



Report QC2022020
January 31, 2022

Quality Control Review of the Management Letter for the Surface Transportation Board's Audited Financial Statements for Fiscal Years 2021 and 2020



Quality Control Review of the Management Letter for the Surface Transportation Board's Audited Financial Statements for Fiscal Years 2021 and 2020

Required by the Accountability of Tax Dollars Act of 2002

QC2022020 | January 31, 2022

What We Looked At

This report presents the results of our quality control review (QCR) of Allmond & Company, LLC's (Allmond) management letter regarding the audit it conducted, under contract with us, of the Surface Transportation Board's (STB) financial statements as of and for the fiscal year ended September 30, 2021. The management letter discusses internal control matters that Allmond was not required to include in its report on the audit of STB's financial statements.

What We Found

Our quality control review of the management letter disclosed no instances in which Allmond did not comply, in all material respects, with generally accepted Government auditing standards.

Our Recommendations

Allmond made eight recommendations in its management letter. STB concurred with all eight recommendations.



U.S. Department of Transportation
Office of Inspector General

January 31, 2022

The Honorable Martin J. Oberman
Chairman, Surface Transportation Board
395 E Street, SW
Washington, DC 20423-0001

Dear Chairman Oberman:

I am pleased to transmit the attached management letter related to the audit of the Surface Transportation Board's (STB) financial statements as of and for the fiscal year ended September 30, 2021. Allmond & Company, LLC (Allmond) completed the audit under contract with us. The contract required Allmond to perform the audit in accordance with generally accepted Government auditing standards and the Office of Management and Budget's Bulletin 21-04, *Audit Requirements for Federal Financial Statements*. Allmond issued an auditor's report that included a clean (unmodified) opinion on STB's financial statements.¹ Leon Snead & Company, P.C., under contract to the Office of the Inspector General, audited STB's fiscal year 2020 financial statements and expressed an unmodified opinion on those statements.²

Allmond also issued, and is responsible for, a management letter, dated November 11, 2021 (see attachment), identifying four internal control matters that require STB management's attention. Allmond was not required to include these matters or the related recommendations in its auditor's report.

We performed a quality control review (QCR) of the letter and related audit documentation.

Allmond's Management Letter

In its management letter, Allmond reported the following matters involving STB's internal control and operations that require management's attention.

¹ *Quality Control Review of the Independent Auditor's Report on the Surface Transportation Board's Audited Financial Statements for Fiscal Years 2021 and 2020* (OIG Report No. QC2022014), November 15, 2021. Our report can be found on our website, www.oig.dot.gov,

² *Quality Control Review of the Independent Auditor's Report on the Surface Transportation Board's Audited Financial Statements for Fiscal Years 2020 and 2019* (OIG Report No. QC2021006), November 13, 2020. Our report can be found on our website, www.oig.dot.gov.

Interim Financial Statement Footnotes

Allmond found that STB's financial statement and footnotes for the period ended June 30, 2021, did not include three required footnote disclosures. Allmond also reported that STB's Note 7, Other Liabilities, did not include account balances and other information required by the Office of Management and Budget (OMB) Circular A-136, and generally accepted accounting principles. Allmond reported that the control activities that STB performed to review and approve the financial statements and footnotes were not sufficient to prevent or detect and correct errors and omissions in the footnotes.

Employee Benefits Election Forms

Allmond found that STB's internal controls over the maintenance of employees' personnel records were not sufficiently designed to prevent, detect, or correct errors in employees' payroll records. Based on interim and year end testing results, Allmond identified four instances in which it could not inspect and verify employees' Thrift Savings Plan (TSP) elections because STB could not provide the TSP election forms for the pay periods selected.

Allmond also identified 10 instances in which it could not inspect and verify employees' Federal Employees Health Benefits (FEHB) Program elections because STB could not provide the election forms in effect for the pay periods selected. Allmond noted that 4 of the 10 instances in its FEHB testing were for two employees who were included in both the interim and year end samples.

Internal Control Over Financial Reporting Regarding Adjustments of Prior Year Obligations

Allmond found that STB's internal control over financial reporting lacks sufficient control procedures to ensure the reliability of its Undelivered Orders balances. Allmond found that STB does not currently have policies and procedures to validate upward and downward adjustment activities in the general ledger and to make the necessary corrections to ensure that both balances are accurate and reflect the true economic substance of each transaction. Allmond noted that the general ledger system used by STB's financial management service provider does not appear to have the functionality to directly record a reversal of a downward adjustment to a prior year obligation, or to make a non-dollar amount change without creating a misstatement of both the downward and upward adjustment balances. Allmond identified seven downward adjustments of prior year

obligations, totaling \$136,955.53, whose transactions for changes to non-dollar elements of existing obligations or to reverse deobligations were recorded using downward adjustments and then reversed by applying entries to upward adjustments of prior year obligations rather than reversing the downward adjustment directly.

Review and Approval of Journal Vouchers

Allmond reported that STB needs to improve its internal control over financial reporting for reviewing and approving journal vouchers recorded in its general ledger. Allmond identified a journal entry to adjust the balances of Depreciation Expense and Accumulated Amortization on Leasehold Improvements that was recorded in an incorrect amount. Allmond noted that the amount of the journal voucher did not agree with the supporting schedule included in the journal voucher package. Allmond found that STB management executed a blank Approval for Routine Accounting Adjustments (Blanket Authorization) with the shared service provider, which allowed the service provider to record certain routine entries without STB's prior review and approval. Allmond noted that additional review from STB could have prevented the error.

