U.S. RAILROAD RETIREMENT BOARD

OFFICE OF INSPECTOR GENERAL

Railroad Retirement Board Audit Compliance Section Did Not Provide Adequate Audit Coverage of Railroad Employers

Report No. 22-05

February 15, 2022

OFFICE OF INSPECTOR GENERAL
U.S. RAILROAD RETIREMENT BOARD

Railroad Retirement Board Audit Compliance Section Did Not Provide Adequate Audit Coverage of Railroad Employers

What RMA Found

RMA Associates, LLC (RMA) determined that the Railroad Retirement Board's (RRB) Audit Compliance Section (ACS) did not accomplish its mission of verifying creditable service and compensation determinations to determine and verify compliance with the financial reporting requirements of the Railroad Retirement Act (RRA) and Railroad Unemployment Insurance Act (RUIA) because they did not provide adequate audit coverage over Class I railroads or non-Class I railroads during fiscal years 2017 through 2020. As a result, RMA concluded that $143.5 billion in reported creditable compensation was at risk for inaccuracies.

RMA also determined that RRB ACS did not obtain an external peer review within the 2017 through 2020 review period as required by Generally Accepted Government Auditing Standards (GAGAS) and did not obtain permission/approval to forgo a peer review. Additionally, RMA determined that RRB ACS did not update or review their audit policies and procedures on an annual basis as required by GAGAS. Lastly, RMA determined that RRB ACS staff auditors did not obtain sufficient continuing professional education (CPE) credits as required by GAGAS.

What RMA Recommends

To address weaknesses identified in this audit, RMA made four recommendations to the Bureau of Fiscal Operations. Specifically, RMA made one recommendation to address the lack of audit coverage, one recommendation to address the lack of external peer review, one recommendation to address outdated policies and procedures, and one recommendation to address insufficient CPE credits.

RRB management concurred with three recommendations and did not concur with one recommendation.

What We Did

The Office of Inspector General (OIG) for the RRB engaged RMA to conduct a performance audit of the RRB's ACS. This audit was conducted in accordance with the performance audit standards established by GAGAS. RMA is responsible for the audit report and the conclusions expressed therein. RRB OIG does not express any assurance on the conclusions presented in RMA's audit report.

The audit objectives were to assess whether ACS had adequate audit coverage of Class I railroads; assess whether ACS had complied with its responsibilities under RRA and RUIA; assess the impact of any deficiencies identified, including prior deficiencies; determine if the RRB's certification of railroad employee service compensation and experience rating system tax determinations were valid and could be relied upon when considering the serious ineffectiveness of its current audit function; and assess whether ACS had met peer review requirements by having external peer reviews and ratings of "pass" at the three-year required peer review intervals since ACS' last peer review.

The scope of the audit was ACS' mission within the Bureau of Fiscal Operations for fiscal years 2017 through 2020.

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Railroad Retirement Board (RRB)
Office of Inspector General (OIG)

Railroad Retirement Board Audit Compliance Section Did Not Provide Adequate Audit Coverage of Railroad Employers

Performance Audit Report
Contract No: **GS-23F-016AA**
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Chicago, IL

February 14, 2022

RMA Associates, LLC (RMA) conducted a performance audit of the Railroad Retirement Board's (RRB) Audit Compliance Section (ACS) of the Audit Affairs and Compliance Division for fiscal years 2017 to 2020.

Our audit objectives were to 1) assess whether ACS has provided adequate audit coverage of Class I railroad audits, 2) assess whether ACS has fulfilled its responsibilities to ensure compliance under the Railroad Retirement Act (RRA) and Railroad Unemployment Insurance Act (RUIA), and 3) assess the impact of any deficiencies found, 4) determine if the RRB's certifications of railroad employee service and compensation and experience rating system tax rate determinations are valid and can be relied upon when considering the serious ineffectiveness of its current audit function, and 5) assess whether ACS has met the peer review requirements by having external peer reviews and ratings of "pass" at the three year required peer review intervals since ACS' last peer review.

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

As a result of our audit, we found the following for each objective:

Objective	RMA Assessment
1. Assess whether ACS has provided adequate audit coverage of Class I railroad audits.	We determined ACS did not provide adequate audit coverage from FY 2017 through FY 2020 of Class I or non-Class I railroads and put $143.5 billion in creditable service and compensation at risk. BFO stated that ACS' current staffing levels allow for the audit of one Class I railroad employer per year out of a population of seven Class I railroad employers. However, ACS has not completed an audit for a Class I railroad employer since 2015. Additionally, ACS only completed audits of two non-Class I railroad employers out of a total population of 721 within our scope of FY 2017 through FY 2020.

