



U.S. RAILROAD RETIREMENT BOARD

OFFICE OF INSPECTOR GENERAL

Railroad Retirement Board Bureau of Fiscal Operations Sections' Functions Need Improvement

Report No. 21-08

September 1, 2021



What WAI Found

Wai & Associates, PLLC (WAI) concluded that five weaknesses significantly affect the effectiveness and efficiency of the Railroad Retirement Board's (RRB) Bureau of Fiscal Operations' (BFO) Treasury, Debt Recovery, and Financial Systems Sections' (TS, DRS, and FSS, respectively) operations, including inefficiencies that affect the optimum use of resources.

WAI also concluded that exceptions and errors in criminal restitution debt and employer contributions transactions of DRS and TS render them inaccurate, incomplete, and/or untimely recorded. Additionally, WAI concluded that cross-organizational communication between DRS and another RRB component (RRB's Office of Programs) is inadequate for their shared responsibility for the unapplied cash function.

Lastly, WAI determined that seven of eight key functions identified within DRS are outsourceable, and one of the four key functions identified within TS is outsourceable. For FSS, WAI determined that three of five functions are outsourceable, of which two are already outsourced.

What WAI Recommends

To address the weaknesses identified in this audit, WAI made 18 recommendations to the Bureau of Fiscal Operations. Specifically, WAI made 13 recommendations to address the weaknesses that affect the effectiveness and efficiency of BFO Sections' operations, 3 recommendations to improve criminal restitution debt and employer contributions transactions, and 2 recommendations to improve the communication for unapplied cash functions that BFO shares with another RRB component.

RRB management concurred with six recommendations, partially concurred with five recommendations, and did not concur with seven recommendations.

What We Did

The Office of Inspector General (OIG) for the RRB engaged WAI to conduct a performance audit of the effectiveness and efficiency of RRB's BFO's TS, DRS, and FSS. 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's audit report.

The audit objective was to assess the effectiveness and efficiency of RRB BFO TS, DRS, and FSS, the effectiveness of cross organizational communications within the RRB, and determine if the functions of the TS, DRS, and/or FSS could be outsourced.

The scope of the audit was operations of RRB BFO TS, DRS, and FSS during fiscal year 2019.

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Railroad Retirement Board Bureau of Fiscal Operations Sections' Functions Need Improvement

Inspector General
U.S. Railroad Retirement Board:

We were engaged by the U.S. Railroad Retirement Board (RRB), Office of Inspector General (OIG), to conduct a performance audit of the effectiveness and efficiency of RRB's Bureau of Fiscal Operations' (BFO) Treasury, Debt Recovery, and Financial Systems sections for the Fiscal Year (FY) 2019. This report entitled "Railroad Retirement Board Bureau of Fiscal Operations Sections' Need Improvement" presents the results of our audit.

Our performance audit objectives were to: 1) assess the effectiveness and efficiency of RRB BFO Treasury, Debt Recovery, and Financial Systems sections, including the effectiveness of cross organizational communications within the RRB, and 2) determine if the functions of the Treasury, Debt Recovery, and Financial Systems sections can be outsourced.

To perform our audit, we identified and reviewed laws, regulations, as well as internal policies and procedures that serve as authoritative bases for the sections operations and underlying transactions.

We interviewed personnel within RRB BFO Treasury, Debt Recovery, and Financial Systems sections, as well as Senior Management of BFO, and conducted walkthroughs to develop an understanding of key business processes and controls underlying the sections' operations. We identified and evaluated the design and operating effectiveness of controls within key processes that ensure the effectiveness and efficiency of sections' operations and the accuracy of related transactions and reports. We also reviewed, analyzed, and validated reconciliations and selected and tested samples of transactions underlying the sections' operations, including criminal restitution, waivers and write-offs, collections, travel invoices, and purchase invoices.

We evaluated the degree to which Management of the respective sections optimizes the use of available resources to achieve the goals and objectives of the sections and determined whether any function is ineffective and/or inefficient. We also performed procedures to determine appropriateness for outsourcing functions given the provisions of Federal Acquisition Regulations (FAR) Subpart 7.5 *Inherently Governmental Functions*, and other applicable guidance.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions

based on our audit objectives.¹ We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

We concluded that weaknesses noted significantly affect the effectiveness and efficiency of RRB BFO Treasury, Debt Recovery, and Financial Systems sections' operations, including inefficiencies that affect the optimum use of resources. Those weaknesses include:

- lack of adequate and comprehensive set of policies and procedures guiding the RRB BFO Treasury, Debt Recovery, and Financial Systems sections' operations;
- key controls necessary for efficiency and effectiveness in the RRB BFO Debt Recovery, and Financial Systems sections' operations are improperly designed or not operating effectively;
- RRB BFO Financial Systems Section does not perform adequate oversight of functions outsourced to a contractor;
- RRB BFO Financial Systems Section does not have controls to mitigate key person dependency and succession planning risk for its key positions; and
- inefficiencies noted in RRB BFO Debt Recovery, and Financial Systems sections' operations affect the optimum use of resources.

We issued five Notice of Findings and Recommendations (NFRs) relating to the weaknesses identified above.

We also concluded that exceptions and errors noted in transactions of RRB BFO Debt Recovery Section render them inaccurate, incomplete, and untimely recorded. Those exceptions and errors include:

- transactions relating to criminal restitution debt recorded by the RRB BFO Debt Recovery Section were inaccurate, incomplete, and/or untimely; and
- RRB BFO Treasury Section does not perform verification of data critical for accurate recording of employer contributions.

We issued two NFRs relating to the exceptions and errors noted in RRB BFO Debt Recovery Section's transactions as described above.

We concluded that cross-organizational communication between BFO Debt Recovery Section and another component sharing responsibility for unapplied cash function is inadequate. We did not determine any other evidence of a lack of cross-organizational communication within the RRB BFO Treasury and Financial Systems sections.

We issued one NFR relating to the inadequate cross-organizational communication weaknesses identified in BFO Debt Recovery Section as described above.

We also performed procedures to determine whether functions within each of the sections can be outsourced, based on whether they are inherently governmental.

¹ GAO Government Auditing Standards 2018 Revision Technical Update April 2021, Section 8.35.d.

We determined that seven of eight key functions identified within Debt Recovery Section are outsourceable, and one of the four key functions identified within Treasury Section is outsourceable. For Financial Systems Section, we determined that three of five functions are outsourceable. However, two of the three outsourceable functions are currently outsourced to a contractor. See Appendix B, “Summary of Assessment of Outsourceable Functions”, for a listing of key functions of the sections, and our conclusions on outsourceable functions.

This report is for the purpose of concluding on the audit objectives described above. Accordingly, this report is not suitable for any other purpose.

Wai and Associates, PLLC

August 31, 2021
Springfield, VA

OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

The objective of our audit is to assess the effectiveness and efficiency of RRB BFO Treasury Section (TS), Debt Recovery Section (DRS), and Financial Systems Section (FSS), the effectiveness of cross organizational communications within the RRB, and determine if the functions of the TS, DRS, and/or FSS can be outsourced.

Scope

Subject to this audit were the operations and activities of the three sections that were in effect from October 1, 2018, through September 30, 2019. The scope of our audit covered operations of RRB BFO TS, DRS, and FSS for the FY ended September 30, 2019.

Methodology

In accomplishing our audit objectives, we utilized the following methodologies:

- identified and reviewed laws and regulations, as well as internal RRB policies and procedures applicable to the sections’ operations;
- interviewed personnel within RRB BFO TS, DRS, and FSS, as well as Senior Management of BFO (Management), and conducted walkthroughs to develop an understanding of key business processes and controls underlying the sections’ operations;
- performed audit procedures specifically required by generally accepted government auditing standards to address the objectives described above;
- evaluated the design and operating effectiveness of key controls identified in the processes subject to our audit, as well as controls at the transaction level; and
- performed specific analytical procedures to evaluate the degree to which management of the respective sections optimizes the use of available resources to achieve the goals and

objectives of the sections, and determined whether an ineffective and/or inefficient function should be improved, discontinued, or outsourced.

As required by Government Accountability Office (GAO) guidance², WAI also performed procedures to assess the reliability of computer-generated data. In doing so, we identified specific data necessary for our audit; analyzed data characteristics; assessed the use of data; examined data for errors, inaccuracies, and completeness; reconciled data to source; considered system control to determine the current state of data system controls; and communicated errors and exceptions noted in the data with RRB personnel knowledgeable about the data. Because of the errors and exceptions noted in the data, we conclude that the data was not reliable for the purpose of our audit. Therefore, we did not rely on the data to conclude on the audit objectives.

As part of our control testing at the transaction level, we validated reconciliations and selected and tested samples of transactions underlying the sections' operations, including criminal restitution debts, waivers and write-offs, collections, travel invoices, and purchase invoices. See Appendix C: Sampling Methodology and Evaluation of Sample Testing Results for the universe of transactions subject to our testing, including sample size and exceptions and deviations noted.

Based on this methodology, WAI selected and tested 78 samples from the population of each of types of transactions to test, in accordance with our sampling methodology.

Process Level Controls Testing—for internal control assessment relating to the functions of the sections, WAI tested all key controls identified in the processes underlying the sections' operations in order to determine existence and completeness of applicable control attributes:

DRS Section

- For the key control of establishing policies, WAI tested 1 out of 1 set of policies to test the attributes of existence, accuracy, and currency of policies that establish an overall framework for accomplishing the section's objectives
- For the key control of developing procedures, WAI tested 1 out of a population of 1 set of procedures, to test the attributes of existence, accuracy, and currency of procedures that document the section's processes and functions for achieving its objectives

FSS Section

- For the key control of establishing policies, WAI tested 1 out of 1 set of policies to test the attributes of existence, accuracy, and currency of policies that establish an overall framework for accomplishing the section's objectives
- For the key control of developing procedures, WAI tested 1 out of a population of 1 set of procedures, to test the attributes of existence, accuracy, and currency of procedures that document the section's processes and functions for achieving its objectives

² GAO Applied Research and Methods, Assessing Data Reliability (GAO-20-283G), December 2019

- For the key control of approving users access to FMIS, WAI selected 5 from a population of 5 users and tested attributes related to the appropriateness and timeliness of granting users access to FMIS
- For the key control of terminating users access from FMIS, WAI selected 5 from a population of 5 users, to test attributes relating to the timeliness of revoking access from FMIS
- For the key control of continuous monitoring of users' access to FMIS, WAI selected 9 from a population of 9 users, to test attributes relating to the occurrence of periodic review of user recertification for continuous access to FMIS
- For the key control of approving RRB users access to US Treasury systems, WAI selected 5 from a population of 5 users and tested attributes related to the appropriateness and timeliness of granting users access to US Treasury systems
- For the key control of periodically updating FMIS data tables, WAI selected 3 out of the 3 FMIS tables updated by FSS, to test attributes related to the timeliness and accuracy of data table updates
- For the key control of reviewing FMIS issue log, WAI selected 1 out of a population of 1 issue log for FY 2019, to test attributes relating to the occurrence and timeliness of FSS review of FMIS issues log
- For the key control around FSS' review of monthly service level reports for FMIS users, WAI selected 12 out of a population of 12 monthly service level reports, to test attributes relating to the occurrence and timeliness of review of FMIS monthly service level reports
- For the key control of monitoring FMIS security, through updating the system's security plan, WAI selected 1 annual update of FMIS security plan from a population of 1 year, to test the attributes of existence, review, and currency of FMIS security plan
- For the key control of FSS tracking and implementing corrective actions associated with FMIS reviews and findings, WAI selected 1 out of a population of 1 of the Plan of Action and Milestones (POAM) for FY 2019, to test the attributes of existence, review, and currency of FSS tracking and implementation of corrective actions required to address issues identified during various audits of FMIS
- For the key control of monitoring FSS contractors for FMIS outsourced functions, WAI selected 1 out of a population of 1 service level agreements (SLA), to test the attributes of existence, accuracy, currency, and monitoring of FSS' agreement with its FMIS contractor
- For the key control of monitoring FSS monitoring of its FMIS service provider' audit issues, WAI selected 1 out of a population of 1 Standards for Attestation Engagements (SSAE) reports, to test attributes of review and follow-up by FSS
- For the key control of change management to FMIS, WAI selected 1 out of a population of 1 change made to FMIS in FY 2019, to test attributes of the timeliness and authorization of changes and modifications to FMIS

TS Section

- For the key control of establishing policies, WAI tested 1 out of 1 set of policies to test the attributes of existence, accuracy, and currency of policies that establish an overall framework for accomplishing the section's objectives
- For the key control of developing procedures, WAI tested 1 out of a population of 1 set of procedures, to test the attributes of existence, accuracy, and currency of procedures that document the section's processes and functions for achieving its objectives
- For the key control of reviewing disbursements for duplicate payments, WAI tested 4 out of a population of 4 reports to test the attributes of performance, accuracy, and timeliness of reviews of disbursements
- For the key control of reviewing benefits transactions to accurate recording, WAI selected a sample of 78 out of a population of 241 recorded benefit transactions, to test attributes of occurrence of review and the timeliness and accuracy of recorded transactions
- For the key control of periodically reviewing enrollees' eligibility for RRB metro benefits, WAI selected a sample of 1 from a population of 1, to review the attributes of occurrence of eligibility validation and the timeliness of enrollments
- For the key control of periodically reconciling employer contributions benefits, WAI selected a sample of 1 reconciliation out of a population of 1 annual reconciliation for FY 2019, and tested the attributes of occurrence of reconciliation and reasonableness of the completion of reconciliation of employer contributions

Transaction-level control testing—WAI also tested attributes in samples of transactions making up account balances related to the operations of Treasury, Debt Recovery and Financial Systems sections. Based on this, WAI selected 78 samples for testing in accordance with our sampling methodology.

