



U.S. RAILROAD RETIREMENT BOARD

OFFICE OF INSPECTOR GENERAL

Internal Control Weaknesses Noted in the Preparation of the Railroad Retirement Board's Statements of Changes in Cash and Investments Balances Could Affect the Reliability of the Statements

Report No. 19-13

September 27, 2019

OFFICE OF INSPECTOR GENERAL U.S. RAILROAD RETIREMENT BOARD

Internal Control Weaknesses Noted in the Preparation of the Railroad Retirement Board's Statements of Changes in Cash and Investments Balances Could Affect the Reliability of the Statements



What WAI Found

Wai & Associates (WAI) determined that several internal control weakness in the preparation of the Railroad Retirement Board's (RRB) statements of Changes in Cash and Investments Balances (SCCIB) could affect the reliability of the statements. They also determined that the universe of general ledger transactions supporting SCCIB funds did not reconcile with the respective subsidiary ledgers and related trial balances. WAI made 17 recommendations to address the issues noted. The findings and recommendations on internal control are summarized in six findings in the report

What WAI Recommends

To address the weaknesses identified in this audit, WAI made 17 detailed recommendations for: development/revision/maintenance of policies and procedures; review of general ledger accounts used by Treasury; improved documentation that includes thresholds and disclosures of various types; defining authoritative basis for preparation and reporting of SCCIB; identifying recipients of the SCCIB; preparation/maintenance of reconciliation files; and maintenance of supporting documentation.

RRB management did not concur with any of the 17 recommendations and stated that it will discontinue preparation of the SCCIB.

What We Did

The Office of Inspector General (OIG) for the RRB engaged WAI to conduct a performance audit of the RRB's Statements of Changes in Cash and Investments Balances. This audit was conducted in accordance with the performance audit standards established by Generally Accepted Government Auditing Standards. WAI is responsible for the audit report and the conclusions expressed therein. RRB OIG does not express any assurance on the conclusions presented in WAI audit report.

The objective of this audit was to provide an independent evaluation of the reliability of the RRB's SCCIB for fiscal year 2018.

WAI identified and tested compliance with applicable criteria; interviewed management; conducted walkthroughs; identified key controls; conducted variance analyses; conducted detailed sample tests; and reviewed and analyzed disclosures.

The scope of the audit was SCCIB transactions reported in RRB's general ledger and included statements for each of 10 Treasury Accounts Symbols for fiscal year 2018.



COVER LETTER

Mr. Martin Dickman
Inspector General
Railroad Retirement Board Office of Inspector General
844 North Rush Street
Chicago, IL 60611-1275

September 25, 2019

RE: Report on the Performance Audit of Railroad Retirement Board's (RRB) Statements of Changes in Cash and Investments Balances (SCCIB) for the Fiscal Year Ended, September 30, 2018

Dear Mr. Dickman,

Wai and Associates, PLLC (WAI) is pleased to submit this report on its performance audit of the Railroad Retirement Board's (RRB) Statements of Changes in Cash and Investments Balances (SCCIB) for the fiscal year ended, September 30, 2018. This report is being submitted in accordance with WAI's contractual engagement to conduct this audit on behalf of the RRB OIG.

WAI conducted the audit in accordance with Generally Accepted Government Auditing Standards (GAGAS) issued by the Comptroller General of the United States (revised 2011). Those standards require that WAI plan and conduct the audit to obtain sufficient and appropriate evidence to provide a reasonable basis for its conclusions. The objective of our audit is to provide an independent evaluation of the reliability of the RRB's SCCIB for the fiscal year ended September 30, 2018. Our audit is designed to determine the reliability of the statements and underlying management's assertions. The evidence obtained during the audit provides a reasonable basis for WAI's findings, and underlying conclusions.

Based on the results of our audit, we determined that several control weaknesses in the preparation of the SCCIB could affect the reliability of the statements. We also determined that the universe of general ledger transactions supporting SCCIB funds do not reconcile with the respective subsidiary ledgers and related trial balance. In the accompanying report, we have issued 17 recommendations to help RRB management address the issues noted. The internal control matters cited, coupled with the exceptions noted in the transactions, in our view, significantly affect the reliability of amounts reported in the SCCIB.

We thank the OIG personnel for their outstanding professional effort in facilitating our work throughout the course of this audit.

Sincerely,

Mustapha Wai

Mustapha Wai, CPA, Managing Principal
Wai and Associates, PLLC



**Audit of Railroad Retirement Board’s Statements of Changes in Cash and Investments
Balances—Internal Control Weaknesses Noted in the Preparation of SCCIB Could Affect
the Reliability of the Statements**

Fiscal Year Ended September 30, 2018

September 25, 2019

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INTRODUCTION

This performance audit report presents a description of the objective, scope, methodology and procedures performed and results of Wai and Associates, PLLC's (hereto referred to as WAI) audit of Railroad Retirement Board's (RRB) Statements of Changes in Cash and Investments Balances (SCCIB) for the fiscal year ended September 30, 2018.

OBJECTIVE, SCOPE AND METHODOLOGY

The objective of this audit is to provide an independent evaluation of the reliability of the RRB's SCCIB for the fiscal year ended September 30, 2018. Our audit is designed to determine the reliability of the statements and underlying management's assertions. Reliability, as defined in our judgment is the accuracy of the amounts reported in the SCCIB in all significant respect, the adherence to Federal Government accounting standards applicable to the transactions underlying the statements, and the effectiveness of internal controls in the process for preparing the SCCIB. WAI conducted the SCCIB audit in accordance with Generally Accepted Government Auditing Standards (GAGAS). Specifically, we utilized chapter 6 of GAGAS as it relates to performance audits. GAGAS requires us to determine criteria for a reasonable and consistent assessment of the evidence we evaluate, within the context of our professional judgment.¹ In complying with GAGAS requirements for performance audit, WAI obtained a reasonable assurance that evidence gathered throughout this audit is sufficient and appropriate to support its findings and conclusions in relation to the objectives described above. RRB's Bureau of Fiscal Operations (BFO) management is responsible for the SCCIB. The statements are prepared using United States Standard General Ledger (USSGL) balances from RRB's general ledger system—Financial Management Integrated System (FMIS).