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Objective	RMA Assessment
2. Assess whether ACS has fulfilled its responsibilities to ensure compliance under the RRA and RUIA.	We determined ACS did not fulfill their responsibilities to ensure compliance under the RRA and RUIA as they did not perform any audits of Class I railroad employers and performed an insufficient number of audits for non-Class I railroad employers within our audit scope of FY 2017 through FY 2020. The lack of audit coverage prevented ACS from accomplishing their mission of verifying creditable service and compensation determinations to determine and ensure compliance with financial reporting requirements of the RRA and RUIA.
3. Assess the impact of any deficiencies found.	We determined ACS implemented steps to resolve all prior findings, however, due to inadequate railroad employer audits, $143.5 billion in reported creditable compensation was at risk for inaccuracies.
4. Determine if the RRB's certifications of railroad employee service and compensation and experience rating system tax rate determinations are valid and can be relied upon when considering the serious ineffectiveness of its current audit function.	We determined the RRB's certification of railroad employee service compensation and experience rating system tax rate determinations were not valid and could not be relied upon when considering the serious ineffectiveness of its current audit function. ACS' mission requires them to conduct external audits of railroad employers to determine whether creditable compensation and financial reporting requirements of the RRA and RUIA are met. However, they did not provide adequate audit coverage over Class I railroads or non-Class I railroads.
5. Assess whether ACS has met the peer review requirements by having external peer reviews and ratings of "pass" at the three year required peer review intervals since ACS' last peer review.	We determined ACS did not meet GAGAS peer review requirements as their last external peer review was performed in 2016. ACS established that to comply with GAGAS, they will obtain an external peer review at least once every three years, which will be conducted by a team outside of and independent of ACS. However, ACS has not acquired an external peer review within the FY 2017 to FY 2020 review period.

Information on our findings and recommendations are included in the accompanying report.

Respectfully,

RMA Associates

RMA Associates, LLC

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Introduction

This report presents the results of RMA Associates, LLC's (RMA) performance audit of the Railroad Retirement Board's (RRB) Audit Compliance Section (ACS).

Objectives, Scope, and Methodology

Objectives

The objectives of this audit were to:

- Assess whether ACS had adequate audit coverage of Class I railroads;
- Assess whether ACS had complied with its responsibilities under Railroad Retirement Act (RRA) and Railroad Unemployment Insurance Act (RUIA);
- Assess the impact of any deficiencies identified, including prior deficiencies;
- Determine if the RRB's certification of railroad employee service compensation and experience rating system tax determinations were valid and could be relied upon when considering the serious ineffectiveness of its current audit function; and
- Assess whether ACS had met peer review requirements by having external peer reviews and ratings of "pass" at the three-year required peer review intervals since ACS' last peer review.

Scope

The scope of this performance audit was ACS' mission for fiscal years (FY) 2017 through 2020.

Methodology

To address and accomplish the audit objectives, we used the following evidence-gathering and evidence-analysis techniques:

- Identified criteria from applicable laws, regulations, policies, and procedures, including Generally Accepted Government Auditing Standards (GAGAS) and ACS' audit guide;
- Identified applicable criteria from the Government Accountability Office's *Standards for Internal Control in the Federal Government*;
- Reviewed the prior OIG management information report and audit findings (OIG Report No. 19-02, November 29, 2018 and OIG Report No. 12-03, January 26, 2012);
- Reviewed the prior external peer review findings (Brook Weiner L.L.C. Final Report, July 26, 2016);
- Examined reports that contained information on operations, rotation of employer audits, and staffing levels for Class I and non-Class I railroads;
- Assessed ACS' policies and procedures, record of prior external peer reviews, and Continuing Professional Education (CPE) records for their compliance with GAGAS;

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- Assessed ACS' policies and procedures for the issuance of the Certificate of Service Months and Compensation;
- Assessed internal controls applicable to the audit objectives; and
- Held discussions with applicable management, staff, and key personnel.

We compared the population of creditable compensation of railroad employers, including both Class I audits and non-Class I audits versus the amount of creditable compensation audited. Our sample included all audit reports issued in FY 2017 to FY 2020, specifically reports for non-Class I railroads in FY 2017 and in FY 2019, which equated to 0.02 percent of a combined total of $143.5[1] billion in creditable compensation from FY 2017 to FY 2020.

RMA assessed the reliability of the data by 1) reviewing existing information about data and assessing the controls that surround them; and 2) reviewed computer systems maintained by RRB. We determined that the data from information systems were sufficiently reliable for the purposes of this report.

RMA conducted this performance audit in accordance with GAGAS. Specifically, we utilized chapters 8 and 9 of GAGAS (GAO-21-368G). In complying with GAGAS requirements for performance audit, we obtained sufficient appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained a reasonable basis for our findings and conclusions based on our audit objectives.

We conducted our fieldwork at RMA headquarters in Arlington, Virginia from August 2021 through December 2021.

Background

The RRB is an independent agency in the executive branch of the Federal Government. The RRB's primary function is to administer comprehensive retirement-survivor and unemployment-sickness benefit programs for the nation's railroad workers and their families, under the RRA and RUIA. As part of the retirement program, the RRB also has administrative responsibilities under the Social Security Act for certain benefit payments and railroad workers' Medicare coverage.

The mission of ACS is to conduct external audits of railroad employers to determine and ensure compliance with the financial reporting requirements of the RRA and RUIA, determine whether railroad employers are properly reporting creditable compensation and all reports are filed in an accurate and timely manner, and review the activities of employers/employees to gather, verify, and analyze relevant information to enable the Board to make coverage determinations under the RRA and RUIA. This mission has not officially changed since 1993 when the Board approved the staffing plan to establish ACS in their approval memorandum.