With respect to our transaction-level control testing, our procedures were limited to evaluation of attributes related to the controls, and our conclusions on the effectiveness of controls were based on whether the number of errors identified fall within or outside of our predetermined acceptable deviations. We did not project the errors we found in the samples to the entire population, because we tested specific attributes of each control; and projection of error is not applicable to attribute testing. WAI used the universe of transactions making up significant account balances for the period ended September 30, 2019. The population of transactions selected for testing at the transaction control-level and the sample size tested included:

- A sample of 6 criminal restitution debts were tested out of a population of 6 for testing of completeness, existence, and accuracy/valuation or allocation
- A sample of 76 waivers and write-offs were tested out of a population of 76 for testing of completeness, existence, and accuracy/valuation or allocation
- A sample of 78 samples were selected from a population of 67,577 RRA collection transactions for testing of completeness, existence, and accuracy/valuation or allocation

- A sample of 78 samples were selected from a population of 21,497 RUIA collection transactions for testing of completeness, existence, and accuracy/valuation or allocation
- A sample of 78 samples was selected from a population of 2,093 travel invoices for testing of completeness, existence, and accuracy/valuation or allocation
- A sample of 78 samples was selected from a population of 1,664 purchase invoices for testing of completeness, existence, and accuracy/valuation or allocation

Criteria

WAI conducted the audit in accordance with Generally Accepted Government Auditing Standards (GAGAS). Specifically, we utilized chapters 8 and 9 of GAGAS³ (GAO-18-568G revised July 2018) as it relates to performance audit. GAGAS also requires us to use our judgement to determine criteria that will enable us to “obtain sufficient, appropriate evidence that provides a reasonable basis for findings and conclusions based on the audit objectives.”⁴ We also utilized the GAO *Standards for Internal Control in Federal Government* (Green Book), and Office of Management Budget (OMB) Circular No A-123, *Management’s Responsibility for Enterprise Risk Management and Internal Control*, Revised July 2016, as applicable.

In complying with GAGAS requirements for performance audit, we obtained a reasonable assurance that evidence gathered throughout this audit is sufficient and appropriate to support our findings and conclusions in relation to the objectives described above.⁵

As part of our process of identifying outsourceable functions, we used the FAR Subpart 7.5 *Inherently Governmental Functions*, which prescribes policies and procedures to ensure that contractors do not perform inherently governmental functions; and the Office of Federal Procurement Policy (OFPP) Policy Letter 11-01, which guides agencies within the Executive Branch of the US government in addressing the performance of inherently governmental functions and critical functions; the Federal Activities Inventory Reform Act (FAIR Act) of 1998, which provides a process for determining functions within the Federal Government that are not inherently governmental, and OMB Circular No. A-76 (Revised), *Performance of Commercial Activities*, which establishes federal policy for the competition of commercial activities, and requires that government personnel perform inherently governmental functions.

BACKGROUND

RRB is an independent Federal Government agency with headquarters in Chicago, Illinois. The agency’s function is to administer retirement-survivor and unemployment-sickness benefit programs for railroad workers and their families.

³ GAO Government Auditing Standards, 2018 Revision Technical Update April 2021

⁴ GAO Government Auditing Standards, 2018 Technical Update April 2021, Section 3.01

⁵ GAO Government Auditing Standards 2018 Revision Technical Update April 2021, Section 8.35.d

RRB BFO is responsible for the agency's financial related activities. Responsibility for these activities is divided among several sections. Three of these sections—TS, DRS, and FSS are subject to our audit. The TS is responsible for processing accounts payable and liquidation of the agency's obligations, as well as for managing the RRB tax and contributions system. The DRS is responsible for managing debts, including collection, recording, and reporting of debts, as well as addressing delinquencies and adjudicating waivers and write-offs. The FSS is responsible for designing, managing, and maintaining the agency's financial system—Financial Management Integrated System (FMIS).

During FY 2020, RRB paid retirement and survivor benefit payments totaling approximately \$13.1 billion to about 528,000 retirement and survivor beneficiaries. The agency also paid net unemployment/sickness benefits of \$188 million to about 41,000 claimants.⁶

RESULTS OF THE AUDIT

Based on the results of our audit, we identified several weaknesses and exceptions which are described as follows:

- a lack of an adequate and comprehensive set of policies and procedures guiding the sections' operations;
- key controls necessary for efficiency and effectiveness in the sections' operations are improperly designed or not operating effectively;
- transactions relating to criminal restitution debt recorded by the RRB BFO DRS were inaccurate, incomplete, and/or untimely;
- BFO Financial Systems Section does not perform adequate oversight of functions outsourced to a contractor;
- RRB BFO FSS does not have controls to mitigate key person dependency and succession planning risk for its key positions;
- inefficiencies noted in sections' operations affect the optimum use of resources;
- communication with other RRB components sharing responsibility for unapplied cash functions is inadequate; and
- RRB BFO TS does not perform verification of data critical for accurate recording of employer contributions.

As described in the details below, we have issued 18 recommendations to address the weaknesses and exceptions noted during this audit. These weaknesses coupled with the exceptions noted in the transactions, in our judgement, significantly affect the effectiveness and efficiency of operations of BFO sections subject to our audit.

⁶ U.S. Railroad Retirement Board, An Agency Overview, January 2021, page 1, par 2

A Comprehensive Set of Policies and Procedures Guiding the Sections' Operations is Inadequate or Does Not Exist

To test the existence, adequacy, and evidence of periodic review of policies for the sections, WAI requested copies of policies or equivalent documentation that form the authoritative guidance for the implementation of RRB mandates for DRS, FSS, and TS. In response to our request for policies, Management provided RRB Basic Board Order 4 (B.B.O.4) - Money and Finance Policies (Board Orders).

The Green Book provides guidance on using policies as control activities. According to the Green Book “management should implement control activities through policies.” It further notes that “the following attributes contribute to the design, implementation, and operating effectiveness of this principle: Documentation of Responsibilities through Policies.” To effectively document responsibilities through policies, it requires that “management documents in policies for each unit its responsibility for an operational process’s objectives and related risks, and control activity design, implementation, and operating effectiveness. Each unit, with guidance from management, determines the policies necessary to operate the process based on the objectives and related risks for the operational process. Each unit also documents policies in the appropriate level of detail to allow management to effectively monitor the control activity.” The second attribute of an effective policy, as defined by Principle—12 of the Green Book, is a periodic review of control activities. It requires that “management periodically reviews policies, procedures, and related control activities for continued relevance and effectiveness in achieving the entity’s objectives or addressing related risks.”

WAI reviewed the Board Orders to determine whether they were adequate in guiding personnel and management in achieving the objectives of the sections. RRB’s Board Orders establishes broad mandates of RRB’s financial management systems as well responsibilities of FSS. Section 6 of the Board Orders “Debt Collection Program” also establishes broad mandates of RRB’s debt recovery program and the responsibilities for DRS and broad mandate for RRB tax collection program which includes some of the functions performed by TS.

Upon review of the Board Orders, we determined that the documents are broad directives describing the goals and objectives of divisions within RRB, including BFO. They are written at the division level, do not provide sufficient detail for an effective monitoring of control activities, and do not provide specific activities that the sections are expected to do in carrying out their respective functions. WAI also determined that the Board Orders contained no dates or evidence of periodic review and update of control activities.

In addition to policies, WAI performed procedures to test the existence, adequacy, and evidence of periodic review of procedures for the sections. WAI also requested detailed procedures that clearly explain their processes and key controls within those processes.

BFO did not provide any procedures for FSS’ functions. In addition, BFO did not provide procedures for two of its key functions, including TS’s Tax Management System and Payroll

Processing Management. For these TS' functions, BFO provided its Management Control Reviews (MCR) and reconciliation guidance. Based on a review of the MCR, WAI noted that it is a tri-annual (performed every 3 years) self-assessment certification of internal controls conducted by RRB's assessable units (AU). We determined that it does not guide personnel in performing their assigned tasks and control activities. Also, the MCR is not readily available to personnel during the normal course of their work. Upon review of the reconciliation documents provided by BFO, we determined that they were guidelines on the timing and description of procedures required to be performed; unlike procedures, they do not provide detail steps on how to perform those procedures.

In instances where Management provided procedures or equivalent documentation, WAI noted that they were not adequate and/or up to date. WAI noted the following: TS provided procedures for its Accounts Payable function. However, the procedures were outdated; they were dated June 19, 2012. Upon further review of the procedures, WAI observed that certain processes noted in the document were inaccurate. For instance, the document referred to a key control requiring a submission of "Receiver Document" through the system, in the payment authorization process for invoices related to obligations. However, TS personnel noted that references to a "receiver document" does not exist within FMIS, the current system used by TS to process accounts payable. Instead, it is applicable to the Federal Financial System (FFS), a predecessor system to FMIS. Based on our confirmation with Management and a review of prior audit reports, WAI noted that FMIS was implemented in October 2013. As such, the current procedures were referring to steps that had not been applicable since October 2013. Furthermore, the procedures provided by BFO contained no evidence of review and approval. Based on this, WAI concluded that TS procedures were inaccurate, outdated, and contains no evidence of periodic review and approval by Management.

DRS provided procedures and documentation for various processes including the processing of waivers, criminal restitution debt, lockbox and pay.gov collection, copy of debt adjustment request form, cash handling, delinquent debt, and uncollectable debts. The procedures provided by DRS were either marked as "draft" and/or contained no evidence of review and approval. Management could not state when the current versions of the procedures were drafted. However, management noted that previous versions of the procedures were drafted prior to the current FMIS environment and were obsolete. Based on our confirmation with Management and a review of prior audit reports, WAI noted that FMIS was implemented in October 2013. As Management could not say when the current versions of the procedures were drafted, WAI further reviewed the "properties" of the procedures provided and noted that they were all created around August and October 2020. Based on the creation period noted in the documents' properties and Management's comment that the previous versions of the procedures were created prior to the implementation of FMIS in FY 2013, WAI determined that DRS did not have updated procedures for its functions between FY 2013 and FY 2020. As such, WAI concluded that the current procedures provided were not in effect in FY 2019. In addition, as the procedures provided were in "draft" form and contained no evidence of review and approval between FY 2013 and FY 2020, WAI concluded that Management does not review and update these procedures timely.

Federal Managers Financial Integrity Act (FMFIA) of 1982 and its implementing guide, OMB Circular A-123, revised July 15, 2016, stipulate federal managers' responsibility for internal control. Key components of internal control as prescribed by both the Committee of Sponsoring Organizations (COSO) framework and the GAO Green Book include the development of adequate policies and procedures as part of the development of "Control Activities." Per OMB Circular A-123, revised July 15, 2016, management is "responsible for establishing and maintaining internal controls to achieve specific internal control objectives related to operations, reporting, and compliance." Section OV2.04, of 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." Section OV2.02, of 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." Management lacks adequate resources to develop and maintain policies and procedures. FSS noted that its two-member staff was inadequate to perform their assigned tasks and document procedures during the transition of its retiring Financial Manager.