To accomplish the audit objectives, WAI performed the following specific procedures to validate management's assertions underlying the SCCIB and determine the reliability of the statements:

- identified, reviewed and evaluated laws, regulation, policies and procedures that serve as authoritative bases for the SCCIB and underlying transactions;
- identified and determined compliance with applicable accounting standards governing the use and presentation of USSGL in SCCIB and the reliability of underlying data;
- interviewed management and conducted walkthroughs of the SCCIB preparation and reporting processes;
- identified and evaluated key controls related to the SCCIB preparations and reporting;

¹ GAO Government Auditing Standards, 2011 Revision, Section 3.01

- conducted fluctuation and variance analysis, as well as substantive analytics on the SCCIB transactions and balances and related crosswalks;
- conducted substantive detail testing of a sample of SCCIB transactions from the general ledger; and
- reviewed and analyzed disclosures accompanying the SCCIB.

We assessed the reliability of SCCIB cash receipt and disbursement data provided by the RRB from the FMIS general ledger; reviewed data for any obvious errors in accuracy and completeness; reviewed electronic files (i.e. Microsoft Excel files) which contained the data; communicated with RRB personnel knowledgeable about the data; and attempted to reconcile data to the SCCIB. FMIS is outside the scope of our audit, therefore, we did not perform any test of the general ledger system. The data received could not be reconciled for significant accounts subjected to our audit. However, we conclude that the data was reliable for the purpose of meeting our audit objectives, and sufficient for evaluating the evidence to support our findings and conclusion. For more details, see our findings and recommendations on SCCIB reconciliation on page 6 of this report.

The scope of our work covered SCCIB for fiscal year 2018 and included statements for each of the 10 Treasury Account Symbols (TAS) that make up the SCCIB and included below:

1. Social Security Equivalent Benefit Account- TAS 60X8010;
2. Railroad Retirement Account-TAS 60X8011;
3. Railroad Unemployment Insurance Trust Fund, Benefit Payments-TAS 60X8051.01
4. UI Trust Fund, Administrative Expenses- TAS 60X8051.02;
5. Limitation on Administration- TAS 60FY8237;
6. Building Operation, Maintenance and Repair Fund, Centers for Medicare & Medicaid Services- Medicare Cards, and Limitation on Administration-Extended Unemployment Benefits- TAS 60X8237;
7. Limitation on the Office of Inspector General- TAS 60FY8018;
8. Vested Dual Benefits Payment Account- TAS 60FY0111;
9. Extended Unemployment Benefits, American Recovery and Reinvestment Act (ARRA)- TAS 60X0114; and
10. Extended Unemployment Benefits, Worker, Homeownership, and Business Assistance Act (WHBBA) - TAS 60X0117.

These funds are classified into three groups as follows: Trust Funds, Administrative Funds, and General Funds.

Trust funds: Trust Funds are used to pay beneficiary benefits, fund administrative salaries and benefits, receive income taxes from Carriers and participants, and receive transfers from the National Railroad Retirement Investment Trust (NRRIT). Trust funds include the Social Security Equivalent Benefit Account- TAS 60X8010, Railroad Retirement Account-TAS 60X8011, and Railroad Unemployment Insurance Trust Fund, Benefit Payments-TAS 60X8051.01.

Administrative Funds: Administrative funds are used to pay administrative salaries and benefits for RRB and Office of Inspector General (OIG) personnel, building operations and maintenance, and other administrative expenses. Administrative Funds include RUIA Trust Fund, Administrative Expenses- TAS 60X8051.02, Limitation on Administration- TAS 60FY8237; Building Operation, Maintenance and Repair Fund, Centers for Medicare & Medicaid Services- Medicare Cards, and Limitation on Administration-Extended Unemployment Benefits- TAS 60X8237; and Limitation on the Office of Inspector General- TAS 60FY8018.

General Funds: General Funds are used to receive and distribute appropriated funds received via warrants through the U.S. Department of Treasury. Some of the funds are used to pay benefits, as appropriated by law and for special purposes. General Funds include Vested Dual Benefits Payment Account- TAS 60FY0111; Extended Unemployment Benefits, American Recovery and Reinvestment Act (ARRA)- TAS 60X0114; and Extended Unemployment Benefits, Worker, Homeownership, and Business Assistance Act (WHBBA) - TAS 60X0117. The Vested Dual Benefits Account is an active program that receives annual appropriations from Congress. According to management, the ARRA and WHBBA programs ended and the accounts are no longer actively distributing benefits. However, that these accounts are still receiving recoveries from prior year disbursements. RRB BFO management indicated that once all activities have ceased the accounts are to be closed.

The scope also included reviewing and testing key controls around the preparation and reporting of the SCCIB, as well as obtaining and testing evidential matter around the information systems or automated applications used to record and report amounts presented and disclosed in the SCCIB.

Basis of Accounting

Based on WAI's understanding of the SCCIB preparation process, BFO obtains balances recorded on accrual basis in FMIS USSGL and converts them to cash receipts and disbursement, consistent with cash basis of accounting which is consistent with Generally Accepted Accounting Principles (GAAP). BFO then prepares SCCIB, which in our judgement meets the definition of a "*Special Purpose Framework*" report consistent with AU-C Section 800,² and *Other Reported Financial and Non-Financial Information (ORFNI)*, as applicable to federal agencies pursuant to Statement of Federal Financial Accounting Concepts (SFFAC) 8, September 2017.³ According to SFFAC No. 8, "ORFNI may be required by administrative directives or presented voluntarily to meet the specific needs of a user or user group".⁴

Sampling Approach

WAI's sampling plan included the determination of the population or universe of transactions, sample size, sampling methodology, materiality, and procedures for evaluation of results. The objective of the sampling plan was to ensure that a valid sample of transactions making up the

² Special Considerations—Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks, AU-C Section 800

³ Statement of Federal Accounting Concepts 8, September 2017

⁴ Statement of Federal Financial Accounting Concepts 8: Federal Financial Reporting, Section 33

amounts disclosed in the SCCIB are subjected to our audit, so that a fair conclusion can be made about the reliability of the transactions and balances taken as a whole.