[1] This amount is a projection of unaudited creditable compensation across the total population of railroads. RMA based this amount off the results of our assessment of Class I and non-Class I railroad audit coverage for the scope of FY 2017 through FY 2020.

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ACS, a section within the RRB's Bureau of Fiscal Operations (BFO), is responsible for conducting external audits of railroad employers to confirm compliance under the RRA and RUIA and verify the accuracy of railroad employee service and compensation. According to ACS' documented policies and procedures, railroad employer audits were to be performed in accordance with GAGAS as it is the basis for ACS' audit procedures.

ACS performs audits of Class I and non-Class I railroad employers. To be considered a Class I railroad, a railroad must have annual carrier operating revenues of $250 million or more in 1991 dollars. The last adjustment for inflation for this amount was $504,803,294 in 2019. All other railroads that have annual carrier operating revenues below this threshold are considered non-Class I. Due to their large share of creditable compensation in relation to non-Class I railroad employers, ACS is tasked with performing at least one railroad audit of Class I railroad employers per year. These Class I railroad employers are selected on a rotational basis unless specific reasons justify a selection sooner. According to BFO's FY 2020 Audit Plan, ACS should conduct one Class I railroad audit per year with their current staffing level. However, they did not provide audit coverage of Class I railroads in RMA's audit period of FY 2017 through FY 2020. Therefore, ACS is putting a large share of RRB's creditable compensation at risk.

To be compliant with GAGAS, ACS should have an external peer review performed by reviewers independent of the audit organization at least once every three-years. ACS received a Pass rating from an external peer review conducted by a Certified Public Accounting firm in 2016. However, ACS has not had an external peer review since 2016 and did not schedule or obtain an external peer review in 2021 due to oversight issues.

While RRB has established an audit function to oversee the accuracy of its railroad service and compensation, RRB OIG previously reported significant concerns with ACS' inability to conduct an adequate number of audits to verify railroad retirement program compliance. For FY 2019, RRB OIG found that RRB's controls over creditable and taxable compensation were inadequate as RRB was not giving sufficient audit coverage to railroad employer compensation reporting. RRB OIG stated that ACS determines whether compensation has been accurately reported to the RRB and they reconcile creditable compensation reported for RRA purposes with taxable compensation reported to the Internal Revenue Service for Railroad Retirement Tax Act purposes. However, RRB OIG's audit identified that the ACS' Class I and non-Class I railroad audits were not an effective control for ensuring the accuracy of compensation, which was the basis for approximately $6.2 billion of payroll taxes received by the RRB during FY 2019. Since the beginning of FY 2017, RMA only identified that two non-Class I railroad audits were completed by ACS, and as of the end of FY 2019, three audits were in progress, out of a universe of 721 railroad employers. None of the largest Class I railroads were subjected to audit during this audit period.

BFO management previously indicated that the low number of railroad audits completed was due to staffing and funding limitations. RRB OIG found that the limited staffing and funding resulted in the closure of one railroad audit in FY 2018 due to the expiration of the statute of limitations. ACS' FY 2020 Audit Plan indicated that a report was issued for a non-Class I railroad, and that

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two employer audits were opened, but neither were Class I railroads. ACS hired four auditors during FY 2019 and FY 2020 and they have one supervisory auditor.

Results of Audit

ACS did not meet its mission of conducting railroad audits to ensure compliance under the RRA and RUIA because they did not conduct enough railroad employer audits during the scope of our audit (FY 2017 through FY 2020). In addition, they did not conduct their audits in compliance with GAGAS 2011 and 2018 external peer review requirements, quality control requirements, and CPE requirements, which puts the quality of the work performed in question. As a result, \$143.5 billion in reported creditable compensation was at risk for inaccuracies. For all of our findings, we noted the root cause is due to BFO Management choosing to prioritize the mission of RRB Financial Compliance Section (to conduct Quality Assurance (QA) Reviews and establishing an agency-wide Enterprise Risk Management (ERM) program) over the ACS' own mission of conducting external audits of railroad employers to verify compliance with RRA and RUIA. RMA concluded that ACS fell short of meeting their mission, as they did not conduct enough audits to provide adequate coverage over the population of railroad employer's total creditable compensation from FY 2017 through FY 2020 (\$143.5 billion). The results of our audit objectives assessing ACS' ability to fulfill their mission are as follows:

> **Objective 1**: BFO stated that ACS' current staffing levels allow for the audit of one Class I railroad employer per year out of a population of seven Class I railroad employers. However, ACS has not completed an audit for a Class I railroad employer since 2015. Additionally, ACS only completed audits of two non-Class I railroad employers out of a total population of 721 within our scope of FY 2017 through FY 2020.
>
> We determined ACS did not provide adequate audit coverage from FY 2017 through FY 2020 of Class I or non-Class I railroads and put \$143.5 billion in creditable service and compensation at risk.
>
> **Objective 2**: ACS did not fulfill their mission as they did not perform any audits of Class I railroad employers and performed an insufficient number of audits for non-Class I railroad employers within our audit scope of FY 2017 through FY 2020.
>
> The lack of audit coverage prevented ACS from accomplishing their mission of verifying creditable service and compensation determinations to determine and ensure compliance with financial reporting requirements of the RRA and RUIA.
>
> **Objective 3**: RRB OIG issued several findings in Audit Report No. 12-02 and Management Information Report (MIR) 19-02. RMA identified that the recommendations for the findings identified in Audit Report No. 12-02 have been closed. In MIR 19-02, RRB OIG identified that ACS is not giving sufficient audit coverage to employer compensation reporting due to a decreased number of staff assigned to employer audits and a decreased budget for conducting audits. To address this issue, RMA identified that ACS obtained authority to hire and on board two auditors in FY 2019 and an additional two in FY 2020.

For FY 2020, the annual staffing and administrative budget for personnel compensation was $627,830 with 4.5 full-time employees (FTEs). Their lack of prioritization of conducting audits was also attributed to the pandemic as it created challenges for employers.

We determined ACS implemented steps to resolve all prior findings, however, due to inadequate railroad employer audits, $143.5 billion in reported creditable compensation was at risk for inaccuracies.

Objective 4: ACS' mission requires them to conduct external audits of railroad employers to determine whether creditable compensation and financial reporting requirements of the RRA and RUIA are met. However, they did not provide adequate audit coverage over Class I railroads or non-Class I railroads.

The RRB's certification of railroad employee service compensation and experience rating system tax rate determinations were not valid and could not be relied upon when considering the serious ineffectiveness of its current audit function.

Objective 5: ACS established that to comply with GAGAS, they will obtain an external peer review at least once every three years, which will be conducted by a team outside of and independent of ACS. However, ACS has not acquired an external peer review within the FY 2017 to FY 2020 review period.

We determined ACS did not meet GAGAS peer review requirements as their last external peer review was performed in 2016.

The inability to fulfill their mission was due to the following findings identified by RMA's completion of the audit objectives:

- Lack of Audit Coverage;
- Lack of External Peer Review;
- Outdated Policies and Procedures; and
- Insufficient CPE credits

We provided additional details on these four findings in the following sections and provided recommendations to assist ACS in remediating them.

Lack of Audit Coverage

RRB ACS did not accomplish its mission of verifying creditable service and compensation determinations to determine and verify compliance with the financial reporting requirements of

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the RRA and RUIA because they did not provide adequate audit coverage over Class I railroads or non-Class I railroads as described below.

1. RRB ACS did not complete any Class I railroad audits in FY 2017 through FY 2020. The last Class I railroad audit completed was in 2015.
2. RRB ACS completed the audits of 2 non-Class I railroads out of a total population of 721 within our scope of FY 2017 through FY 2020.

In addition to ACS not prioritizing their mission, RRB has put the audit of creditable compensation at risk by not adequately staffing their employer railroad audits. Specifically, the ACS railroad employer audit team consisted of one auditor from FY 2017 through FY 2019, which is inadequate according to the organization's Audit Procedures, which requires audits of Class I railroads to be staffed by at least 2 ACS auditors.[2] As of FY 2020, ACS disclosed that its current funding allows for sufficient staffing to conduct one Class I employer audit each year. Additionally, ACS did not have any compensating controls to perform their mission of conducting external audits of railroad employers. ACS management redefined the mission without official concurrence or communication and did not focus on the mission of conducting external audits of railroad employers. Upon request for confirmation of the expansion of ACS' mission, support was not provided by ACS management. ACS' decisions behind inadequate staffing and reprioritization of their mission were committed verbally, without official documentation.

BFO reallocated ACS staff to perform QA reviews and implement their ERM program as mandated by Office of Management and Budget. Subsequently, they told us they did not prioritize ACS' mission that requires them to perform audits to verify compliance with the financial reporting requirements of RRA and RUIA because they believed it was not mandated.

The non-Class I railroad audits completed were in FY 2017 and in FY 2019. The FY 2017 report covered the period FY 2013 through FY 2015, which was $11.9 million of creditable compensation for that railroad.

The FY 2019 report covered the period FY 2013 through FY 2016, which was $17.0 million of creditable compensation for that railroad.

This resulted in ACS not accomplishing their mission in verifying creditable service and compensation determinations to determine and verify compliance with the financial reporting requirements of the RRA and RUIA. As a result, RRB ACS did not audit a combined annual compensation of approximately $143.5 billion[3] for calendar years 2017 through 2020. As a result of not focusing on the mission of ACS, the combined funding for FY 2017 through FY 2020 of

[2] Although the staffing chart lists 2 auditors for the FY 2017 to FY 2019 time period, ACS only had 1 auditor assigned to railroad employer audits.
[3] This amount is a projection of unaudited creditable compensation across the total population of railroads. RMA based this amount off the results of our assessment of Class I and non-Class I railroad audit coverage for the scope of FY 2017 through FY 2020.

approximately $1.4 million assigned to RRB ACS for FTEs (to conduct railroad employer audits) could have been put to better use (Appendix II).