Management may lack adequate expertise to develop and maintain policies and procedures. Management equated RRB Board Orders, MCR documentation, and reconciliation guidance to policies and procedures. In our opinion, this demonstrates a lack of fundamental understanding of the attributes of policies and procedures. In addition, WAI noted that DRS charged significant number of hours and costs to codes related to the development of policies and procedures between FY 2019 through FY 2021 and was unable to produce policies and effective procedures. This inconsistency between the input (hours and costs incurred) output (lack of adequate policies and procedures), demonstrates that Management may lack expertise in performing the function. Management does not view the development and maintenance of policies and procedures as a requirement. For instance, FSS noted that it does not participate in RRB's MCR process, and therefore is not required to perform risk assessment. In our judgment, this impacts BFO's view of its responsibilities to develop control activities, including the development and maintenance of policies and procedures for FSS.

Recommendations:

We recommend that the Bureau of Fiscal Operations:

1. develop and maintain comprehensive set of policies and procedures for DRS, FSS, and TS, using in-house personnel with adequate relevant expertise and experience, or outsource the task to an entity with the relevant expertise and experience;
2. assess the work effort required and hire adequate personnel to perform FSS functions;
3. ensure that the development and maintenance of policies and procedures for DRS, FSS, and TS are performed by personnel with appropriate expertise; and

4. require FSS to participate in BFO's MCR certification process, so that risks associated with the lack of adequate policies and procedures can be identified, mitigated, and reported on.

Management's Response and Auditor's Consideration of Management's Response

The BFO concurred with recommendations 1 and 4 without exception. See full text to Management's response in Appendix A.

For recommendation 2, BFO non-concurred and stated,

This recommendation is duplicative; please see also the discussion under Finding No. 5 and Recommendations No. 11 and 12. It is not cost effective for the BFO to perform an "assessment of the work effort required." BFO Management has already determined the staffing level needed to support effective and efficient performance of FSS functions. BFO's ability to hire an adequate number of staff for FSS is subject to the availability of sufficient funding and consideration of other Agency priorities as determined by the Board and the Executive Committee.

We disagree with Management that the recommendation is duplicative. The elements of the findings relating to recommendations 2, 11, and 12 as described are different. Therefore, even though we determined that the unique conditions were caused by a lack of adequate staffing, each recommendation is designed to address those unique elements underlying each finding. Therefore, they are not duplicates. Furthermore, in Management's responses to recommendation 12, RRB agrees to implement corrective actions in response to the recommendation. Accordingly, we conclude that finding and related recommendation in No. 2 still stands.

For recommendation 3, BFO non-concurred and stated,

This recommendation is duplicative of Recommendation No. 1.

We disagree with management that the recommendation is duplicative. We determined that the elements of the findings relating to recommendations 1 and 3, as described are different. Therefore, even though we determined that the unique conditions were caused by a lack of or inadequacy of policies and procedures, each recommendation is designed to address those unique elements underlying each finding. Therefore, they are not duplicates. Furthermore, in Management's responses to recommendation 1, RRB agrees to implement corrective actions in response to the recommendation. Accordingly, we conclude that the findings and related recommendation in No 3 still stands.

Key Controls Necessary for Efficiency and Effectiveness in the Sections' Operations Are Improperly Designed or Not Operating Effectively

WAI determined that key controls activities necessary for the efficiency and effectiveness of the operations of the sections were improperly designed or not operating effectively. Below is the description of the conditions we observed for the respective sections affected and related functions:

Waiver and Write-off Process in DRS: Decisions on waivers equal to or greater than \$25,000 are reviewed by a supervisor and/or require a second level of review. DRS personnel disclosed that the threshold was raised from \$10,000 to \$25,000 because of the significant increase in the number of waivers and write-offs that needs to be processed. Out of a population of 76 waivers, WAI identified 6 waivers and write-offs that met or exceeded the threshold of \$25,000 and performed testing procedures to determine whether evidence exist to substantiate supervisory review and approval. No exception was noted. However, WAI performed further analysis to assess the reasonableness of DRS' threshold and noted that only 8% of approved waivers and write-offs were reviewed by a supervisor and 92% of the items in the population of 70 were not subject to supervisory review because they did not meet the threshold.

Based on this analysis, WAI determined that waivers and write-offs not reviewed by a supervisory or higher appears to be significantly high. In addition, WAI noted that Management's decision to increase the threshold from \$10,000 to \$25,000 did not appear to be based on risk posed by the increase in population of waivers and write-offs and may have increased the risk that significant number of DRS analyst decisions will not receive a supervisory or secondary review. Upon raising the observation with Management, they noted that change in threshold from \$10,000 to \$25,000 was unilaterally taken by the Debt Recovery Management and was not authorized. As such, the threshold was restored to \$10,000.

Granting User Access to FMIS in FSS: As a system administrator, an FSS employee is responsible for managing access, changes, and updating of certain tables within FMIS. During our walkthrough, WAI reviewed 5 FMIS users and requested related access request forms (Form G-441), to evaluate the design of control around user access and determine whether access requests were reviewed and approved prior to granting access. For 3 of the 5 users, FSS staff could not provide corresponding access request forms or related documentation to substantiate that users' requests were reviewed and approved prior to granting access to FMIS.

Update of System Security Plan: Based on our walkthrough, FSS staff continuously monitor FMIS' strategy and security plan, ensuring that it is current and relevant, by maintaining a FMIS system security plan (SSP) Risk Management Strategy Document annually. However, the RRB Systems Security Officer is responsible for the preparation and signing of the annual SSP. WAI requested the finalized SSP, including evidence of review and approval for FY 2019. The 2019 SSP provided by FSS was not signed by the RRB Chief Security Officer.

One of the objectives of the RRB debt collection program, as documented the RRB Basic Board Order 4, Money and Finance Policies, Section 6, paragraph 1, is to "establish and maintain a debt collection program designed, to the extent practicable, to collect all receivables, to enable

Management to evaluate collection policies, to provide efficient and effective account servicing, and to provide accurate and timely financial reports.”

B.B.O.4 (Money and Finance Policies) establishes that the responsibility for managing FMIS rests with BFO, under the leadership of the Chief Financial Officer (CFO). Specifically, paragraph 1 under "B. Responsibility" of the B.B.O.4, establishes that: “The Chief Financial Officer is responsible for general oversight of the agency's financial management system. As the Senior Financial Management official, the Chief Financial Officer shall coordinate the overall agency effort to review, improve, and report on the financial management system in accordance with the laws, standards, and guidance cited in this Board Order.” This applies to the FSS process.

Federal Managers Financial Integrity Act (FMFIA) of 1982 and its implementing guide, OMB Circular A-123, revised July 15, 2016, stipulate federal managers’ responsibility for internal control. Key elements of internal control as prescribed by both the Committee of Sponsoring Organizations (COSO) framework and the GAO Green Book require control activities as components of internal controls. They include the implementation of policies and procedures as control activities actions. Per OMB Circular A-123, revised July 15, 2016, Management is “responsible for establishing and maintaining internal controls to achieve specific internal control objectives related to operations, reporting, and compliance.”

GAO Green Book Section OV2.04, 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.” The Green Book Section OV2.02, 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.”

In our judgment, the conditions noted were due to a lack of or inadequacy of policies and procedures to guide personnel. For instance, Management noted that the change in threshold from \$10,000 to \$25,000 was unilaterally taken by the Debt Recovery Management and was not authorized by Management.

In addition, FSS could not substantiate the review and approval of users' access requests prior to granting access to FMIS and evidence of signed security plan, because FSS had no policies and procedures to hold personnel accountable to the performance (and documentation of evidence) of these control activities. GAO Green Book Section OV2.04, Page 8, Paragraph 1 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.” As such, in our opinion, without policies and procedures, control activities for mitigating risks to the section's objectives may be inadequate and ineffective.

Recommendations:

We recommend that the Bureau of Fiscal Operations:

5. maintain documentary evidence of adequate periodic review of control activities performed; and
6. ensure that DRS' policies and procedures include guidance and process for developing and modifying thresholds, including those related to waivers and write-offs.

Management's Response and Auditor's Consideration of Management's Response

The BFO concurred with recommendations 5 and 6 without exception. See full text to Management's response in Appendix A.

Transactions Relating to Criminal Restitution Debt Recorded by the RRB BFO Debt Recovery Section Were Inaccurate, Incomplete, and/or Untimely

As part of its testing of DRS' debt establishment function, WAI tested the recording of Criminal Restitution Debt in FY 2019. WAI requested the supporting documentation substantiating each of the 6 receivables recorded into FMIS, which amounted to a total of \$211,891,300, and DRS provided a court order (a judgement provided to RRB from the Southern District Court of New York). Based on our review of the court order, WAI noted that the judgment was rendered in FY 2018, and as a result the debt should have been recorded in FY 2018. Based on discussion with Management about our observation, Management noted that DRS did not have a process in place for recording non-benefit criminal restitution debt prior to FY 2019, as the process was established in FY 2019. Therefore, the debts were recorded in FY 2019.

Based on our understanding of DRS' process, Quarterly, DRS ensures that RRB's Treasury Report on Receivables (TROR) are generated, reviewed for accuracy and completion, and submitted to United States Treasury (US Treasury), through the Treasury Report of Receivable online submission system. WAI inquired of DRS about evidence that a review of the TROR is performed by DRS for each quarter in FY 2019, and Management noted that it does not retain documented evidence of its review and approval of the TROR prior to submission.

One of the objectives of the RRB debt collection program, as documented in the RRB B.B.O.4, *Money and Finance Policies*, Section 6A, is to "establish and maintain a debt collection program designed, to the extent practicable, to collect all receivables, to enable Management to evaluate collection policies, to provide efficient and effective account servicing, and to provide accurate and timely financial reports."

The lack of a comprehensive set of written policies and procedures to guide and hold personnel accountable and required adequate supervisory review in the performance of control activities contributes to this exception. DRS recorded FY 2018 debts in FY 2019 because there was not a

process in place to record the debts in FY 2018. Similarly, the unauthorized change in threshold resulted from a lack of policies and procedures to guide personnel on the requirement or process for changing thresholds, including authorization, review, and approval. GAO Green Book Section OV2.04, Page 8, Paragraph 1 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.” As such, without policies and procedures, control activities for mitigating risks to the section's objectives may be inadequate and ineffective. Additionally, in our judgment, a lack of written procedures mandating supervisory reviews, coupled with inadequate review and approval of transactions by an appropriate level of management, compromises the accuracy and completeness of data and information produced by the section which are relied on by both internal and external users.

Recommendation:

We recommend that the Bureau of Fiscal Operations:

7. maintain documentary evidence of adequate supervisory review of control activities around recording of transactions and reconciliations for DRS section.

Management’s Response and Auditor’s Consideration of Management’s Response

The BFO concurred with recommendation 7 without exception. See full text to Management’s response in Appendix A.

Financial Systems Section Does Not Perform Adequate Oversight of Functions Outsourced to a Contractor

FMIS is RRB's financial system of record, a proprietary cloud-based software owned, designed, and hosted by Conseillers en gestion et informatique (CGI), a shared service provider within the federal industry. RRB has worked with CGI to customize or design the system to meet the agency’s needs and financial systems requirements for federal agencies. As such, responsibilities for establishing or modifying system design is shared between CGI and RRB FSS.

As a standard practice recommended by the Chief Information Officers Council and Chief Acquisition Officers Council, services outsourced by Federal agencies to service providers should be described in Service Level Agreements (SLA). WAI inquired about documentation evidence of BFO’s oversight of CGI’s functions with regards to FMIS. Management was unable to provide evidence of an oversight framework. As such, WAI requested a copy of the signed SLA or equivalent document between CGI and RRB, but FSS was unable to provide a copy. Instead, FSS provided a copy of a contract between RRB and CGI. With regards to Cloud Service Provider (CSP) as noted in General Services Administration (GSA) White Paper *Best Practices for Effective Cloud Computing Services Procurement within the Federal Government* (January 2016), “Federal agencies should ensure that CSP performance is clearly specified in all

SLAs and that all such agreements are fully incorporated, either by full text or by reference, into the CSP contract.”