Universe of Transaction: For internal control assessment, WAI tested all key controls identified in the SCCIB accounting and reporting process. WAI also identified, based on walkthrough, instances where controls were missing. For detail test of transactions, WAI used the universe of transactions from the general ledger accounts making up the balances for each significant SCCIB and related line item for the period ended September 30, 2018.

Materiality: Consistent GAO FAM 230, WAI established a planning materiality threshold in order to determine misstatements with respect to the SCCIB taken as a whole, and a performance materiality threshold, which is the portion of threshold that is allocated to individual line items or accounts balances disclosed in each significant SCCIB selected for our detailed testing. In our judgement, the appropriate benchmark for determining materiality for each significant SCCIB is the larger of total cash receipts and total cash disbursements. Also, consistent with GAO FAM 230.11-12, WAI sets materiality at 3% of materiality benchmark, and performance materiality is set at one-third (1%) of planning materiality.

Sampling Selection Methodology and Sample Size: To have a reasonable coverage of amounts to be subjected to our testing, WAI judgmentally selected for detail testing of samples of transactions from significant SCCIB accounts totaling 90% of the cash and investment balances making up the SCCIB. WAI then selected for testing any line item on each significant SCCIB that is equal to or greater than planning materiality. Finally, WAI selected for testing any individual transaction within the population of transactions making up the selected line item that is greater than or equal to performance materiality (one-third of planning materiality) threshold.

Evaluating Results: WAI identified, documented and communicated in our report all known significant misstatements resulting from our sample testing. The significance of the noted misstatements, coupled with the results of our testing of key controls, helped to form WAI's conclusions on the reliability of the SCCIB taken as a whole. Details on our overall conclusion is documented in the results section of this report.

BACKGROUND

Created by law to administer a retirement benefit program for the nation's railroad workers, RRB is an independent Federal Government agency with headquarters in Chicago, Illinois. The agency's mission is to administer retirement-survivor and unemployment-sickness benefit programs for railroad workers and their families. RRB derives its mandate in the Railroad Retirement Act of 1934 and the Railroad Unemployment Insurance Act of 1938. RRB programs provide income protection to railroad workers during retirement and in the event of disability, during temporary unemployment, and in sickness. In the case of death, RRB also pays benefits to survivors. The agency also administers aspects of the Medicare program, with its authoritative basis in the Social Security Act of 1935 and the Internal Revenue Code.⁵

⁵ U.S. Railroad Retirement Board, An Agency Overview, January 2019

RRB is overseen by a board that comprises of three members appointed by the President of the United States of America, with the advice and consent of the U.S. Senate. One board member is appointed based on recommendation of railroad employers and is referred to as the management member; the second is appointed upon recommendation of railroad labor unions and is referred to as the labor member; and the third, who serves as the chair of the board is appointed to represent the public interest. The tenure of each appointed board member is five years. The President also appoints an Inspector General for the agency, who is charged with the responsibility under the Inspector General Act of 1978 to audit the RRB activities. RRB's headquarters is located at 844 North Rush Street in Chicago, Illinois and has 53 field offices located throughout the United States.⁶

Reporting to the board is an executive committee that comprises of the heads of key departments charged with the day-to-day operation of the RRB. The executive committee members include the Chief Financial Officer (CFO), General Counsel, Director of Administration, Director of Office of Programs, Director of Bureau of Field Service, Chief Actuary and Chief Information Officer (CIO). BFO is headed by the CFO and oversees all financial operations, including the accounting and reporting of the SCCIB.

RESULTS OF AUDIT

Based on the results of our audit, we determined that several control weaknesses in the preparation of the SCCIB could affect the reliability of the statements. We also determined that the universe of general ledger transactions supporting SCCIB funds do not reconcile with the respective subsidiary ledgers and related trial balance. We have issued 17 recommendations to address the issues noted. These internal control matters coupled with the exceptions noted in the transactions, in our view, significantly affect the reliability of amounts reported in the SCCIB.

INTERNAL CONTROL WEAKNESSES NOTED IN THE PREPARATION OF SCCIB

Our findings and recommendations on internal control are summarized in six categories as documented below. A separate document which includes the full text of RRB BFO Management's responses is included in Appendix I.

A Comprehensive Set of Policies and Procedures Guiding the Preparation and Reporting of SCCIB Does Not Exist

During our walkthrough, WAI requested the documented policies and procedures underlying the SCCIB process. RRB BFO management provided us with a copy of a document titled Appendix BB, "Railroad Retirement Board Statements of Changes in Cash and Investments/Cash Balances - Monthly (Cash Statements)" which is described to be part of RRB's Accounting Procedures Guide (APG) for the SCCIB. Per BFO, Appendix BB of the APG serves as both policies and procedures for the SCCIB process.

⁶ U.S. Railroad Retirement Board, An Agency Overview, January 2019

Policies provide the foundational principles, rules, and guidelines for achieving management's objectives. Based on a review of the contents of Appendix BB, WAI determined that it did not provide management with overarching guiding principles and did not provide parameters for ensuring the reliability of the statements including authorities guidance and basis for preparing the statements, objectives and uses of the statements, framework for promoting consistency and operational efficiency.

Upon inspection of the policy and inquiry with management, WAI could not validate that the current version of Appendix BB or any other policy existed for the SCCIB process during the period under audit (FY 2018). WAI reviewed the SCCIB policies and noted that the document was dated November 20, 2018, a date which is about two months after the start of our audit. BFO management stated that the version was recently updated but could not provide a copy of the previous version. As a result, WAI could not establish whether there was an SCCIB policy in existence during the period under audit.