RMA acknowledges that RRB OIG identified that ACS is not prioritizing audits of employer compensation reporting. Since this was identified, ACS has taken action to address it as they obtained authority to hire and on-board two auditors in FY 2019 and an additional two in FY 2020. For FY 2020, the annual staffing and administrative budget for personnel compensation was $627,830 with 4.5 FTEs. Although ACS staff was increased, they did not show improvements in performing audits of railroad employer compensation reporting as they redirected their hired auditors to perform QA reviews and assist in implementing RRB's ERM program.

Recommendation #1

RMA recommends that the Bureau of Fiscal Operations funding for conducting employer audits be put to better use by redirecting the focus of ACS' FTEs to accomplish their mission and provide adequate Class I and non-Class I railroad audit coverage. Additionally, the Bureau of Fiscal Operations should establish a group solely responsible for completing railroad employer audits.

<u>Management's Comments</u>

Regarding ACS's approved mission RRB management provided a point of clarification:

> *Under the Background section of the audit draft, the statement "…gather, verify, and analyze relevant information to enable the Board to make coverage determinations under the RRA and RUIA. This mission has not officially changed since 1993 when the Board approved the staffing plan to establish ACS in their approval memorandum", is incorrect. On January 11, 2018, the Board approved the General Counsel's request to move the coverage review function from the Bureau of Fiscal Operation to the OGC. This action officially changed the mission of ACS.*

<u>RMA Response</u>

The 1993 approval memorandum establishing ACS stated:

> *The mission of ACS is to conduct external audits of railroad employers to determine and ensure compliance with the financial reporting requirements of the RRA and RUIA, determine whether railroad employers are properly reporting creditable compensation and all reports are filed in an accurate and timely manner.*

None of the documentation provided to the audit team, during or subsequent to our audit, showed that the main mission of conducting external audits of railroad employers was no longer ACS' mission.

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As stated, objectives of our audit included:

- Assessing whether ACS had adequate audit coverage of Class I railroads; and
- Assessing whether ACS had complied with its responsibilities under RRA and RUIA.

Our audit conclusion was that ACS did not have adequate audit coverage of Class I railroads. In addition, they did not have adequate audit coverage of non-Class I railroads. Therefore, ACS was not meeting its main mission of conducting external audits of railroad employers.

As a result of the small number of audits, we also concluded that ACS did not verify a sufficient amount of the total reported creditable compensation for ACS to conclude that they have adequately fulfilled its responsibilities to: 1) determine and ensure compliance with the financial reporting requirements of the RRA and RUIA; 2) determine whether railroad employers were properly reporting creditable compensation; and 3) determine whether all railroad employer reports were filed in an accurate and timely manner, leaving $143.5 billion in reported creditable compensation at risk for inaccuracies.

<u>Management's Comments</u>

For Finding #1, the Bureau of Fiscal Operations adamantly disagreed with the following statements:

> *We adamantly disagree with the auditor's determination included on page 5 of the referenced report that "…$143.5 billion in reported creditable compensation was at risk for inaccuracies." As written, the numerous references of $143.5 billion (RMA's projection of unaudited credible compensation for FY 2017 through FY 2020) are misleading. Using the $143.5 billion figure implies that the Railroad Retirement Board (RRB) has a statutory or federal mandate to conduct compliance audits for the full universe of railroad employers in a given fiscal year in order to verify creditable service and compensation. This premise is false.*
>
> *While Section 7 of the Railroad Retirement Act (RRA) and Section 12 of the Railroad Unemployment Insurance Act (RUIA) provide authority for the RRB to conduct compliance audits, the statutes do not expressly instruct the RRB to conduct such audits. The employer compliance audits support RRB's strategic goal to serve as responsible stewards for our customer's trust funds. In accordance with RRB operating procedure, Class I railroads are to be audited once every seven years, non-Class I employers would be audited based on auditing priorities and available resources, and smaller non-Class I employers would be audited on a random basis. As such, during a given fiscal year the Bureau of Fiscal Operations (BFO) would audit a small population of railroad employers and verify creditable service and compensation for those employers selected for audit. Therefore, as presented the references to $143.5 billion misrepresents and overstates the audit coverage necessary to support the strategic goal of serving as responsible stewards for our customers' trust funds. Holding the RRB accountable for auditing and verifying creditable*

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service and compensation for the entire population of railroad employers in each fiscal year is entirely unreasonable.