In the absence of an SLA, FSS was unable to articulate the scope of roles responsibilities it has outsourced to CGI and its oversight responsibilities for those functions, including specific roles and activities outsourced to CGI, agreed upon service guarantees in terms of service delivery and incident reporting and response, expected interactions and hand-over points under the agreement, and the nature and extent of oversight activities that RRB FSS expects to conduct. In addition, FSS provided no evidence to suggest that Management has an alternative oversight framework in place. As such, WAI determined that BFO is unable to perform adequate oversight of those functions outsourced to CGI, if BFO could not articulate or provide documentary evidence of those functions.

Chief Information Officers Council and Chief Acquisition Officers Council, *Creating Effective Cloud Computing Contracts for the Federal Government, Best Practices for Acquiring IT as a Service (February 24, 2012)* recommends that “SLAs need to define performance with clear terms and definitions, demonstrate how performance is being measured, and identify what enforcement mechanisms are in place to ensure the conditions are met.” Per GSA White Paper *Best Practices for Effective Cloud Computing Services Procurement within the Federal Government (January 2016)*, “Federal agencies should ensure that CSP performance is clearly specified in all SLAs and that all such agreements are fully incorporated, either by full text or by reference, into the CSP contract.”

BFO does not have a policy around outsourcing function, and therefore does not demonstrate awareness of oversight responsibilities, or use an SLA or similar documentation to clearly specify the roles and responsibilities of all parties.

Without a policy on outsourcing, BFO lacks guidance on the process and the requirements for oversight of contractors, including implementing and oversight framework, and a documentation of the roles and responsibilities of all parties through an SLA or equivalent documentation. Without a documentation of the parties’ roles and responsibilities, BFO is unable to hold CGI accountable for the nature and extent of services to be provided, including an explicit documentation of each party’s role in ensuring RRB’s compliance with applicable laws and regulations, including Information Technology security requirements, and means to identify shortcomings and mitigate deficiencies. Without a clear documentation of each party’s roles and responsibilities and adequate oversight and monitoring of service provider, RRB may also be exposed to the risk of having a contractor perform inherently governmental functions.

Recommendations:

We recommend that the Bureau of Fiscal Operations:

8. develop and maintain a comprehensive set of policies and procedures for outsourcing FSS functions;

9. develop an oversight framework for overseeing FSS' contractors, and ensure that the framework is reviewed and updated periodically; and
10. require an SLA or equivalent documentation that clearly defines the roles and responsibilities of RRB and CGI and ensure that the documentation is reviewed and updated periodically.

Management's Response and Auditor's Consideration of Management's Response

RRB Management partially concurs with recommendations 8 and 10 and non-concurs with recommendation 9. Below are specific responses from Management regarding the recommendations and our consideration of Management's responses.

For recommendation 8, BFO partially-concurred and stated,

As written the recommendation implies that the RRB does not have policies and procedures in order to outsource functions as deemed appropriate, however, this is not the case. In accordance with RRB's policy, BFO coordinated with the RRB Contracting Officer and worked through the competitive procurement process and related policies and procedures to solicit and award a service contract in fiscal year 2012 for an integrated financial system using a hosted shared services model from CGI Federal Inc. (CGI). In terms of performing oversight of contractors and in accordance with federal regulations, the RRB Contracting Officer designated a Contracting Officer's Representative (COR) for the FMIS hosted services contract. Under this designation, the Contracting Officer has identified contract administration duties for which the COR has designed responsibility. FSS will develop granular level procedures to inform how the COR performs said designated responsibilities.

While we take note of Management's additional explanation in its response partially concurring with recommendation number 8, the explanation falls short of providing new evidence or documentation substantiating the existence of a comprehensive set of policies and procedures for outsourcing FSS functions. And since Management indicates it will however, "develop granular level procedures" to address the cause of the findings, we agree with such conclusion. Accordingly, we conclude that finding and related recommendation in No. 8 still stands.

For recommendation 9, BFO non-concurred and stated,

In consultation with the Contracting Officer and as communicated to the auditors during the course of the audit, the contract with CGI contained a Quality Assurance Surveillance Plan (QASP) that continues to serve as the RRB's oversight framework. The QASP is a scorecard that facilitates fair and equitable performance measurement over the life of the contract. The negotiated QASP document incorporated into the fiscal year 2012 contract identified Service Level Agreements (SLAs) and related measures during the implementation and post-implementation phases. During the course of the audit, BFO staff provided examples of monthly reporting associated with the SLAs as required by the QASP. The COR designated

responsibilities include executing the QASP and evaluating contractor performance. In consultation with the RRB Contracting Officer, the QASP, related SLAs, and the COR designation are satisfactory for the remainder of the contract.

Based on our review, the objective of a QASP is a systematic performance matrix used to assess whether a contractor is meeting the quality standards established in the performance work statement of a contract, and it is not a substitute for an SLA. A complete SLA for FMIS should explicitly state in detail the responsibilities that each party has in maintaining the system in order to avoid disregard of control activities that are critical to the overall service delivery, due to the task not being assigned to either party. Therefore, we conclude that the findings and related recommendation in No. 9 still stands.

For recommendation 10, BFO partially-concurred and stated,

In consultation with the RRB's Contracting Officer, the criteria referenced by the auditors equates to best practice and not contract requirements. Though not required, agencies may determine that an SLA or equivalent should be included in the service contract and must include the appropriate language in the solicitation/request for proposal phase of the procurement process, as was the case in this matter. The solicitation/request for proposal for the Financial Management Integrated System (FMIS) contained a requirement for Service Level Agreements (SLAs) as a component of the Quality Assurance Surveillance Plan (QASP). While, the QASP serves as an oversight framework and a scorecard for performance measurement of the contractor, it does not include roles and responsibilities for RRB. The Contracting Officer has initiated discussions concerning the possibility of re-competing this contract. As such, it is not in the best interest of the government or effective use of resources to renegotiate the QASP and related SLAs with CGI at this time, when RRB may select another service provider through the competitive procurement process. However, BFO will work with the Contracting Officer to determine if an SLA or equivalent document that clearly defines roles and responsibilities of both parties, should be included in a forthcoming solicitation and subsequent contract award. Should the Contracting Officer determine that an SLA or equivalent document is necessary and codifies said document in the final contract, the COR will work with the Contracting Officer and the contractor to review and update the document periodically or as necessary.

We agree with Management that the use of an SLA is a best practice. However, in the absence of an SLA, an equivalent documentation must exist that describes the specifics of services and roles of parties under the outsourcing contract. Management noted that the solicitation/request for proposal of the contract with the contractor required that an SLA be included in the QASP. However, WAI reviewed the QASP provided by Management during the audit and noted that it did not include an SLA or equivalent documentation. Nevertheless, WAI believes that an implementation of Management's plan to incorporate a requirement for an SLA in FSS' next agreement for this contract will address the related finding. However, the condition noted existed during our audit and continues to exist until Management implements the said plan. Therefore, we conclude that the findings and recommendation in No. 10 still stands.

Financial Systems Section does Not Have Controls to Mitigate Key Person Dependency and Succession Planning Risk for Key Positions

FSS had a team of two staff, including a Financial Management and Program Analysis Manager ("FSS Manager"), with over 40 years of experience, who was supported by a Financial Systems Analyst. The FSS Manager retired at the end of 2020 (during the period of our audit) and was succeeded by the Financial Systems Analyst. During our walkthrough of the sections' processes and our interaction with Management, we determined that his replacement had not been adequately trained on the full scope of his responsibilities prior to his retirement. Per Management, his replacement was still in the process of figuring out the scope of the responsibilities. WAI inquired why his replacement was not adequately trained in time, given that Management was aware of his retirement plan. Per Management, FSS' two staff were preoccupied with their assigned tasks and responsibilities, and there were no additional resources to commit to the transition process, including documenting procedures and the full scope of his responsibilities. Based on our understanding of the FSS' functions, and conditions we observed in the testing of all of FSS' functions, WAI determined that FSS had inadequate staff in FY 2019.

WAI also inquired whether Management had a written succession plan that ensured it had adequate and competent personnel to continue its operations effectively, in an event of retirement or other unforeseen events. Management was unable to provide a plan. RRB's core financial systems, FMIS is relied on by various RRB components and interfaces with several systems in the processing of transactions that are essential to the agency's overall mission, including the processing of benefit payments, collections, etc. Given that FSS is charged with the responsibility of managing FMIS, WAI determined that not addressing the key person dependency and succession planning risk could pose a serious threat to the agency's mission and objectives. This is coupled with the fact that a Financial Systems Analyst with limited training in the area is the only resource left to manage the section's operations.

Federal Managers' Financial Integrity Act (FMFIA) of 1982 and its implementing guide, OMB Circular A-123, revised July 15, 2016 stipulate federal managers' responsibility for internal control, including assessing risks. OMB Circular A-123 further notes that the responsibilities of managing risks are shared throughout the Agency from the highest levels of executive leadership to the service delivery staff executing Federal programs, with various characteristics including supporting the implementation of effective controls.

We noted that FSS lacks adequate resources/personnel to dedicate to transition management and succession, as well as specific policies and procedures to guide succession. In our opinion, Management did not have a plan to identify and mitigate significant risk within its operations, including human capital and key person dependency risks, because it is understaffed, and it does not perform risk assessment. A lack of control to mitigate key person dependency and succession planning risk could adversely impact FSS' ability to effectively perform its responsibilities in the event of unexpected events such as retirements or even unanticipated departure of key personnel, and impact components relying on FMIS for their operations.

Recommendations:

We recommend that the Bureau of Fiscal Operations:

11. perform an assessment to determine adequate staffing required to perform FSS' functions;
12. hire adequate personnel to perform its functions; and
13. develop a written succession plan for FSS, including a framework for ensuring that human capital risk is assessed, to address key person dependency risk, including training personnel and documenting processes and procedures defining the scope of responsibilities required for achieving the section's objectives.

Management's Response and Auditor's Consideration of Management's Response

RRB Management partially concurs with recommendations 12 and 13 and non-concurs with recommendation 11. Below are specific responses from Management regarding the recommendations and our consideration of Management's responses.

For recommendation 11, BFO non-concurred and stated,

It is not cost effective for the BFO to perform an "assessment" to determine adequate staffing levels for the FSS functions. BFO Management has already determined the staffing level needed to support effective and efficient performance of FSS functions. We note that this recommendation is duplicative of No. 2 above associated with Finding No. 1.

Management stated that BFO's Human Capital Plan (HCP) takes into consideration the staffing needs for FSS, and that the staffing needs noted during our audit is because of overall RRB funding constraints. However, Management did not provide a copy of the documentation of BFO HCP or other supporting evidence specifically substantiating consideration given to FSS staffing needs. Therefore, we determined that the findings and related recommendation in No. 11 still stands.

For recommendation 12, BFO partially-concurred and stated,

I share the auditors concern regarding the need for additional personnel in FSS to support its functions. However, BFO does not have unilateral authority to hire additional personnel and instead must work within the RRB's annual human capital planning process, subject to Board approval. BFO will continue to consider, and include as appropriate, the personnel needs of FSS alongside other prioritized hiring needs within BFO for the Board's consideration within the enterprise-wide Human Capital Plan. The Board will consider proposed hiring actions in light of available funding and in consideration of other Agency priorities. We note that this recommendation is duplicative of No. 2 above associated with Finding No. 1.

Despite the partial concurrence, we noted that Management concurs with the recommendation to hire adequate personnel for FSS, and ultimately plans to perform procedures to address the said recommendation. WAI agrees that an implementation of the planned corrective action described in Management's response will address this finding. Therefore, we determined that the findings and related recommendation in No. 12 still stands.

For recommendation 13, BFO partially-concurred and stated,

Please refer to the general discussion regarding Finding No. 5 and the response to Recommendation No. 12 above.

While the reference to funding constraints in other comments are cited, we believe that developing a written succession plan for FSS, including a framework for ensuring that human capital risk is assessed, to address key person dependency risk, including training personnel and documenting processes and procedures defining the scope of responsibilities required for achieving the section's objectives; are key control activities that should be part of the agency's overall internal control framework. In our judgement, funding of key control activities must be prioritized by agencies. Therefore, we determined that the findings and related recommendation in No. 13 still stands.