Procedures are the specific methods employed or activities performed by management to implement policies in the day to day operation. WAI noted that Appendix BB provided detailed steps in preparing, reviewing, and reporting SCCIB balances. However, based on WAI's understanding of the SCCIB process gained through walkthrough and a review of Appendix BB, Appendix BB omitted steps that appear to be significant to the SCCIB process.

- The procedures did not mention or cover steps relating to the processing of IT adjustments (top side adjusting journal entries booked monthly to bring SCCIB balances reported in the general ledger system (FMIS) and the balances reported in the Department of Treasury governmentwide accounting system (GWA)). These adjustments are done monthly and appear to have significant impact on the reported SCCIB balances (from 1% to as much as over 100% of the reported funds' cash and investment balances). As such, WAI determined that the procedures should include steps in the preparation and recording of those entries.
- In addition, the document lacks steps or documentation of thresholds or other objective basis for identifying variances that warrant investigation. Instead, the decision was left to the discretion of individual accountants. Comparing FMIS balances to GWA or comparing period-to-period SCCIB balances are all procedures that are geared toward ensuring the accuracy of the SCCIB. For instance, variances between FMIS and GWA could be a result of normal timing difference or they could be evidence of other more serious issues including misstatements in the SCCIB due to errors or fraud. As such, WAI determined that a threshold or other objective approach to identifying significant variances and the steps for investigating and documenting those variances should have been included in the documentation.
- Furthermore, the document did not include processes and procedures requiring review and update of the predetermined Standard Query Language (SQL) codes and queries used to generate balances from the general ledger details for SCCIB line items. Based on WAI's understanding of the SCCIB preparation and reporting process, the SCCIB balances are generated based on FMIS data. BFO has a custom crosswalk that maps

FMIS balances to the SCCIB lines. However, after the FMIS balances are cross walked to the SCCIB lines using the SCCIB crosswalk, BFO performs additional allocation of balances in certain USSGL accounts through a process they refer to as "splitting". The splitting process involves using SQL codes to further allocate balances from those USSGL among multiple lines within the same SCCIB fund. Without the "splitting" process, the FMIS transactions do not agree to the SCCIB lines (using only the crosswalk). As such, WAI considered this process significant in the preparation of the SCCIB and should be covered in the process and procedures documentation.

- Finally, Appendix BB does not include a description of processes and procedures for reviewing and updating the mapping of USSGL from FMIS to SCCIB, to capture Treasury's TFM changes/updates to general ledgers accounts that may impact SCCIB accounts. BFO noted that the updating of FMIS to capture Treasury periodic USSGL updates are handled at the agency level. However, WAI noted that since the FMIS USSGL and the SCCIB do not have a "1 to 1" relationship and requires a special "SCCIB" crosswalk and a subsequent SQL "splitting" process, management should have a process that captures changes to FMIS USSGL, determine if any of the updated USSGL impacts the SCCIB process, and make necessary updates to SCCIB crosswalk and SQL splitting codes as need. WAI determined that such a control or process is significant and should be included in the SCCIB process documentation.

Federal Managers Financial Integrity Act (FMFIA) of 1982 and its implementing guide, *Management Responsibilities for Enterprise Risk Management and Internal Control*, OMB Circular A-123, revised July 15, 2016 stipulate federal managers' responsibility for internal control. Key elements of internal control as prescribed the GAO Green Book, *Standards for Internal Control in the Federal Government, September 2014* require the development of adequate policies and procedures as part of the development of "Control Activities". Control Activities is one of the five components of internal control. The Green Book specifically states that Control Activities are "actions management establishes through policies and procedures to achieve objectives and respond to risks in the internal control system, which includes the entity's information system."⁷ The Green Book further states that "management is responsible for designing the policies and procedures to fit an entity's circumstances and building them in as an integral part of the entity's operations."⁸

A disclaimer in the introduction of the Appendix BB document states as follows: "These are basic guidelines on the manual preparation of the cash statements. There are varying nuances that may occur from month to month or from one fund to another fund." We would like to conclude that because BFO management views the document as "basic guidelines" with "varying nuances", it may have missed or overlooked key elements in the SCCIB preparation and reporting process that should be covered in policies and procedures. Also, because the policies

⁷ Government Accountability Office (GAO) Green Book, *Standards for Internal Control in the Federal Government, September 2014, Section OV2.04*

⁸ GAO Standards for Internal Control in the Federal Government, Section OV2.02

and procedures are documented in an Appendix, as opposed to the body of an APG, management may have reduced the significance of the policy document.

Without a comprehensive set of policies and procedures guiding the preparation and reporting of SCCIB, key elements in the process are not stipulated to be performed and may not be performed, as in the case of the USSGL update review and periodic review of the SQL codes, among others noted above. Also, BFO personnel involved in the SCCIB preparation process are left with the discretion of deciding the nature, timing and extent of specific procedures that are critical to the preparation and reporting of SCCIB. With discretion, several key elements may not be performed and/or done timely. For example, during our walkthrough, BFO management disclosed to us that individual staff use their discretion to determine which variances to investigate.

Recommendations:

We recommend that RRB BFO updates its policies and procedures, so that it is comprehensive and covers all key elements in the SCCIB preparation and reporting process, including:

1. maintaining copies of superseded policies and procedures so that changes and superseded elements can be identified and tracked so that the effective date for new and/or superseded elements in the document can be ascertained;
2. adding stipulations to the SCCIB policies and procedures covering all key elements including the IT adjustments (authorization, review and approval);
3. reviewing and/or updating the SQL codes underlying queries used to generate SCCIB data as necessary;
4. reviewing and updating of USSGL accounts used in the SCCIB preparation for any changes done by Treasury; and
5. adding description of thresholds for variances that require investigation.