In furtherance of our stewardship responsibilities on behalf of our customers, the RRB has mitigating internal controls to identify potential discrepancies in reported creditable service and compensation. Employers are required to provide creditable service and compensation data to the RRB for all covered employees pursuant to 20 CFR § 209.8, Employers' Annual Reports of Creditable Service and Compensation. Employers provide this information via RRB Forms BA-3, Annual Report of Creditable Compensation and BA-4, Report of Creditable Compensation Adjustments. Using the reported compensation, each year BFO conducts two reconciliations, both of which serve as mitigating controls to identify potential discrepancies within each employer's reported creditable compensation. The first reconciliation is of reported compensation amounts on RRB Forms BA-3 and BA-4 to the taxable compensation reported to the Internal Revenue Service (IRS) on the Form CT-1, Employer's Annual Railroad Retirement Tax Return per the Railroad Retirement Tax Act (RRTA). The purpose of the reconciliation is to identify discrepancies between reported compensation that may affect the employer's tax liability. Collection of RRTA taxes is the responsibility of the IRS. Therefore, BFO submits discrepancy reports that identify variances between reported compensation on the BA-3/BA-4 and reported compensation on the CT-1 to the IRS for resolution. The second reconciles the reported compensation amounts on RRB Forms BA-3 and BA-4 to the cumulative compensation reported on the RRB Form DC-1, Employer's Quarterly Report of Contributions Under the Railroad Unemployment Insurance Act (RUIA) as required by 20 CFR § 345.111, Contribution Reports. This reconciliation identifies variances between the reported compensation on the BA-3/BA-4 and the cumulative DC-1 (i.e. covering all four quarters of the same calendar year) that may impact the employer's contribution amount. As needed, BFO issues contribution variance letters to the employers for resolution.

<u>RMA Response</u>

RMA disagrees with management's assertion that our projection of creditable compensation is at risk for inaccuracies. We are not stating that ACS should have verified creditable compensation for the entire universe of Class I railroads over the course of our audit. RMA stated $143.5 billion of creditable compensation was at risk because Class I railroads make up the majority of creditable compensation among all railroad classes. This amount is a projection of unverified creditable compensation if ACS continued to not provide audit coverage over Class I railroads.

The reconciliation process was not presented as a compensating control during the course of the audit; therefore, we could not verify its sufficiency. Although we made several inquiries to request other compensating controls beyond the employer railroad audits, ACS management did not provide information during the scope of the audit nor during management's response. Therefore, we could not determine if the controls outlined in RRB Management's comments were in place during the scope of our audit or whether they were sufficient to mitigate our audit concerns.

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Management's Comments

For Recommendation #1, the Bureau of Fiscal Operations non-concurred with our recommendation and stated:

> *We strongly disagree with the statement "… funding for conducting employer audits be put to better use by redirecting the focus of ACS' FTEs to accomplish their mission and provide adequate Class I and non-Class I railroad audit coverage," since management directed available FTEs toward satisfying federally mandated responsibilities and continued compliance audit activities. From a management perspective, this was the best use of funds considering limited available resources and budgetary constraints. Budgetary constraints and insufficient BFO staffing resources resulted in significantly reduced audit coverage during the audit scope (FY 2017 through FY 2020). Until sufficient resources are available, BFO will continue to satisfy federally mandated responsibilities and simultaneously conduct employer compliance audits.*

Without written documentation to show that ACS' mission had expanded, conducting railroad employer audits remains as ACS' main mission. By allocating ACS FTEs to satisfy the mandated requirements of the Federal Managers' Financial Integrity Act of 1982, ACS is not using ACS FTEs for completing their documented mission and therefore are not appropriated for approved purposes.

Lack of External Peer Review

The RRB ACS did not obtain an external peer review within the 2017 through 2020 review period as required by GAGAS and did not obtain permission/approval to forgo a peer review during this time.

In general, external peer reviews determine whether ACS' system of quality control is adequate and provides reasonable assurance that ACS is performing and reporting in conformity with professional standards.

Noncompliance with peer review interval requirements may result in ACS using a modified GAGAS statement in their audit reports, unless or until such noncompliance issues are corrected. In addition, without a peer review, RRB cannot substantiate the quality of their work.

Recommendation #2

RMA recommends that the Bureau of Fiscal Operations acquire a team outside of and independent of ACS to conduct an external peer review as soon as possible, and at least every three years thereafter. The Bureau of Fiscal Operations should disclose ACS' lack of peer reviews to auditee organizations whose engagements were initiated after the three-year timeframe following ACS' last external peer review.

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Management's Comments

BFO concurred with our finding.

Outdated Policies and Procedures

The RRB ACS did not update or review their policies and procedures established in the Audit Guide and Audit Procedures Manual on an annual basis as required by GAGAS. Specifically, in our audit scope of FY 2017 through FY 2020, an Audit Guide was not created for FY 2018 and the Audit Procedures Manual has not been updated since June 2016.

Having policies and procedures that lack the most recent guidance (e.g., GAO-18-568G, 2018 Revision) impedes the division from verifying that their audits are conducted in compliance with GAGAS.

Recommendation #3

RMA recommends that the Bureau of Fiscal Operations update ACS' Audit Guide and Audit Procedures Manual to reflect the most recent guidance.

Management's Comments

BFO concurred with our finding.

Insufficient CPE Credits

For the 2-year period FY 2018 to FY 2019, 2 of 2 RRB ACS staff auditors did not complete at least 80 hours of CPE as required by GAGAS. For the FY 2020 to FY 2021 period, 4 of the 6 RRB ACS staff auditors continued to lack sufficient CPE credits as they did not meet their 80 hour requirement, or their respective prorated CPE requirements in each year.