Inefficiencies Noted in Sections' Operations Affect the Optimum Use of Resources

Our review and analysis of the RRB *Cost Accounting Code by Individual* data, which contains allocation of personnel hours and payroll cost to functions and tasks reveals evidence of inefficiencies that affect the optimum use of human resources. Our audit revealed that five personnel in DRS were allocated the total of 3,971 hours corresponding to \$322,502 in payroll cost to codes related to the development and maintenance of policies and procedures in FY 2019. WAI performed procedures to determine the deliverables and other outputs that result from the allocated level of effort. Of the three deliverables listed (i.e., SOPs, MCRs, and Training) we noted that MCRs are tri-annual deliverable, and training is also accounted for under Management Supervisory and Training task. Accordingly, the hours were largely for preparing policies and procedures. Given that the procedures provided by DRS were all created after FY 2019, WAI determined that the hours and cost allocated to policies and procedures in FY 2019 were unreasonable and unsupported. Table 1 below summarizes our assessment of resources expended by DRS in FY 2019 on the development and maintenance of policies and procedures.

Table 1: DRS Resource Assessment for FY 2019	
	Cost
Cost Reported in FY 2019 ¹	\$322,502
Unsupported/Questioned Cost ²	\$322,502
¹ These are costs reported on DRS' Cost Accounting Codes by Individuals, for work performed on the development and/or maintenance of policies and procedures in FY 2019.	
² Unsupported/Questioned Costs are amounts that, we determined, were not supported by adequate documentation by Management during the audit. As noted in Finding 1 above, all the procedures provided by DRS were created after FY 2019, and Management provided no evidence that DRS performed any work on the development and/or maintenance of policies and procedures in FY 2019.	

As BFO reported hours and cost in FY 2019 for the development and/or maintenance of polices, even though the evidence reviewed indicated that no work was done on these deliverables between FY 2013 and FY 2020, WAI performed further analysis to assess the potential cost that BFO would have incurred during those years. As the years in question were out of scope for our audit, WAI was unable to obtain cost data from BFO for those years. Therefore, WAI estimated the potential costs incurred during those years, by calculating the average annual costs reported by DRS in Table 2, based on the cost data provided by BFO for FY 2019, 2020, and 2021. WAI subsequently applied the calculated average costs to each of the 6 years between FY 2013 and FY 2020 in Table 3 below. And as shown in Table 3, we determined that BFO may have potentially incurred between \$1,381,582 and \$1,367,041 in cost associated with the development and/or maintenance of policies and procedures for DRS between FY 2013 and FY 2020, even though there was no evidence that work was performed on policies and procedures during those years.

Table 2: Estimated Average Yearly Cost Expended on Policies and Procedures by DRS									
Costs	FY 2019		FY 2020	FY 2021		Total Actual ⁴	Total Adjusted ⁴	Average Actual /Year ⁴	Average Adjusted/Year ⁴
	Actual ¹	Adjusted ²	Actual ¹	Actual ¹	Adjusted ³				
		\$322,502	\$214,438	\$227,179	141,110	\$241,903	\$690,791	\$683,521	\$230,264
¹ Cost reported on DRS' Cost Accounting Code by Individuals, for work performed on the development and maintenance of policies and procedures in FY 2019.									
² FY 2019 Cost was adjusted to accounting for accounting codes with descriptions that could be applicable to functions other than policies and procedure.									
³ FY 2021 Cost Accounting Codes by Individuals only included data for 7 months. WAI annualized the data by multiplying the average monthly cost (\$141,110/7) by 12 months.									
⁴ Amount calculated based on data in this table: Total Actual— \$690,791 (Sum of actual amounts: \$322,502, \$227,179, and \$141,110) Total Adjusted—\$683,521 (Sum of adjusted amounts: \$214,438, 227,179, and \$241,903) Average Actual/Year—\$230,264 (Total Actual divided by 3 years) Average Adjusted/Year—\$227,840 (Total Adjusted divided 3 years)									

Table 3: Estimated Average Cost Incurred By DRS on Developing Policies and Procedures Between FY 2013 and FY 2020							
	2014	2015	2016	2017	2018	2019	Total Cost
Estimated Average Cost Reported ¹	\$230,264	\$230,264	\$230,264	\$230,264	\$230,264	\$230,264	\$1,381,582
Estimated Adjusted Average Cost Reported ²	\$227,840	\$227,840	\$227,840	\$227,840	\$227,840	\$227,840	\$1,367,041
¹ Estimated Average Actual/Year—\$230,264 (Total Actual divided by 3 years)							
² Average Adjusted/Year—\$227,840 (Total Adjusted divided 3 years)							

OMB Circular A-123, revised July 15, 2016 “Federal leaders and managers are responsible for establishing and achieving goals and objectives, *seizing opportunities to improve effectiveness and efficiency of operations*, providing reliable reporting, and maintaining compliance with relevant laws and regulations.” The lack of expertise for developing policies and procedures seems to result in the unreasonable length of time and cost involved in the process. Management also did not have documented evidence of periodic review and assessment of the hours and output reported by personnel, and therefore did not appear to have adequate visibility into the roles and responsibilities of personnel, including assessing their efficiency, reasonableness of efforts allocated to key functions and tasks, and evaluating the quality, completeness, and appropriateness of related deliverables and output/outcome. Without adequate visibility into personnel roles and responsibilities and evaluation of related deliverables and outputs, Management is unable to identify inefficiencies to ensure that resource deployment is the most optimum, and results in the achievement of the goals and objectives of the sections.

Recommendation:

We recommend that the Bureau of Fiscal Operations:

14. develop and implement policies and procedures requiring the periodic review of the *Cost Accounting Code by Individual* data, to assess the reasonableness of personnel roles and responsibilities, resources expended (hours and amounts), and resulting deliverables or output.

Management’s Response and Auditor’s Consideration of Management’s Response

For recommendation 14, BFO non-concurred and stated,

The RRB already has policies and procedures in place to review the cost accounting codes periodically. It appears that the auditors have concluded that since DRS staff charged labor hours to the “development and/or maintenance of policies and procedures” over the years, that these efforts should have resulted in all or a significant number of finalized DRS policies and procedures. Under normal circumstances, the auditor’s conclusion may be reasonable. However, and as stated earlier, the labor hours charged represents the efforts of our experienced DRS staff to develop, review, and/or update numerous procedures and instead underscores the significant resource constraints at the upper Management level within TDSD that has prevented finalization of many DRS procedures. Implementing the auditor’s recommendation would not address the root cause, therefore, we non-concur.

Management provided no evidence of the existence of RRB’s policies and procedures for reviewing cost accounting codes periodically, or evidence that BFO reviews the cost accounting codes of its sections at all. In addition, Management’s interpretation that our conclusion is based on DRS’ lack of finalized policies and procedures is incorrect. The basis for concern is that between FY 2014 and FY 2020, there’s no evidence that DRS personnel performed any work on

policies and procedures. Yet, DRS personnel reported significant hours during those periods, including the year under audit (FY 2019), and Management did not notice or detect this discrepancy. Furthermore, WAI disagrees with Management's comment that this recommendation would not address the root cause of the issue. WAI determined that an effective periodic review of the DRS codes between FY 2014 and FY 2020 would have determined that the hours they charged during that period were unreasonable, because there was no evidence that they worked on policies and procedures. WAI acknowledges that resources constraints could impact Management's ability to review the codes. However, we determined that personnel reporting hours to tasks they do not perform creates more constraints on BFO's already meager available resources, which could otherwise be put to better use; this underscores the need for implementing our recommended corrective action. Therefore, we determined that recommendation 14 stands.

Communication with Other RRB Components Sharing Responsibility for Unapplied Cash Functions is Inadequate

During our audit of DRS Debt Collection function, we determined that the responsibility for the validating collections is shared with the Office of Programs (OP) because OP is responsible for validating unapplied cash that DRS could not apply. As a result, until OP has determined the application of unapplied cash amounts, DRS is unable to record the receipts in the appropriate accounts. During our walkthrough, we determined that while DRS sends over unapplied cash collections to OP for further research, there was no process in place for DRS to follow-up with OP, nor a timeframe during which OP is expected to respond. Based on our understanding of the Debt Management process, OP's primary role is to calculate and establish debt, while collection process which includes applying receipts to the appropriate accounts and tracking and maintenance of detailed accounts receivable activity is the responsibility of DRS. Therefore, we conclude that DRS remains the responsible party for functions of collection, regardless of whether the process crosses organizations. Additionally, specific testing procedures performed by WAI resulted in the conclusion that communication between DRS and OP is ineffective.

One of the objectives of the RRB debt collection program, is to "establish and maintain a debt collection program designed, to the extent practicable, to collect all receivables, to enable Management to evaluate collection policies, to provide efficient and effective account servicing, and to provide accurate and timely financial reports." DRS' communication with OP is ineffective due to a lack of adequate policies and procedures on cross-organizational communication around the processing of unapplied cash. DRS is unable to complete its responsibilities of recording the collection of unapplied cash, until they receive a resolution update from OP. As such, OP's delay in communicating the status of the resolution of unapplied to DRS may prevent DRS from meeting some of its key objectives, including the timely and accurate recording and reporting of collections.

Recommendations:

We recommend that the Bureau of Fiscal Operations:

15. develop a written communication framework or process that ensures that effective “two-way” communication occurs between OP and DRS on providing and receiving feedback on the status of unapplied cash, including follow up from DRS; and
16. design and implement process and procedures around the processing of unapplied cash, including follow-ups from DRS to OP, to ensure that timely feedback is received from OP regarding the timely and accurate application of unapplied cash.

Management’s Response and Auditor’s Consideration of Management’s Response

The BFO concurred with recommendation 15 without exception. See full text to Management’s response in Appendix A.

For recommendation 16, BFO non-concurred and stated,

The BFO through its policies and procedures has no authority to ensure that the Office of Programs provides timely feedback.

Although BFO may not have the authority to compel or require OP to provide timely feedback, BFO has a responsibility to ensure that effective communication exists between DRS and key stakeholders impacting the section’s ability to achieve its objectives; and this includes communication between DRS and OP on the disposition of unapplied cash. In its response to the condition underlying the finding, Management acknowledged that BFO and OP share the responsibility for determining the disposition of unapplied cash related to RRB benefit programs. We agree with Management on this point, and further determined that the activities performed by DRS and OP on the disposition of unapplied cash are implemented to achieve the same objective, including the timely and accurate application of these amounts to appropriate accounts. Therefore, it is in BFO’s and RRB’s overall interest to engage and work with OP to ensure that effective communication exists between the two components on this matter. Furthermore, the timeliness of the disposition of unapplied cash impacts DRS’ ability to meet other objectives, including the accurate and timely reporting of receivables. Therefore, we determined that recommendation 16 still stands.

Treasury Section Does Not Perform Verification of Data Critical for Accurate Recording of Employer Contributions

Based on understanding of TS’ Contributions Collection Management function, gained from our walkthrough, the processing of employers’ quarterly report of contributions (DC-1s), Employer Contribution and Collection System (ECCS) has automated controls to detect and correct certain

inconsistencies in the data recorded. However, in instances where the system is unable to correct inconsistencies or errors, it identifies those discrepancies and flags them for TS to review and correct manually.

WAI requested evidence the ECCS-flagged discrepancies were researched and resolved for FY 2019. Per Management, the reconciliation for FY 2019 was still in progress. WAI inquired why the FY 2019 reconciliation still being performed in FY 2021. Per Management, the Statue of Limitations (SOL) for performing the reconciliations was three years; therefore, they were still within the SOL. Management also provided a document called “Annual Unemployment Compensation Reconciliation Procedures” to support its justification. Based on our review of the annual unemployment compensation reconciliation procedures, WAI noted that it was dated 2005. Management stated that this was the most current version. The document also contained no references to a source and Management was unable to provide its authoritative basis. Furthermore, the three-year SOL appears to relate to the collection of payments resulting from the various annual reconciliations performed by Audit and Compliance function, including creditable compensation validation, and not for performing the actual reconciliation. As such, WAI determined that TS did not sufficiently substantiate the basis for not performing or completing the manual reconciliations for FY 2019 or using a 3-year widow for completing the reconciliation.

WAI determined that given the nature of the discrepancies identified by ECCS, delaying the reconciliation (instead of reconciling them as they are flagged during the daily processing of collections) appears to undermine RRB's objective of accurate and complete recording of tax contribution collections. The errors and discrepancies identified by ECCS include items critical to the accurate and complete accounting of collections, including missing employer identification, incorrect contribution rates, etc. As such, WAI determined that it is unreasonable for TS to delay the research and correction of these discrepancies to an annual or 3-year window.

