target date: July 31, 2017

**7. Ensure that general ledger accounts used in supporting schedules for financial interchange calculations are consistent with those used on the face of the voucher.**

The OIG did not take exception to the accuracy of transactions recorded in FMIS. While we acknowledge inconsistency between the data entry forms, supporting schedules and the recorded transactions, there was no financial impact from the differences identified.

Concur, target date: July 31, 2017

**8. We recommend that the Bureau of Fiscal Operations implement document review and approval procedures to ensure that accurate responses are provided for the financial statement checklists as provided in the Financial Audit Manual.**

Concur, target date: September 29, 2017

If you or your staff has any questions, please contact John Walter at extension 4308.

cc: Debra Stringfellow-Wheat, Supervisory Auditor  
Jeffrey Baer, Director of Audit Affairs and Compliance  
John Walter, Chief of Accounting and Budget  
Ralph Brandt, Supervisor, ATT  
Herbert Kwan, Supervisor, AIT



UNITED STATES GOVERNMENT

**MEMORANDUM**

February 7, 2017

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

**FROM** : Daniel J. Fadden   
Director of Field Service/Senior Executive Officer

**SUBJECT:** Draft Letter to Management, Fiscal Year 2016 Financial Statement Audit

The Executive Committee (EC) non-concurs with the control environment material weakness cited by the Office of Inspector General (OIG), the associated finding in the draft Letter to Management and two of four recommendations addressed to the EC. Moreover, the Railroad Retirement Board (RRB) believes that due to insufficient evidence to support the assertion, the cited material weakness is unfounded.

Specifically, the OIG asserts the RRB's control environment presents a material weakness because a principle control for the RRB's control environment, the *enforce accountability* principle, is ineffective.

Enforce Accountability: Government Accountability Office guidance, *Standards for Internal Control in the Federal Government* (GAO-14-704G), page 32, states "management should evaluate performance and hold individuals accountable for their internal control responsibilities." The Government Accountability Office's Federal Internal Control Standards go on to state that "**management holds personnel accountable through mechanisms such as performance appraisals and disciplinary actions.**" Examples cited by the OIG to support the control environment material weakness do not provide evidence that the OIG evaluated management's accountability enforcement mechanisms. Therefore, it's difficult to understand how the OIG asserts a material weakness based on ineffective accountability enforcement.

Executive Committee Cognizance: Two of four recommendations addressed to the EC suggest that the EC should establish procedures to intervene when management disagrees with the OIG. The OIG is aware, or should be aware, that each example cited as indicative of an ineffective enforce accountability principle, and therefore requiring EC intervention was initiated at the EC-level, as well as in coordination with external stakeholders. Given this, it is difficult to understand how the OIG arrived at the conclusion that the appropriate remedy to a deficiency that was not effectively quantified is greater involvement/oversight from the individuals who initiated the actions.

OIG recommendations addressed to the RRB's EC, and the EC's response follow:

**2. Direct RRB management to elevate RRB OIG auditor concerns regarding application of authoritative guidance and laws and regulations for Executive Committee determinations when RRB management disagrees with RRB OIG auditor assessments.**

Non-concur. The implication of this recommendation is that the RRB does not have the authority, or prerogative, to disagree with OIG audit findings or recommendations. Ceding that authority to the OIG will compromise audit independence. Therefore, in the interest of preserving audit independence, and management's authority to disagree with audit findings and recommendations, the RRB must non-concur with this recommendation.

**3. Develop and implement Executive Committee procedures for enforcement of RRB management responsibilities when RRB management does not take appropriate corrective actions in regard to the application of authoritative guidance and laws and regulations.**

Non-concur. The implication of this recommendation is that the RRB does not have the authority, or prerogative, to disagree with OIG audit findings or recommendations. Ceding that authority to the OIG will compromise audit independence. Therefore, in the interest of preserving audit independence, and management's authority to disagree with audit findings and recommendations, the RRB must non-concur with this recommendation.

**4. Direct RRB management to ensure that RRB OIG auditors are provided with timely notification of significant matters that could impact the RRB's financial statements.**

This recommendation will be addressed by the RRB's response to recommendation one in report of audit 16-04.

**5. Direct RRB management to ensure that they meet with RRB OIG auditors to discuss matters of significant importance as requested by RRB OIG auditors.**

Corrective action completed February 7, 2017 (see attached).

If you or your staff has any questions, please contact Daniel J. Fadden at extension 4627.

cc: Rachel L. Simmons, Acting General Counsel  
Frank J. Buzzi, Chief Actuary  
Keith B. Earley, Director of Administration  
Shawna Weekley, Acting Chief Financial Officer  
Ram Murthy, Chief Information Officer  
Michael Tyllas, Director of Programs



Jeffrey Baer, Director of Audit Affairs and Compliance