RRB ACS staff auditors that do not comply with GAGAS 2011 3.76 and GAGAS 2018 4.16-17 may lack the proper knowledge, skills, and abilities to conduct a GAGAS engagement and could adversely affect the reliability and validity of attestations reported.

Recommendation #4

RMA recommends that the Bureau of Fiscal Operations provide at least 80 hours of CPE accredited training for ACS employees in each 2-year cycle.

Management's Comments

BFO concurred with our finding.

Appendix I: Management Comments

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

OFFICE OF THE CHIEF FINANCIAL OFFICER

February 10, 2022

RMA Associates, LLC
1005 N. Glebe Road, Suite 610
Arlington, VA 22201

SUBJECT : Response to RMA Associates LLC Draft Audit Report
Audit of Railroad Retirement Board Audit Compliance Section

Thank you for the opportunity to comment on the referenced initial draft report that we received on February 1, 2022 as well as the revised draft report received on February 9, 2022. The following is management's response to your findings and recommendations:

Point of Clarification

Under the Background section of the audit draft, the statement "…gather, verify, and analyze relevant information to enable the Board to make coverage determinations under the RRA and RUIA. This mission has not officially changed since 1993 when the Board approved the staffing plan to establish ACS in their approval memorandum", is incorrect. On January 11, 2018, the Board approved the General Counsel's request to move the coverage review function from the Bureau of Fiscal Operation to the OGC. This action officially changed the mission of ACS.

Finding No. 1: Lack of Audit Coverage

We adamantly disagree with the auditor's determination included on page 5 of the referenced report that "…$143.5 billion in reported creditable compensation was at risk for inaccuracies." As written, the numerous references of $143.5 billion (RMA's projection of unaudited credible compensation for FY 2017 through FY 2020) are misleading. Using the $143.5 billion figure implies that the Railroad Retirement Board (RRB) has a statutory or federal mandate to conduct compliance audits for the full universe of railroad employers in a given fiscal year in order to verify creditable service and compensation. This premise is false.

While Section 7 of the Railroad Retirement Act (RRA) and Section 12 of the Railroad Unemployment Insurance Act (RUIA) provide authority for the RRB to conduct compliance audits, the statutes do not expressly instruct the RRB to conduct such audits. The employer compliance audits support RRB's strategic goal to serve as responsible stewards for our customer's trust funds. In accordance with RRB operating procedure, Class I railroads are to be audited once every seven years, non-Class I employers would be audited based on auditing priorities and available resources, and smaller non-Class I employers would be audited on a random basis. As such, during a given fiscal year the Bureau of Fiscal Operations (BFO) would audit a small population of railroad employers and verify creditable service and compensation for those employers selected for audit. Therefore, as presented the references to $143.5 billion misrepresents and overstates the audit coverage necessary to support the strategic goal of serving as responsible stewards for our customers' trust funds. Holding the RRB accountable for auditing and verifying creditable service and compensation for the entire population of railroad employers in each fiscal year is entirely unreasonable.

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In furtherance of our stewardship responsibilities on behalf of our customers, the RRB has mitigating internal controls to identify potential discrepancies in reported creditable service and compensation. Employers are required to provide creditable service and compensation data to the RRB for all covered employees pursuant to 20 CFR § 209.8, *Employers' Annual Reports of Creditable Service and Compensation*. Employers provide this information via RRB Forms BA-3, *Annual Report of Creditable Compensation* and BA-4, *Report of Creditable Compensation Adjustments*. Using the reported compensation, each year BFO conducts two reconciliations, both of which serve as mitigating controls to identify potential discrepancies within each employer's reported creditable compensation. The first reconciliation is of reported compensation amounts on RRB Forms BA-3 and BA-4 to the taxable compensation reported to the Internal Revenue Service (IRS) on the Form CT-1, *Employer's Annual Railroad Retirement Tax Return* per the Railroad Retirement Tax Act (RRTA). The purpose of the reconciliation is to identify discrepancies between reported compensation that may affect the employer's tax liability. Collection of RRTA taxes is the responsibility of the IRS. Therefore, BFO submits discrepancy reports that identify variances between reported compensation on the BA-3/BA-4 and reported compensation on the CT-1 to the IRS for resolution. The second reconciles the reported compensation amounts on RRB Forms BA-3 and BA-4 to the cumulative compensation reported on the RRB Form DC-1, *Employer's Quarterly Report of Contributions Under the Railroad Unemployment Insurance Act (RUIA)* as required by 20 CFR § 345.111, *Contribution Reports*. This reconciliation identifies variances between the reported compensation on the BA-3/BA-4 and the cumulative DC-1 (i.e. covering all four quarters of the same calendar year) that may impact the employer's contribution amount. As needed, BFO issues contribution variance letters to the employers for resolution.