Basic Board Order 4, *Money and Finance Policies*, Section 6. Page 10 #2 establishes BFO's (Treasury Section) responsibilities for contributions. TS lacks process and procedures for reconciling ECCS-identified discrepancies, and it uses inapplicable guidance as a basis for its reconciliation timeframe. Without the timely correction of discrepancies identified by ECCS, the processing and validation of employers' DC-1 filings, tax contributions and employer data may be inaccurate and/or incomplete, undermining RRB's objective of accurate and complete recording of tax contribution collections.

Recommendations:

We recommend that the Bureau of Fiscal Operations:

17. develop policies and procedures and incorporate the review and reconciliation of ECCS-generated discrepancies as part of its validation of employer DC-1 processing; and

18. perform the ECCS-identified discrepancies reconciliation as part of TS' validation of employer DC-1 processing to ensure that ECCS is updated accurately and timely, instead of using the current annual or 3-year timeframe.

Management's Response and Auditor's Consideration of Management's Response

BFO partially concurs with recommendation 17 and non-concurs with recommendation 18. Below are specific responses from Management regarding recommendations and our consideration of Management's responses.

For recommendation 17, BFO partially concurred and stated,

The validation process entails review and resolution of ECCS discrepancies immediately, in order to record the employer contributions properly. The BFO will develop granular level procedures that addresses the validation process and resolution of ECCS discrepancies. The auditors have conflated the two different processes in their finding and related recommendations. As previously communicated to the auditors, the BFO performs the validation and resolution of discrepancies in ECCS as the employers transmit contributions pursuant to the quarterly DC-1 requirement. Separately, on an annual basis, BFO reconciles the reported compensation amounts on the BA-3s to ensure agreement between the cumulative DC-1 compensation amounts covering all four quarters of the same calendar year.

The BA-3 reconciliation noted by Management is not performed by BFO Treasury Section. Instead, it is performed by BFO Audit and Compliance Division. Per BFO personnel, the annual reconciliation they perform involves researching discrepancies flagged by ECCS for manual reconciliation. Therefore, Management's comment that we have conflated the two reconciliations is inaccurate. Nevertheless, we determined that Management's concurrence to implement a plan to develop detail procedures on the validation and resolution of ECCS discrepancies could address the finding, providing Management documents and maintains evidence that said reconciliations are performed. Management's response provided no additional or new evidence that contradicts the findings and its related elements. Therefore, we determined that recommendation 17 stands.

For recommendation 18, BFO non-concurred and stated,

As stated above in the response to Recommendation No. 17, the auditors have conflated the two different processes in their finding and related recommendations. The validation process and resolution of discrepancies occurs as employer contributions are received and recorded, whereas the reconciliation between the BA-3 and cumulative DC-1 occurs annually due to the annual submission requirement for the BA-3 and the need for cumulative DC-1 compensation data. The BFO cannot combine the two functions, as they are separate and distinct.

The BA-3 reconciliation noted by Management is not performed by BFO Treasury Section. Instead, it is performed by BFO Audit and Compliance Division. According to BFO Treasury personnel, the annual reconciliation they perform involves researching discrepancies flagged by ECCS for manual reconciliation. Therefore, Management's comment that we have conflated the two reconciliations is inaccurate. Management's response provided no additional or new evidence that contradicts the findings relative the elements described. Therefore, we determined that the finding and related recommendation in No. 18 still stands.

Appendix A: Management Response Memo



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

OFFICE OF THE CHIEF FINANCIAL OFFICER

August 20, 2021

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

SUBJECT : Response to Wai & Associates' Draft Audit Report
Audit of the Effectiveness and Efficiency of Bureau Fiscal Operations'
Treasury, Debt Recovery, and Financial Systems Sections for FY 2019

Thank you for the opportunity to comment on the referenced draft report that we received on August 6, 2021. The following is management's response to your findings and recommendations:

Finding No. 1: A Comprehensive Set of Policies and Procedures Guiding the Sections Operations is Inadequate or Does Not Exist

We acknowledge that a comprehensive set of procedures written at the most granular or step-by-step level are inadequate or do not exist in a narrative format that was requested during the audit. Management Control Review (MCR) flowcharts that we provided did show step-by-step processing at the function or business process level. Policies and procedures supporting management's commitment to internal control do exist as part of the MCR program at the RRB.

We adamantly disagree with the auditor's statement that "[m]anagement may lack adequate expertise to develop and maintain policies and procedures" and their opinion that RRB's references to Board Orders, MCR documentation, and reconciliation guidance "...demonstrates a lack of fundamental understanding of the attributes of policies and procedures." We acknowledge that many of our policies and procedures provided during the course of the audit were outdated and not written at the granular level requested by the auditors. However, outdated procedures or procedures written at a process versus granular level does not equate to a lack of "expertise" or "fundamental understanding of the attributes of policies and procedures."

Specifically, in relation to the hours charged to labor cost codes in fiscal year 2019, the auditors have concluded that "...inconsistency between the input (hours and costs) output (lack of adequate policies and procedures), demonstrate that management may lack expertise in performing the function." We adamantly disagree with the auditor's opinion on this matter. The Debt Recovery Section's efforts to develop, review and/or update policies and procedures does not signify "lack of expertise." Instead, this demonstrates the hard work of Debt Recovery Section (DRS) staff who have expertise in the Railroad Retirement and Railroad Unemployment Insurance Acts, related benefits paying systems, and debt recovery methods to develop, review, and/or update numerous procedures intended to supplement DRS MCR documentation and emphasizes resource constraints. Particularly, resource constraints in the Treasury, Debt Recovery, and Financial System Division (TDSD) at the management level have

prevented finalization of the procedures as well as hindered TDSD's ability to ensure formal detailed granular level procedures were fully developed and completed for all major TDSD functions.

Further, we disagree with the auditor's determination that "...DRS did not have updated procedures for its functions between FY2013 and FY2020." We informed the auditors that while the RRB implemented FMIS in October 2013, the Program Accounts Receivable System (PARS) was not migrated to FMIS until June 2016 (fiscal year 2016). Therefore, the migration to FMIS did not affect DRS procedures until June of 2016 and later. The auditor's statement mischaracterizes the situation.

Lastly, we vehemently disagree with the auditor's statement that "[m]anagement does not view the development and maintenance of policies and procedures as a requirement." To reiterate, lack of comprehensive written policies and procedures written at the granular level requested by the auditors does not constitute a disregard for the same, but simply accentuates significant resource constraints within the Financial System Section (FSS) of TDSD.

In regards to Finding No. 1, the auditor's recommend that BFO:

Recommendation No. 1: "develop and maintain comprehensive set of policies and procedures for DRS, FSS, and TS, using in-house personnel with adequate relevant expertise and experience, or outsource the task to an entity with the relevant expertise and experience;"

Management Response No. 1: Concur; estimated completion date: 9.30.2023

Recommendation No. 2: "assess the work effort required and hire adequate personnel to perform FSS functions;"

Management Response No. 2: Non-concur. This recommendation is duplicative; please see also the discussion under Finding No. 5 and Recommendations No. 11 and 12. It is not cost effective for the BFO to perform an "assessment of the work effort required." BFO management has already determined the staffing level needed to support effective and efficient performance of FSS functions. BFO's ability to hire an adequate number of staff for FSS is subject to the availability of sufficient funding and consideration of other Agency priorities as determined by the Board and the Executive Committee.

Recommendation No. 3: "ensure that the development and maintenance of policies and procedures for DRS, FSS, and TS are performed by personnel with appropriate expertise; and"

Management Response No. 3: Non-Concur. This recommendation is duplicative of Recommendation No. 1.

Recommendation No. 4: "require FSS to participate in BFO's MCR certification process, so that risks associated with the lack of adequate policies and procedures can be identified, mitigated, and reported on."

Management Response No. 4: Concur; estimated completion date: 9.30.2022

Finding No. 2: Key Controls Necessary for Efficiency and Effectiveness in the Sections' Operations Are Improperly Designed or Not Operating Effectively in FY 2019

In regards to Finding No. 2, the auditor's recommend that BFO:

Recommendation No. 5: “maintain documentary evidence of adequate periodic review of controls activities performed; and”

Management Response No. 5: Concur; estimated completion date: 9.30.2023

Recommendation No. 6: “ensure that DRS’ policies and procedures include guidance and process for developing and modifying thresholds, including those related to waivers and write-offs.”

Management Response No. 6: Concur; estimated completion date: 9.30.2023

Finding No. 3: Transactions Relating to Criminal Restitution Debt Recorded by the BFO Debt Recovery Section Were Inaccurate, Incomplete, and/or Untimely

As previously communicated, the BFO recorded the accounts receivable and related allowance for doubtful accounts for the Long Island Railroad Retirement (LIRR) criminal restitution judgements that were received during fiscal year 2018 as of September 30, 2018 and included the net accounts receivable in RRB’s Consolidated Balance Sheet. Related to LIRR criminal restitution, RRB recorded a total accounts receivable of \$295,353,960 with a corresponding allowance for doubtful accounts of \$292,400,420. Specially, the BFO Accounting Section recorded the receivable portion via a journal voucher (JV-18-12-646) and the allowance for doubtful accounts via standard voucher (SV18-12-603) in the general ledger. Again, BFO recorded the LIRR accounts receivable and allowance for doubtful accounts information as of September 30, 2018 and reported said financial data in RRB’s Consolidated Financial Statements as well as provided a detailed discussion in the Notes to the Financial Statements (i.e. Note 6, *Accounts Receivable*). Please also see the RRB’s Performance and Accountability Report for Fiscal Year 2018.

We believe that the auditors misunderstood management’s comments “...that DRS did not have a process in place for recording non-benefit criminal restitution debt prior to FY 2019, as the process was established in FY 2019. Therefore, the debts were recorded in FY2019.” Since the referenced judgements were the first received associated with LIRR and BFO received them late in fiscal year 2018, we did not yet have an *automated* process in place to properly record and track the LIRR criminal restitution cases separately from other restitution cases as warranted. However, as described above the BFO had a manual process in place to ensure proper recognition of the LIRR criminal restitution net receivable from a financial reporting perspective. Early in fiscal year 2019, BFO coordinated with CGI and implemented programming changes within FMIS related to LIRR criminal restitution cases.

In regards to Finding No. 3, the auditor’s recommend that BFO:

Recommendation No. 7: “maintain documentary evidence of adequate supervisory review of control activities around recording of transactions and reconciliations for DRS.”

Management Response No. 7: Concur; estimated completion date: 9.30.2022

Finding No. 4: BFO Financial Systems Section Does Not Perform Adequate Oversight of Functions Outsourced to a Contractor

We disagree with the auditor’s statement that “BFO does not have a policy around outsourcing, and therefore does not demonstrate awareness of oversight responsibilities, or use an SLA or similar

documentation to clearly specify the roles and responsibilities of all parties.” Please see further discussion below in our response to the recommendations pertaining to Finding No. 4.

In regards to Finding No. 4, the auditor’s recommend that BFO:

Recommendation No. 8: “develop and maintain a comprehensive set of policies and procedures for outsourcing FSS functions;”

Management Response No. 8: Partially-concur; estimated completion date: 9.30.2023. As written the recommendation implies that the RRB does not have policies and procedures in order to outsource functions as deemed appropriate, however, this is not the case. In accordance with RRB’s policy, BFO coordinated with the RRB Contracting Officer and worked through the competitive procurement process and related policies and procedures to solicit and award a service contract in fiscal year 2012 for an integrated financial system using a hosted shared services model from CGI Federal Inc. (CGI). In terms of performing oversight of contractors and in accordance with federal regulations, the RRB Contracting Officer designated a Contracting Officer’s Representative¹ (COR) for the FMIS hosted services contract. Under this designation, the Contracting Officer has identified contract administration duties for which the COR has designed responsibility. FSS will develop granular level procedures to inform how the COR performs said designated responsibilities.

Recommendation No. 9: “develop an oversight framework for overseeing FSS’ contractors, and ensure that the framework is reviewed and updated periodically; and”

Management Response No. 9: Non-concur. In consultation with the Contracting Officer and as communicated to the auditors during the course of the audit, the contract with CGI contained a Quality Assurance Surveillance Plan (QASP) that continues to serve as the RRB’s oversight framework. The QASP is a scorecard that facilitates fair and equitable performance measurement over the life of the contract. The negotiated QASP document incorporated into the fiscal year 2012 contract identified Service Level Agreements (SLAs) and related measures during the implementation and post-implementation phases. During the course of the audit, BFO staff provided examples of monthly reporting associated with the SLAs as required by the QASP. The COR designated responsibilities includes executing the QASP and evaluating contractor performance. In consultation with the RRB Contracting Officer, the QASP, related SLAs, and the COR designation are satisfactory for the remainder of the contract.