SCCIB is Not Accompanied by Adequate Footnote Disclosure

Through our walkthrough of the SCCIB preparation process and confirmation with BFO management, it is our understanding that BFO obtains balances recorded on accrual basis in FMIS general ledger and converts them to cash receipts and disbursements, consistent with cash basis of accounting which is in accordance with GAAP. BFO then prepares SCCIB, which in our judgement meets the definition of a “*Special Purpose Framework*” report consistent with AU-C Section 800, and *Other Reported Financial and Non-Financial Information (ORFNI)*, as applicable to federal agencies pursuant to Statement of Federal Financial Accounting Concepts No. 8, September 2017. BFO management further confirmed to us that the SCCIB statements are presented on a cash basis of accounting and that SCCIB related accounting transactions recorded

in FMIS are in accordance with Federal accounting standards. Federal accounting standards require footnote disclosures. Per AICPA AUC 800 “When special purpose financial statements contain items that are the same as, or similar to, those in financial statements prepared in accordance with generally accepted accounting principles (GAAP), paragraph .17 requires the auditor to evaluate whether, the financial statements include informative disclosures similar to those required by GAAP”.⁹

Users of the SCCIB include the RRB Board, representatives of the Executive Committee, and key representatives of several bureaus and offices including BFO, Bureau of Actuary and Research (BAR), Office of General Counsel, Bureau of Human Resources, Office of Programs, Field Service, and Bureau of Information Services.

A memo signed by both BFO’s Chief of Accounting and Budget Division and Chief Financial Officer (CFO) provides descriptions of cash receipts and disbursements in select accounts during the respective reporting months, as well as ending cash balances and underlying increase/decrease in select accounts as of the end of the reporting month. Other than the memo, the SCCIB is not accompanied by any footnote disclosures that describe among others, the general ledger accounts disclosed on the face of the statements, periodic fluctuation or percentage increase/decrease considered significant within established thresholds, the basis of accounting used in preparing the statements, a statement that the SCCIBs are not cash flow statements consistent with GAAP, and a disclosure of significant adjustments made including the 1T adjustments.

Given that BFO management views the SCCIB as internal reports, thereby appearing to not take into account the nature and extent of use by other internal parties such as BAR and Legislative Affairs in their external disclosures, and the level of reliance placed on them by outsiders users of those disclosures, BFO management may not have deemed it necessary to include footnote disclosures to accompany the statements. Furthermore, due to the lack of specific internal policy requirements demanding the use of footnote disclosures to accompany the SCCIB, preparers have not been mandated to do so.

Without proper and adequate footnote disclosures accompanying the SCCIB, users are left with the discretion to form their own judgement about the amounts disclosed in the statements. And since amounts presented in the SCCIB are used by RRB offices like BAR in its newsletter to the public, and Legislative Affairs in Congressional briefings, the degree of reliance and what the amounts mean may be subject to conflicting interpretations and conclusions.

Recommendations:

We recommend that BFO:

6. ensures that the SCCIB be accompanied by adequate footnote disclosures that describe among others, the description of the general ledger accounts presented in the statements;

⁹ AICPA. AUC 800 Appendix B. Page 930, Paragraph 1

7. discloses periodic fluctuations or percentage increase or decrease during the month that are considered significant within established thresholds;
8. discloses the basis of accounting used in preparing the statements and a disclaimer that the SCCIBs are not cash flow statements consistent with GAAP; and
9. discloses significant adjustments made, including the 1T adjustments.

Management Could Not Demonstrate Awareness of the Specific Authoritative Basis Requiring the Preparation of the SCCIB

In response to our inquiry about the authoritative basis of the SCCIB, BFO Management responded in a confirmation that it is not aware of any specific law, regulation, or internal RRB directive that mandates the preparation and reporting of SCCIB. BFO management insisted that the statements are internal reports. However, our audit determined that amounts from the SCCIB are used by RRB offices like BAR in its newsletter to the public and Legislative Affairs in Congressional briefings, both of which are external disclosures relied on by external parties. Furthermore, the SCCIB are not internal to BFO as they are used by other departments independent of BFO, and as well as by the Board.

SFFAC No. 8 states that government “component reporting entities may present information that is not required by GAAP. These entities may present this information to help achieve the reporting objectives or comply with laws and administrative directives.”¹⁰ Accordingly, identification of “reporting objectives” or specific law or directive that mandates the preparation of SCCIB is critical. OMB Circular No. A-123, Management’s Responsibility for Enterprise Risk Management and Internal Control, July 16, 2017 states that management is “responsible for establishing and maintaining internal controls to achieve specific internal control objectives related to operations, reporting, and compliance.”¹¹ Reporting as described herein, in our judgement includes both internal and external reporting, especially when the reports are relied upon by other independent internal parties and senior management such as the RRB Board, the BAR and Legislative Affairs; and external parties who rely on SCCIB related information published by the BAR.

Given that senior BFO management views the SCCIB as internal reports, this appears to reduce the relevance and critical nature of the statements. Accordingly, it may have missed the opportunity to understand what gave rise to the preparation of the SCCIB, and the relevance of management assertions underlying the statements within the framework of management’s responsibility for internal control, as mandated by OMB Circular A-123 and its authoritative basis, the FMFIA.

¹⁰ Statement of Federal Financial Accounting Concepts 8, September 22, 2017, Section 29.

¹¹ Management Responsibilities for Enterprise Risk Management and Internal Control, OMB Circular A-123, revised July 15, 2016, M-16-17 Attachment page 1, Policy section

Without an identified authoritative basis for preparing the SCCIB, be it internal directive or external law or regulation, the relevance of the statements seems to be reduced. Accordingly, personnel involved in the preparation of the SCCIB do not appear to give it the appropriate importance it deserves. This could be explained by the fact that top side adjustments are made without established thresholds for elevation of approval, the existence of limited policies and procedures to govern the preparation of the SCCIB, and the lack of knowledge among senior management and staff regarding the use and reliance placed on the statements by independent internal users and the RRB Board. Also, a justification for using taxpayer dollars in preparing such a set of statements on a monthly basis without a specific authoritative basis may be questionable given FMFIA requirements for management's responsibility for "efficiency and effectiveness of operations," and RRB OIG's mandate for reducing "waste" in government.