Further, we disagree with the auditor's statement on page 6 of referenced report that "ACS management redefined the mission without official concurrence or communication and did not focus on the mission of conducting external audits of railroad employers." We also disagree with the auditor's conclusion on pages 6 and 7 that "[a]s a result of not focusing on the mission of ACS, the combined funding for FY 2017 through FY 2020 of approximately $1.4 million assigned to RRB ACS for FTEs (to conduct railroad employer audits) could have been put to better use (Appendix II)." To reiterate, while Section 7 of the RRA and Section 12 of the RUIA provide authority for the RRB to conduct compliance audits, the statutes do not mandate that RRB conduct such audits. Therefore, within my authority as Chief Financial Officer, I allocated the limited resources available within BFO to satisfy the mandated requirements of the Federal Managers' Financial Integrity Act of 1982 as implemented by OMB Circular A-123. These actions allowed the RRB to establish an agency-wide Enterprise Risk Management (ERM) program that integrates risk management with internal control activities in accordance with federal directives and pursuant to OIG audit recommendations.[1] See OIG Audit Report No. 18-07, Recommendations 1 and 4. Thus, operating under budgetary constraints BFO allocated the resources available to simultaneously perform mandated responsibilities, provide training to new auditors, and conduct external audits of railroad employers.

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

Recommendation No. 1: "*RMA recommends that the Bureau of Fiscal Operations funding for conducting employer audits be put to better use by redirecting the focus of ACS' FTEs to accomplish their mission and provide adequate Class I and non-Class I railroad audit coverage. Additionally, the Bureau of Fiscal Operations should establish a group solely responsible for completing railroad employer audits.*"

[1] Office of the Inspector General Audit Report 18-07, ***Enterprise Risk Management Process At The Railroad Retirement Board Was Not Fully Effective***, Report Date July 9, 2018. Recommendation No. 1 stated: "[w]e recommend that the Management Control Review Committee establish an internal control evaluation based on the requirements provided in the revised Office of Management and Budget Circular A-123." Recommendation No. 4 stated: "[w]e recommend the Executive Committee assign an individual as the Chief Risk Officer, or equivalent, who manages enterprise risk activities as the RRB."

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Management Response No. 1: Non-concur. We strongly disagree with the statement "… funding for conducting employer audits be put to better use by redirecting the focus of ACS' FTEs to accomplish their mission and provide adequate Class I and non-Class I railroad audit coverage," since management directed available FTEs toward satisfying federally mandated responsibilities and continued compliance audit activities. From a management perspective, this was the best use of funds considering limited available resources and budgetary constraints. Budgetary constraints and insufficient BFO staffing resources resulted in significantly reduced audit coverage during the audit scope (FY 2017 through FY 2020). Until sufficient resources are available, BFO will continue to satisfy federally mandated responsibilities and simultaneously conduct employer compliance audits.

Finding No. 2: Lack of External Peer Review
In regards to Finding No. 2, the auditor's recommend that BFO:

Recommendation No. 2: *"RMA recommends that the Bureau of Fiscal Operations acquire a team outside of and independent of ACS to conduct an external peer review as soon as possible and at least every three years thereafter. The Bureau of Fiscal Operations should disclose ACS' lack of peer reviews to auditee organizations whose engagements were initiated after the three-year timeframe following ACS' last external peer review."*

Management Response No. 2: Concur; estimated completion date: 9.30.2023

Finding No. 3: Outdated Policies and Procedures
In regards to Finding No. 3, the auditor's recommend that BFO:

Recommendation No. 3: *"RMA recommends that the Bureau of Fiscal Operations update ACS' Audit Guide and Audit Procedures Manual to reflect the most recent guidance."*

Management Response No. 3: Concur; estimated completion date: 9.30.2023

Finding No. 4: Insufficient CPE credits
In regards to Finding No. 4, the auditor's recommend that BFO:

Recommendation No. 4: *"RMA recommends that the Bureau of Fiscal Operations provide at least 80 hours of CPE accredited training for ACS employees in each 2-year."*

Management Response No. 4: Concur; estimated completion date: 9.30.2023

Sincerely,

SHAWNA WEEKLEY
Digitally signed by SHAWNA WEEKLEY
Date: 2022.02.10 15:47:37 -06'00'

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

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Appendix II: Funds Put to Better Use

The Inspector General Act of 1978 defined the term "recommendation that funds be put to better use" as a recommendation by the OIG that funds could be used more efficiently if management of an establishment took actions to implement and complete the recommendation, including:

(A) reductions in outlays;
(B) deobligation of funds from programs or operations;
(C) withdrawal of interest subsidy costs on loans or loan guarantees, insurance, or bonds;
(D) costs not incurred by implementing recommended improvements related to the operations of the establishment, a contractor or grantee;
(E) avoidance of unnecessary expenditures noted in preaward reviews of contract or grant agreements; or
(F) any other savings which are specifically identified.

The ACS' funds allocated to FTEs may be considered funds to be put to better use since their mission was not addressed which resulted in a reduction of outlays to the ACS mission. [4]

Table 1 compiles the ACS' annual staffing and administrative budget for personnel compensation for FY 2017 to FY 2020.

Table 1: Budget Allocated to FTEs for ACS for FY 2017 to FY 2020

Year	FTE	Budget
2017	2.61	$362,256
2018	0.98	$134,798
2019	1.76	$251,629
2020	4.56	$627,830
Total	**9.91**	**$1,376,513**

[4] Information supporting the timing and when resources were aligned to ACS' employer audits are unknown as relevant documentation was not provided.