Recommendation No. 10: “require an SLA or equivalent documentation that clearly defines the roles and responsibilities of RRB and CGI and ensure that the documentation is reviewed and updated periodically.”

Management Response No. 10: Partially-concur.; estimated completion date: 9.30.2024. In consultation with the RRB’s Contracting Officer, the criteria referenced by the auditors equates to best practice and not contract requirements. Though not required, agencies may determine that a SLA or equivalent should be included in the service contract and must include the appropriate language in the solicitation/request for proposal phase of the procurement process, as was the case in this matter. The solicitation/request for proposal for the Financial Management Integrated System (FMIS) contained a requirement for Service Level Agreements (SLAs) as a component of

¹Federal Acquisition Regulations (FAR), Part 1, Subpart 1.6, Section 1.604, *Contracting Officer’s Representative (COR)*, <https://www.acquisition.gov/far/1.604>, last viewed by RRB on August 19, 2021.

the Quality Assurance Surveillance Plan (QASP). While, the QASP serves as an oversight framework and a scorecard for performance measurement of the contractor, it does not include roles and responsibilities for RRB. The Contracting Officer has initiated discussions concerning the possibility of re-competing this contract. As such, it is not in the best interest of the government or effective use of resources to renegotiate the QASP and related SLAs with CGI at this time, when RRB may select another service provider through the competitive procurement process. However, BFO will work with the Contracting Officer to determine if a SLA or equivalent document that clearly defines roles and responsibilities of both parties, should be included in a forthcoming solicitation and subsequent contract award. Should the Contracting Officer determine that a SLA or equivalent document is necessary and codifies said document in the final contract, the COR will work with the Contracting Officer and the contractor to review and update the document periodically or as necessary.

Finding No. 5: Financial Systems Section does Not Have Controls to Mitigate Key Person Dependency and Succession Planning Risk for Key Positions

Like most Federal agencies, the RRB continues to operate below its minimum staffing levels and is at risk of significant attrition. As reported in the RRB's fiscal year 2022 Justification of Budget Estimates, the RRB is operating at 12 percent below its minimum staffing level, while over 231 agency employees (31 percent) are retirement eligible within the next year, approximately 23 percent are retirement eligible now. Specifically, 26 percent of BFO staff can retire immediately and another 20 percent will become eligible within the next three years. The Railroad Retirement Board continues to recognize its enterprise-wide risk of significant attrition and in response has implemented policy to mitigate the risk through effective human capital planning.

Specifically in fiscal year 2021 and in accordance with revised RRB policy, each Executive Committee (EC) Member developed a Human Capital Plan (HCP) that contained a hiring plan, succession plan and training plan and included a workforce analysis. Accordingly, BFO created a Human Capital Plan that considered staffing needs in FSS as well as prioritized hiring needs within the other BFO components. The Board approved the RRB's enterprise-wide HCP on July 23, 2021, which prioritized the hiring needs across the enterprise for the upcoming fiscal year. While the Board has approved the HCP, execution of plan is subject to availability of funds and the Board may reevaluate hiring plans in light of new or emerging agency priorities.

In regards to Finding No. 5, the auditor's recommend that BFO:

Recommendation No. 11: "perform an assessment to determine adequate staffing required to perform FSS' functions;"

Management Response No. 11: Non-concur. It is not cost effective for the BFO to perform an "assessment" to determine adequate staffing levels for the FSS functions. BFO management has already determined the staffing level needed to support effective and efficient performance of FSS functions. We note that this recommendation is duplicative of No. 2 above associated with Finding No. 1.

Recommendation No. 12: "hire adequate personnel to perform its functions; and"

Management Response No. 12: Partially concur; estimated completion date: 9.30.2023. I share the auditors concern regarding the need for additional personnel in FSS to support its functions. However, BFO does not have unilateral authority to hire additional personnel and instead must

work within the RRB's annual human capital planning process, subject to Board approval. BFO will continue to consider, and include as appropriate, the personnel needs of FSS alongside other prioritized hiring needs within BFO for the Board's consideration within the enterprise-wide Human Capital Plan. The Board will consider proposed hiring actions in light of available funding and in consideration of other Agency priorities. We note that this recommendation is duplicative of No. 2 above associated with Finding No. 1.

Recommendation No. 13: *“develop a written succession plan for FSS, including a framework for ensuring that human capital risk is assessed, to address key person dependency risk, including training personnel and documenting processes and procedures defining the scope of responsibilities required for achieving the section's objectives.”*

Management Response No. 13: Partially concur; estimated completion date: 9.30.2022. Please refer to the general discussion regarding Finding No. 5 and the response to Recommendation No. 12 above.

Finding No. 6: Inefficiencies Noted in Sections' Operations Affect the Optimum Use of Resources

We adamantly disagree with the auditor's mischaracterization that "...lack of expertise for developing policies and procedures seems to result in the unreasonable length of time and cost involved in the process." Again, as discussed under Finding No. 1, we acknowledge that many of our policies and procedures provided during the course of the audit were outdated and not written at the granular level requested by the auditors. However, outdated procedures or procedures written at a process versus granular level does not equate to a "lack of expertise." To reiterate, DRS' efforts to develop, review and/or update policies and procedures does not signify "lack of expertise." Rather, the labor charged to the appropriate cost codes demonstrates the hard work of DRS staff who have expertise in the Railroad Retirement and Railroad Unemployment Insurance Acts, related benefits paying systems, and debt recovery methods to develop, review, and/or update numerous procedures intended to supplement DRS' MCR documentation and emphasizes resource constraints. Particularly, resource constraints in TDSD at the management level have prevented finalization of the numerous procedures as well as hindered TDSD's ability to ensure formal detailed procedures were fully developed and completed for all major DRS functions.

In regards to Finding No. 6, the auditor's recommend that BFO:

Recommendation No. 14: *“develop and implement policies and procedures requiring the periodic review of the Cost Accounting Code by Individual data, to assess the reasonableness of personnel roles and responsibilities, resources expended (hours and amounts), and resulting deliverables or output.”*

Management Response No. 14: Non-concur. The RRB already has policies and procedures in place to review the cost accounting codes periodically. It appears that the auditors have concluded that since DRS staff charged labor hours to the "development and/or maintenance of policies and procedures" over the years, that these efforts should have resulted in all or a significant number of finalized DRS policies and procedures. Under normal circumstances, the auditor's conclusion may be reasonable. However and as stated earlier, the labor hours charged represents the efforts of our experienced DRS staff to develop, review, and/or update numerous procedures and instead underscores the significant resource constraints at the upper management level within TDSD that has prevented finalization of many DRS procedures. Implementing the auditor's recommendation would not address the root cause, therefore, we non-concur.

Finding No. 7: Communication with Other RRB Components Sharing Responsibility for Unapplied Cash Functions is Inadequate

As previously communicated, we disagree with the auditor's determination "...that the responsibility for validating collections is shared with the Office of Programs (OP) because OP is responsible to [for] validating unapplied cash that [Debt Recovery Section] DRS could not apply." For clarity, the DRS is solely responsible for validating unapplied cash. The DRS and OP do not share the responsibility for validating unapplied cash. The DRS and the OP share the responsibility in determining the disposition of unapplied cash.

DRS validates unapplied cash receipts that FMIS records through its automated process to ensure proper application to existing accounts receivables. DRS determines the disposition of unapplied cash by applying the funds against accounts receivable(s) that FMIS did not process automatically, where the most common reason is the need to apply the cash receipt to multiple open account receivables. Remaining unapplied cash items for which DRS could not apply to an established accounts receivable transition to OP for further review and disposition determinations.

In regards to Finding No. 7, the auditor's recommend that BFO:

Recommendation No. 15: "develop a written communication framework or process that ensures that effective "two-way" communication occurs between OP and DRS on providing and receiving feedback on the status of unapplied cash, including follow up from DRS; and"

Management Response No. 15: Concur; estimated completion date: 9.30.2022

Recommendation No. 16: "design and implement process and procedures around the processing of unapplied cash, including follow-ups from DRS to OP, to ensure that timely feedback is received from OP regarding the timely and accurate application of unapplied cash."

Management Response No. 16: Non-Concur. The BFO through its policies and procedures has no authority to ensure that the Office of Programs provides timely feedback.

Finding No. 8: Treasury Section Does Not Perform Verification of Data Critical for Accurate Recording of Employer Contributions

As previously communicated, we disagree with the auditor's observation that "...[t]he errors and discrepancies identified by ECCS include items critical to the accurate and complete accounting of collections, including missing employer identification, incorrect contribution rates, etc. As such, WAI determined that it is unreasonable for TS to delay the research and correction of these discrepancies to an annual or 3-year window."

BFO does not delay the research and correction of the discrepancies identified in the validation process to an annual or 3-year window. The errors identified during the ECCS validation process pertain to data elements needed to properly record the contribution amounts pursuant to the DC-1, *Employer's Quarterly Report of Contributions Under the Railroad Unemployment Insurance Act (RUIA)* as required by 20 CFR § 345.111, *Contribution Reports*. Please note that employer contributions are not restricted to submission on a particular date, but may be submitted at any point during the quarter. Therefore, the validation and correction of identified errors occur as the RRB receives and records employer contributions throughout the year. The validation process ensures that contribution amounts received correspond to the current contribution rate and, therefore occurs throughout the year as the RRB receives employer contributions.

Separately, on an annual basis and for each employer, BFO reconciles the reported compensation amounts on the BA-3, *Annual Report of Creditable Compensation*, to ensure agreement between the cumulative DC-1 compensation amounts covering all four quarters of the same calendar year. Please note that employers are required to submit the BA-3 form annually pursuant to 20 CFR § 209.8, *Employers' Annual Reports of Creditable Service and Compensation*.

In regards to Finding No. 8, the auditor's recommend that BFO:

Recommendation No. 17: *“develop policies and procedures and incorporate the review and reconciliation of ECCS-generated discrepancies as part of its validation of employer DC-1 processing; and”*

Management Response No. 17: Partially concur; estimated completion date: 9.30.2023. The validation process entails review and resolution of ECCS discrepancies immediately, in order to record the employer contributions properly. The BFO will develop granular level procedures that addresses the validation process and resolution of ECCS discrepancies. The auditors have conflated the two different processes in their finding and related recommendations. As previously communicated to the auditors, the BFO performs the validation and resolution of discrepancies in ECCS as the employers transmit contributions pursuant to the quarterly DC-1 requirement. Separately, on an annual basis, BFO reconciles the reported compensation amounts on the BA-3s to ensure agreement between the cumulative DC-1 compensation amounts covering all four quarters of the same calendar year.

Recommendation No. 18: *“perform the ECCS-identified discrepancies reconciliation as part of TS' validation of employer DC-1 processing to ensure that ECCS is updated accurately and timely, instead of using the current annual or 3-year timeframe.”*

Management Response No. 18: Non-concur. As stated above in the response to Recommendation No. 17, the auditors have conflated the two different processes in their finding and related recommendations. The validation process and resolution of discrepancies occurs as employer contributions are received and recorded, whereas the reconciliation between the BA-3 and cumulative DC-1 occurs annually due to the annual submission requirement for the BA-3 and the need for *cumulative* DC-1 compensation data. The BFO cannot combine the two functions, as they are separate and distinct.

Appendix B: Summary of Assessment of Outsourceable Functions

In Appendix B, the auditors provide their assessment of outsourceable functions, we note that the auditors have identified generally that BFO can outsource the “development and maintenance of policies and procedures” for TDSD. Additionally, the auditors identified six other Debt Recovery Section (DRS) functions as outsourceable. While we agree that external contractors may be able to *assist* TDSD with the development and maintenance of procedures, agency policy determination is inherently governmental according to FAR 7.503 (c) (5). Further, the DRS key functions that the auditors concluded can be outsourced as referenced in Appendix B, Table A, Items 2-6 and 8, support the proper administration and stewardship of the railroad retirement trust fund system, as such we disagree with the auditor's assessment and consider these functions to be inherently governmental pursuant to FAR 7.503 (c) (19).

Thank you for the opportunity to provide a management response to your draft audit report for your audit, on behalf of the RRB's Office of Inspector General, of the Effectiveness and Efficiency of Bureau Fiscal Operations' Treasury, Debt Recovery, and Financial Systems Sections for fiscal year 2019.