Recommendations

We recommend that BFO:

10. identifies, understands and defines the authoritative basis for preparing and reporting SCCIB and recommend using OMB Circular A-123, Management Responsibilities for Enterprise Risk Management and Internal Control, revised July 15, 2016, and its accompanying memo M-16-17, which states that management is "responsible for establishing and maintaining internal controls to achieve specific internal control objectives related to operations, reporting, and compliance" as a basis; and
11. develops a specific APG to stipulate the requirements for the specific internal control reporting requirements surrounding the monthly SCCIB reporting.

Management Could Not Demonstrate Full Awareness of the Use of and Reliance Placed on the SCCIB by Users

Based on our audit, we determined that on a monthly basis, BFO management submits by email the SCCIB to several internal recipients across RRB. The recipient distribution list includes the Secretary to the RRB Board, representatives of the Executive Committee, and key representatives of several bureaus and offices, including BFO, BAR, Office of General Counsel, Bureau of Human Resources, Office of Programs, Field Service, and Bureau of Information Service. In response to our inquiries about specific purpose and use of the SCCIB, BFO management responded that it is not aware of any specific purpose or reliance placed on the SCCIB by recipients. However, BFO management added in their response that "The Bureau of Actuary and Research inquires as to the release date of the statements" and that "BAR may use these statements for a specific purpose." On several occasions during discussions, BFO management reiterated that the SCCIB is an internal report. However, even the internal authoritative basis for the report could not be identified by BFO management. This is coupled with the fact that other parties external to BFO use information from SCCIB in disclosures to the public and at Congressional briefings. For example, BAR stated that information and amounts from SCCIB is published in their newsletter. A representative from the Legislative Affairs office indicated that amounts in the SCCIB have been cited in Congressional briefings in the past.

SFFAC No. 8 states that government “component reporting entities may present information that is not required by GAAP. These entities may present this information to help achieve the reporting objectives or comply with laws and administrative directives.”¹² Accordingly, establishing reporting objectives cannot be completed without full awareness of the use and reliance placed on the information being reported. OMB Circular A-123, Management Responsibilities for Enterprise Risk Management and Internal Control, revised July 15, 2016, and its accompanying memo M-16-17, state that management is responsible for establishing and maintaining internal controls to achieve specific internal control objectives related to operations, reporting, and compliance.¹³ Accordingly, we are unable to establish from BFO management’s perspective the “specific internal control objectives” related to the preparation and reporting of the monthly SCCIB.

BFO management did not provide evidence to substantiate any actions seeking to take into account the use, as well as the nature and extent of reliance placed on the SCCIB by other independent internal parties such as BAR and Legislative Affairs in their external disclosures, and the level of reliance placed on them. Accordingly, BFO management may have missed the opportunity to understand the use of the SCCIB by those receiving them on the monthly basis.

Without a clear understanding of the use and reliance placed on the SCCIB by those receiving them, BFO management may not be in the position to provide sufficient, relevant and appropriate information. This could be explained by the fact that the statements are not accompanied by adequate footnote disclosures and the lack of a comprehensive policies and procedures guiding the preparation and reporting of SCCIB. Also, without an understanding of the use of the statements, a justification for using taxpayer dollars in preparing such a set of statements on a monthly may be questionable.

Recommendations

We recommend that BFO:

12. identifies based on both the authoritative basis of the SCCIB, as well as inquiries of recipients on the use and reliance placed on the statements; and
13. Develop a specific APG that stipulates the user needs, the specific internal control reporting objective, and the requirement surrounding the monthly SCCIB reporting.

SCCIB TRANSACTIONS DO NOT RECONCILE AND SIGNIFICANT VARIANCES ARE NOT ADEQUATELY SUPPORTED OR DISCLOSED

Based on our audit, we determined that BFO management does not investigate variances identified between FMIS general ledger balances and Treasury GWA balances. We also noted

¹² Statement of Federal Financial Accounting Concepts 8, September 22, 2017, Section 29.

¹³ OMB Circular A-123, Management Responsibilities for Enterprise Risk Management and Internal Control, revised July 15, 2016, Memo M16-17, See M-16-17 Attachment page 1, Policy section

that FMIS general ledger details supporting SCCIB do not tie to the related trial balance and subsidiary ledgers for the respective accounts presented on the SCCIB. Specifically, we noted significant and pervasive unsupported top side adjustments to the general ledger balances ranging from 1% to over 100% of the reported funds' cash and investment balances on a monthly basis. These exceptions coupled with internal control matters noted above, in our view significantly affect the reliability or amounts disclosed in the SCCIB.

BFO Management Does Not Investigate Variances Identified Between FMIS General Ledger Balances and Treasury GWA Balances for SCCIB

During our audit of the SCCIB, we determined that BFO management does not investigate variances between FMIS GL balances and Treasury GWA reported balances prior to or even after the publication of the SCIB. Instead, BFO management books adjusting entries called “1T” adjustments to tie FMIS balances to Treasury amounts. Management stated that due to time constraints, it does not investigate, resolve, and maintain documentation substantiating variances identified between cash balance recorded on SCCIB (as generated from FMIS) and cash balances reported by the U.S. Treasury (reported through the Treasury's GWA) prior to the publication of the SCCIB to users. We also determined that adjustments posted in one month are reversed the following month and new sets of adjustments representing the total variances between FMIS and Treasury GWA is booked for each fund.

Based on our analysis of the 1T adjustments, we determined the following:

- 1T adjustments were posted in each month for 9 of the 10 funds (Treasury Account Symbol) and in each of the twelve months during the fiscal year under audit;
- only one 1T adjustment was posted in the month of September 2018 for TAS 60X8051.2;
- the adjustments go in both directions (debits and credits) and some repeat in the same amounts;
- the absolute value of the respective adjustments ranges from 1% to over 100% of the ending monthly cash balances reported for the affected funds; and
- that the adjustments are in our judgement considered material for some of the funds given the percentage range above and pervasiveness given that almost each of the funds are affected and in each of the reported month.

FMFIA requires management to design and maintain “internal accounting and administrative controls” that comply with GAO guidance and provide reasonable assurances that “revenues and expenditures applicable to agency operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the assets”¹⁴. Per GAO Green Book (see Principal 10- Design Control Activities, section 10.3) “accurate and timely recording of transactions” and specifically requires that “management designs control activities so that all transactions are completely and accurately recorded.”¹⁵ In our view, the reliability of the SCCIB is affected by adjustments that are not investigated, resolved and documented, or appropriately disclosed to users.

¹⁴ Federal Managers Financial Integrity Act (FMFIA) of 1982 September 8, 1982 (Section 2, paragraph A, III),

¹⁵ GAO Green Book, Principal 10- *Design Control Activities*, Section 10.3

BFO Management stated that due to time constraints, it does not investigate, resolve and document evidence substantiating variances identified between cash balance recorded on SCCIB and cash balances reported by the U.S. Treasury. Management also added that individual accountants use their discretion to investigate variances.

RRB BFO management confirmed with us that FMIS (RRB's general ledger system) is USSGL compliant and that SCCIB related accounting transactions recorded in FMIS are in accordance with Federal accounting standards. However, we are unable to ascertain this management's assertion if variances between the amounts from FMIS and external parties like Treasury are not investigated timely and resolved prior to reporting of SCCIB. Without investigation and resolution, BFO management may not be able to ascertain whether the variances are attributable to timing difference or errors and the impact on the SCCIB may not be identified.

Recommendations

We recommend that BFO:

14. establish and document procedures for thresholds for variance investigation and require personnel to investigate significant variances prior to publishing SCCIB; and
15. alternatively consider disclosing variances considered significant in the footnotes to the SCCIB if those variances could not be investigated timely before the statements are published.

FMIS General Ledger Details Supporting SCCIB Do Not Tie to the Related Trial Balance and Subsidiary Ledgers for the Respective Accounts Presented on the SCCIB

FMIS GL details do not tie to SCCIB lines for some funds. We requested the GL details that make up each SCCIB line, and BFO provided a transaction detail file (SCCIB FY18 transaction detail) as well as a SCCIB crosswalk used to determine the lines on the 2018 SCCIB statements. We attempted to reconcile the transaction detail to the SCCIB lines, using the SCCIB crosswalk provided by management. We noted significant variances in various funds, including funds 60x8010 (Social Security Benefits Account), 60x8011 (Railroad Retirement Account), 60x8051.1 (Railroad Unemployment Insurance Trust Fund, Benefit Payments), and 60x8051.2 (Railroad Unemployment Insurance Trust Fund, Administrative Expenses). Upon discovery of the variances, management indicated that it performs additional steps (outside of the SCCIB crosswalk mapping) described as "splitting". BFO splits amounts obtained for specific accounts in FMIS to others as part of generating SCCIB account balances. This "splitting" exercise is neither disclosed in the memo to the statements, nor in the crosswalk or Appendix BB, which is considered the policy and procedures for SCCIB.

Compliance with USSGL and timely reconciliations are also mandated by Federal Financial Management Improvement Act (FFMIA) of 1996. Specifically, FFMIA requires that "each agency shall implement and maintain financial management systems that comply substantially with Federal financial management systems requirements, applicable Federal accounting

standards, and the United States Government Standard General Ledger at the transaction level”.¹⁶ We believe that reconciliation of general ledger details to trial balance, and subsidiary ledgers, and having the reconciliation documentation readily available to substantiate the financial report, (i.e. SCCIB) is a requirement that is consistent with the above guidance.

BFO management performs additional steps (outside of the SCCIB crosswalk mapping) to determine SCCIB balances that may be unreliable or inconsistent. Some FMIS USSGL impact multiple SCCIB lines, sometimes in opposite directions (increase vs decrease). However, the SCCIB crosswalk we were provided which maps those balances from FMIS to the SCCIB does not contain enough sub-accounts and accurate mapping to map the amounts in those accounts to the appropriate SCCIB lines. As a result, when preparing the SCCIB, BFO performs additional data manipulation steps (outside of the crosswalk) to further split those balances to the respective SCCIB lines using SQL. While the SQL is based on computer language/codes, management did not seem to have a documented process of reviewing or updating those codes to ensure that the splitting is accurate and continuous use is warranted. Management’s process for reviewing final SCCIB balances may not be thorough enough to identify discrepancies. Management’s process for reviewing and approving final SCCIB balances does not appear to include documented steps to validate reported SCCIB balances (derived through the SQL) to the source files obtained from FMIS.

In our view, the reliability of the SCCIB, a financial report is affected by unreconciled amounts not properly investigated, resolved and documented, or appropriately disclosed to users of the report.

Recommendations

We recommend that BFO:

16. prepares and maintains reconciliation files that tie the transaction detail obtained from FMIS to the SCCIB, and related subsidiary ledgers, including a thorough description of any manipulations done; and
17. after using SQL codes to split specific USSGL to various SCCIB lines, BFO should maintain readily available documentation that shows the flow of data from FMIS through the SQL splitting process and onto the SCCIB lines. That documentation may include, but not limited to, FMIS subsidiary ledgers for SCCIB lines as well as documentation on how the subsidiary ledger balances are further manipulated through SQL queries to arrive at the SCCIB balances.

¹⁶ Federal Financial Management Improvement Act (FFMIA) of 1996. Specifically, Section 803

APPENDIX I: MANAGEMENT COMMENTS AND OUR RESPONSE



UNITED STATES OF AMERICA
RAILROAD RETIREMENT BOARD
844 NORTH RUSH STREET
CHICAGO, ILLINOIS 60611-1275

OFFICE OF THE CHIEF FINANCIAL OFFICER

September 20, 2019

Mustapha S. Wai, Engagement Partner
Darren Chapin, Senior Manager
Wai & Associates, PLLC
Springfield, VA 22151

SUBJECT : Draft Report: Office of Inspector General's Audit of the Railroad Retirement Board's Statements of Changes in Cash and Investment Balances (SCCIB)

This response serves to address findings and recommendations provided in the draft report referenced above, which was received on September 10, 2019. The draft audit report discusses the RRB's preparation, presentation, and distribution of the SCCIB and includes your opinion on the reliability of the SCCIB.