Sincerely,

SHAWNA
WEEKLEY

Digitally signed by
SHAWNA WEEKLEY
Date: 2021.08.20
14:57:58 -0500

Shawna R. Weekley
Chief Financial Officer

cc:

Debra Stringfellow-Wheat, RRB Assistant Inspector General for Audit
Patricia Conliss, Supervisory Auditor
Tim Hogueisson, Director of Audit Affairs and Compliance

Appendix B: Summary of Assessment of Outsourceable Functions

Table A: Debt Recovery Section Functions		
Item #	Key Function	Conclusion¹
1	Development and Maintenance of Policies & Procedures ²	Outsourceable
2	Recording of Debts in FMIS (Non-Benefit Debts)	Outsourceable
3	Validation of Debts Recorded in FMIS	Outsourceable
4	Management of Debtor Communication (Issuance of Notices to Debtor)	Outsourceable
5	Processing of Debt Collections/Recoveries	Outsourceable
6	Management of Delinquent Debt	Outsourceable
7	Termination of Debt Collection Efforts	Not Outsourceable
8	Reporting on Debt	Outsourceable

Table B: Financial Systems Section Functions		
Item #	Key Function	Conclusion¹
1	Development and Maintenance of Policies & Procedures ²	Outsourceable
2	System Maintenance ³	Outsourceable
3	System Security ³	Not Outsourceable
4	System Design & Establishment ³	Outsourceable
5	Contractor Oversight	Not Outsourceable

Table C: Treasury Section Functions		
Item #	Key Function	Conclusion¹
1	Development and Maintenance of Policies & Procedures ²	Outsourceable
2	Accounts Payable Liquidation	Not Outsourceable
3	Payroll Function Accounts Payable Liquidation	Not Outsourceable
4	Employer Tax Contributions Collection Management ⁴	Not Outsourceable

¹The Office of Federal Procurement Policy (OFPP) Policy Letter 11-01 provides guidance to Federal Agencies to ensure that only federal employees perform functions that are inherently governmental. Consistent with OFPP Policy Letter 11-01, we identified inherently governmental functions within each section, by considering whether the functions involve exercising discretion or making value judgments or decisions on behalf of the Federal Government, or whether the function is listed as “inherently governmental” or “close to inherently governmental” in Appendix A or Appendix B of the OFPP Policy Letter 11-01. We determined that functions that are not inherently governmental functions are outsourceable.

²Outsourceable policy function includes the drafting of policy documentation and not the determination of policy or decision on content.

³BFO currently outsources this function to a contractor.

⁴In FY 2019 the responsibilities for the RRB’s employer tax contributions system was shared between BFO’s Audit Affairs and Compliance Division and BFO Treasury Section. However, in April of 2020 all of the functions performed by BFO Treasury Section were transferred over to the Audit Affairs and Compliance Division.

Management’s Response to Appendix B: Summary of Assessment of Outsourceable Functions:

Management noted that it believes that some of the functions included in Appendix B, *Summary of Assessment of Outsourceable Functions*, are incorrectly classified as “outsourceable”. Management stated,

In Appendix B, the auditors provide their assessment of outsourceable functions, we note that the auditors have identified generally that BFO can outsource the “development and maintenance of policies and procedures” for TDSO. Additionally, the auditors identified six other Debt Recovery Section (DRS) functions as outsourceable. While we agree that external contractors may be able to assist TDSO with the development and maintenance of procedures, agency policy determination is inherently governmental according to FAR 7.503 (c) (5). Further, the DRS key functions that the auditors concluded can be outsourced as referenced in Appendix B, Table A, Items 2-6 and 8, support the proper administration and stewardship of the railroad retirement trust fund system, as such we disagree with the auditor’s assessment and consider these functions to be inherently governmental pursuant to FAR 7.503 (c) (19).

Auditor’s Consideration of Management’s Response to Appendix B: Summary of Assessment of Outsourceable Functions:

With regards to the outsourceable of policies and procedures, we agree with Management that the “determination” of policy is an inherently governmental function and should not be classified as “outsourceable”. However, the Office of Federal Procurement Policy (OFPP) provides guidance to Federal agencies on the implementation of FAR 7.5. OFPP Policy Letter 11-01 Appendix A, Number 7 further clarifies that this includes the determination of contents to include in policy as well as the application of regulations. However, as noted in Policy Letter 11-01 Appendix B, *Examples of functions closely associated with the performance of inherently governmental functions*, Number 1(c), “providing support for the development of policies, including the drafting of documents, and conducting analysis, feasibility study, and strategy options” are not inherently governmental.

We disagree with Management that three of DRS functions should be reclassified as “inherently governmental” based on FAR 7.503 (c) (19). Under FAR 7.503 (c) (19), “the administration of public trust” is listed as a broad, principle-based provision. Therefore, determining whether a specific function is covered by this FAR provision involves the consideration of the regulation in conjunction with its implementation guide, including the Office of Federal Procurement Policy (OFPP) Policy Paper 11-01. According to Section 3 of OFPP Policy Paper 11-01, the key characteristic of an “inherently governmental function” is that it involves the exercise of discretion in the application of authority on behalf of the Federal Government, or the exercise of judgment and decision that commits the Federal Government to a course of action, “including judgment relating to monetary transactions and entitlements.” As such, WAI assessed the activities performed by DRS under each of these functions to determine whether they meet the OFPP definition for inherently governmental functions.

- Function 2. Recording of Debts in FMIS (Non-Benefit Debts): This DRS' function involves entering (into FMIS) debt amounts that have already been determined through the courts and other processes outside of DRS. DRS' responsibility is merely a data entry exercise that involves no calculation or judgment/decision on the determination of the amounts recorded.
- Function 6. Management of Delinquent Debt: The main activity performed by DRS under this function involves communicating with debtors on the status of their debts. FMIS automatically identifies debts that are past due and generates dunning notices. DRS prints and reviews the notices for accuracy and mails them out to debtors. DRS makes no judgment/decision during this process that commits the government any course of action; the function is administrative or clerical in nature.
- Function 8. Reporting on Debt: DRS' activities under this function involves gathering information from other RRB receivable stakeholders and submitting Treasury Report on Receivables (TROR) to the US Treasury. Quarterly, an RRB contractor generates the TROR. DRS reviews RRB benefits receivables and obtains comments on RUIA Contributions Receivables, and Administrative Receivables from respective point of contacts. DRS subsequently submits the final TROR to the US Treasury. We determined that this DRS function is merely a liaison and data analysis function.

As noted in the above, the activities performed by DRS under functions 2, 6, and 8 involve no judgment or decision on behalf of the Federal Government, including those relating to monetary transactions and entitlements. Therefore, they do not meet the definition of "inherently governmental function" and are not covered by the "administration of public trust" provision under FAR 7.5. As such, our classification of these functions as "outsourcable" stands.

Appendix C: Sampling Methodology and Evaluation of Sample Testing Results

Our sampling plan is informed by requirements consistent with Government Auditing Standards (GAGAS), GAO-18-568G sections 8.100, 8.103 and 8.107. WAI's sampling plan includes the determination of the population or universe of transactions, sample size, sampling methodology, confidence level, tolerable rate of deviation, and procedures for evaluation of results. The objective of the sampling plan is to ensure a reasonable number of transactions and attributes underlying the Treasury, Debt Recovery and Financial Systems sections operations and internal controls are subjected to our audit. This allowed us to make a fair conclusion about the reliability of the transactions and balances taken as a whole and the evidence substantiating the design and operating effectiveness of controls in place to ensure efficiency and effectiveness of sections operations.

Population or Universe of Transactions: For internal control assessment relating to the functions of the sections, WAI tested all key controls identified in the processes level underlying Treasury, Debt Recovery and Financial Systems sections operations. For transaction-level control testing, WAI tested attributes in samples of transactions making up account balances related to the operations of Treasury, Debt Recovery and Financial Systems sections. WAI used the universe of transactions making up significant account balances for the period ended September 30, 2019.

Sampling Selection Methodology and Sample Size: Consistent with GAGAS (GAO-18-568G) Section 8.55, as it relates to the auditor's responsibility to "*identify and select suitable criteria based on audit objectives*", WAI selected for testing all process-level key controls identified in the operations of the sections subject to our audit, as well as a sample of key controls at the transactions level. For detail transaction-level control testing (i.e., criminal restitution debts, waivers and write-offs, receivables, collections, travel invoices, and purchase invoices, WAI selected randomly (using Microsoft Excel randomizer function) for testing 78 samples (a suitable criteria for sample size based on GAO Financial Audit Manual (FAM) Figure 450.1 and 90% confidence level and 10% tolerable rate of deviation) of transactions.

Evaluation of Results: WAI identified, documented, and communicated in our report all significant exceptions resulting from our transaction-level control testing, and significant deviations noted in key controls evaluated in the process-level operations of the sections. Consistent with GAGAS Section 8.55, WAI determined individually or in combination with others, the pervasiveness and significance of the deficiencies noted in controls, as well as exceptions noted in transactions within the context of the audit objectives. We identified deficiencies both on an individual basis and in the aggregate. We also identified correlation among deficiencies noted. WAI identified, documented, and communicated in our report all exceptions and errors resulting from our transaction-level control testing, and significant deviations and exceptions noted in key controls at the process-level.

Except for the errors and exceptions noted in the data, in which we concluded that the data was not reliable for the purpose of our audit, and that we did not rely on the data to conclude on the audit objectives, no other significant limitations or uncertainties based on our overall assessment of the sufficiency and appropriateness of the evidence in the aggregate was noted.

WAI tested various process level controls. The below table depicts the population of key processes selected for control testing, and includes the population obtained, sample size tested, and issues noted.

Process-Level Control Testing					
Section	Key Control	Attributes tested	Population size	Sample Size	Issues Noted
DRS	Policies	Existence of Policies	1	1	1
DRS	Procedures	Existence of Procedures	1	1	1
FSS	Policies	Existence of Policies	1	1	1
FSS	Procedures	Existence of Procedures	1	1	1
FSS	FMIS Access-- Addition	Validation of access	5	5	3
FSS	FMIS Access-- Termination	Validation of access	5	5	0
FSS	FMIS Recertification	Validation of access	9	9	0
FSS	US Treasury Systems Recertification	Validation of access	5	5	0
FSS	FMIS Table Updates	Accuracy of FMIS Tables	3	3	3
FSS	FMIS Issue Resolution	Timeliness of issue resolution	1	1	0
FSS	FMIS Service Level Reports	Review of Service Level Reports	12	12	0
FSS	System Security Plan	Existence of System Security Plan	1	1	1
FSS	POAM	Occurrence of performing corrective actions as necessary	1	1	0
FSS	Service Level Agreement	Existence of Service Level Agreement	1	1	1
FSS	SSAE 18	Oversight of FMIS outsourced functions	1	1	1
FSS	FMIS System Change Management	Authorization of system changes	1	1	1
TS	Policies	Existence of Policies	1	1	1
TS	Procedures	Existence of Procedures	1	1	1
TS	Duplicate Payments	Validation of payments	4	4	0
TS	Benefit Establishment	Accuracy of recorded benefits	241	78	1

TS	Transit Benefit Recertification	Validation of benefits eligibility	1	1	0
TS	Contribution Collections Management Reconciliation	Completion of reconciliations of employer contributions	1	1	1

With respect to our transaction-level control testing, our procedures were limited to evaluation of attributes related to the controls, and our conclusions on the effectiveness of controls were based on whether the number of errors identified fall within or outside of our predetermined acceptable deviations. We did not project the errors we found in the samples to the entire population, because we tested specific attributes of each control; and projection of error is not applicable to attribute testing. The below table depicts the population of transactions selected for testing at the transaction control-level, the sample size tested and exceptions noted.

Transaction-Level Control testing			
Transaction	Universe Size	Sample Size	Exceptions Noted
Criminal Restitution	6	6	6
Waivers and Write-offs	76	76	0
RRA Collections	67,577	78	0
RUIA Collections	21,497	78	0
Travel Invoices	2,093	78	0
Purchase Invoices	1,664	78	0

The exceptions noted in the above tables resulted in our conclusion that the weaknesses noted significantly affect the effectiveness and efficiency of RRB BFO Treasury, Debt Recovery, and Financial Systems sections' operations, including inefficiencies that affect the optimum use of resources. The details of our findings can be found in the detail of the report.