The Bureau of Fiscal Operations (BFO) produced the SCCIB to provide awareness of RRB's cash and investment balances held by the Department of the Treasury (Treasury); as such, each account included in the SCCIB accurately represented the Treasury's Government-Wide Accounting (GWA) and/or FedInvest balance for the reporting period. However, neither the Office of Management and Budget (OMB) nor Treasury requires preparation of the SCCIB.

The following are the two primary authoritative sources that prescribe form, content, and overall requirements for reporting financial data and federal financial statements:

1. OMB Circular, A-136, *Financial Reporting Requirements* provides guidance for Executive Branch entities required to submit audited financial statements, interim financial statements, and Performance and Accountability Reports (PARs) or Agency Financial Reports (AFRs) under the Chief Financial Officers Act of 1990, as amended (CFO Act), the Government Management Reform Act of 1994 (GMRA), and the Accountability of Tax Dollars Act of 2002 (ATDA). OMB updates Circular A-136 annually to reflect current Federal generally accepted accounting principles as promulgated by the Federal Accounting Standards Advisory Board (FASAB).

2. The Treasury Financial Manual (TFM) is the Treasury's official publication of policies, procedures, and instructions concerning financial management in the Federal Government. TFM Chapter 4700 prescribes how federal entities provide data for the *Financial Report of the United States Government (FR)* using the Governmentwide Treasury Account Symbol Adjusted Trial Balance System (GTAS) along with additional details from the audited department-level financial statements.

Furthermore, the results of your audit work highlighted that it is not cost effective or an efficient use of government resources to continue producing and distributing the SCCIB. As such, on August 20, 2019 and in conjunction with the response to your notice of findings and recommendations, the BFO notified the Board and Executive Committee that production and distribution of the SCCIB would cease immediately. Therefore, the BFO non-concurs with each of the 17 recommendations cited in the referenced report.

The BFO also conferred with the Bureau of Actuary and Research and agreed to provide information to meet its specific needs. Further, I confirmed that the Office of Legislative Affairs had not independently utilized or distributed information contained in the SCCIB and did not express a need to do so. Lastly, the BFO will respond to the needs of other organizations within the RRB on a case-by-case basis upon request.

Respectfully,

Shawna Weekley
Chief Financial Officer

cc: Debra Stringfellow-Wheat, RRB Deputy Assistant Inspector General
Patricia Conliss, Supervisory Auditor
John Walter, Chief of Accounting and Budget
Mario Moreno, Jr., Accounting Officer
Jeff Baer, Director of Audit Affairs and Compliance and
Acting Chief of Treasury, Debt Recovery and Financial Systems
Tim Hogueisson, Associate Director of Audit Affairs and Compliance

**Audit of Railroad Retirement Board (RRB) Statements of Changes in Cash
and Investments Balances (SCCIB)**

Fiscal Year Ended September 30, 2018

WAI's Response to RRB Management's Comments on the Draft Report

In comments to the SCCIB draft report, RRB BFO management views the report as a way of providing “awareness of cash and investments balances”. However, we found during our audit that recipients use the information in the SCCIB for more than just “awareness of cash and investments balances” and that other office within RRB other than the Bureau of Actuary Research (BAR) use the information. WAI determined that amounts from the SCCIB are used by RRB offices like BAR in its newsletter to the public and Office of Legislative Affairs in Congressional briefings, both of which are external disclosures relied on by external parties.

RRB BFO management also stated in its response that, “each account included in the SCCIB accurately represented the Treasury’s Government-Wide Accounting (GWA) and/or FedInvest balance for the reporting period.” WAI agrees with this conclusion and further emphasizes that because of RRB BFO’s attempt to tie amounts reported in SCCIB, as generated from the agency’s general ledger system (FMIS) to treasury GWA and FedInvest balances, top-side adjustments are booked on the monthly basis to match these amounts. As cited in NFR-005, the variances are not investigated prior to or even after booking. Instead, each month new top-side adjustments are booked for the differences.

WAI also acknowledges RRB BFO management’s conclusion that the results of our work “has highlighted that it is no longer cost effective or an efficient use of government resources to continue producing the SCCIB.” As a result, RRB BFO management concluded that it will discontinue the preparation of the SCCIB. WAI would like to emphasize that the conclusion in our report on page 13, paragraph 3, which states that “*Without a clear understanding of the use and reliance placed on the SCCIB by those receiving them, BFO management may not be in the position to provide sufficient, relevant and appropriate information. Also, without an understanding of the use of the statements, a justification for using taxpayer dollars in preparing such a set of statements on a monthly may be questionable.*” As WAI’s audit work was not intended, nor designed to determine the “cost-effectiveness” or “efficient use” of resources in producing the SCCIB. WAI does not draw such a conclusion. WAI would therefore like to emphasize that the conclusion that our work has “highlighted that it is no longer cost effective or an efficient use of government resources to continue producing the SCCIB” is in fact RRB BFO management’s conclusion.

WAI also acknowledges that RRB BFO management’s decision to discontinue producing the SCCIB is based on their interpretation of the results of our work, which in its view highlights the cost-effective nature of the SCCIB. If RRB BFO management is using the results of WAI’s work to discontinue producing the SCCIB, WAI is unable to understand the basis for management’s non-concurrence with all of the NFRs. Furthermore, WAI believes that discontinuing further production of the SCCIB does not address the validity of audit findings and underlying internal

control weaknesses cited in the process for preparing SCCIB for fiscal year (FY 2018) under audit, which is in the past.