Recommendations

Allmond made the following eight recommendations to enhance STB's policies and procedures over financial, accounting, and system controls:

1. STB management should review the current version of OMB Circular A-136 to independently verify that all required footnotes are included and bring any omissions to the service provider's attention so that errors or omissions can be corrected.
2. STB management should review the service provider's Financial Statement and Notes Review Checklist to verify that the checklist is up to date and includes all required elements per OMB and Treasury guidance and then complete the checklist independently. Alternatively, STB management should develop and complete its own review checklist based on current Treasury and OMB reporting requirements.
3. STB management should request its financial management service provider to:
 - a. Reevaluate the inclusion of account balances that were excluded in the Other Liabilities footnote, or

- b. Disaggregate (i.e. separately report) intragovernmental other liabilities balances reported as a single line item on the balance sheet that are not included in the footnote so that the total amounts reported for Other Liabilities on the Balance Sheet and in the footnote agree.
4. STB should perform routine reviews of employee benefit elections and Official Personnel Folders to ensure they are complete and accurate.
5. STB should address missing or unavailable supporting documentation with its shared service provider to ensure that document retrieval tools are available and are working properly to allow retrieval of all stored documents.
6. STB management should work with the service provider to identify, at least quarterly, upward adjustments that have been offset by downward adjustments in the general ledger or perform an independent review of the general ledger activity of both accounts so that manual adjustments can be recorded to properly state the ending balances of both accounts, if needed.
7. STB management should design and implement policies and procedures which enhance the internal review process for upward and downward adjustment transactions and includes a reconciliation of the UDO balances with the supporting documentation to ensure that transactions have been recorded correctly.
8. STB should amend its existing policy regarding the review and approval of journal vouchers to include a review of all non-reversing entries recorded during the fiscal year and to review all year-end journal vouchers before they are recorded in the agency's general ledger.

STB officials concurred with these eight recommendations and committed to implementing corrective actions.

Quality Control Review

We performed a QCR of Allmond's management letter and related documentation. Our QCR disclosed no instances in which Allmond did not comply, in all material respects, with generally accepted Government auditing standards.

We appreciate the cooperation and assistance of STB's representatives and Allmond. If you have any questions about this report, please call me at (202) 366-8543 or Ingrid Harris, Program Director, at (202) 450-7637.

Sincerely,

A handwritten signature in black ink, appearing to read "D. Dillard-Christian". The signature is fluid and cursive.

Dormayne "Dory" Dillard-Christian

Acting Assistant Inspector General for Financial Audits

Enclosure. Independent Auditor's Management
Letter

**SURFACE TRANSPORTATION BOARD
MANAGEMENT REPORT
SEPTEMBER 30, 2021**



**ALLMOND & COMPANY, LLC
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(301) 918-8200**



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MANAGEMENT LETTER REPORT

Chairman, Surface Transportation Board
Inspector General, U.S. Department of Transportation

We audited the Surface Transportation Board (STB) financial statements as of September 30, 2021 and for the year then ended and issued our report dated November 11, 2021 under separate cover.

In planning and performing our audit, we considered STB's internal controls to determine auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal controls. Though not considered to be material weaknesses or significant deficiencies, we identified additional matters involving internal control that are presented in this letter for STB management's attention and consideration.

The purpose of this report is solely for the information and use of STB management. We appreciate your assistance and cooperation during the audit and look forward to serving you in the near future.

Sincerely,

Allmond & Company, LLC

Lanham, Maryland
November 11, 2021

MANAGEMENT LETTER REPORT

Allmond & Company audited the balance sheet of the Surface Transportation Board (STB) as of September 30, 2021 and the related statements of net cost, statements of changes in net position, and statements of budgetary resources for the years then ended (the financial statements). We noted four additional matters involving STB's internal controls and/or operations that we believe warrant management's attention; however, none of these issues was considered to be a significant deficiency or material weakness.

Under standards issued by the American Institute of Certified Public Accountants (AICPA), a deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or to detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency or a combination of deficiencies, in internal control that is less severe than a material weakness yet important enough to merit the attention by those charged with governance. There were no significant deficiencies or material weaknesses noted during our audit of STB's FY 2021 financial statements.

We noted the following control deficiencies during our audit:

1. Interim Financial Statement Footnotes Were Not Prepared in Accordance with U.S. Treasury and Office of Management and Budget (OMB) Circular A-136 Requirements
2. Employee Benefits Election Forms Were Not Maintained in Employees' electronic Official Personnel Folders (e-OPFs) per Office of Personnel Management (OPM) Requirements
3. Lack of Sufficient Internal Control over Financial Reporting Relating to Upward and Downward Adjustments of Prior Year Obligations
4. Improvement Needed in the Review and Approval of Journal Vouchers

These conditions are discussed in detail in the findings outlined below:

FINDING 1: Interim Financial Statement Footnotes Were Not Prepared in Accordance with U.S. Treasury and OMB Circular A-136 Requirements

CONDITION:

During our review of STB's financial statements and footnotes for the interim reporting period ended June 30, 2021, we identified the following conditions:

- The financial statement footnotes did not include three required footnote disclosures:
 - Note 1, Summary of Significant Accounting Policies – Classified Activities
 - Inter-Entity Costs
 - Net Adjustments to Unobligated Balance, Brought Forward, October 1

- Note 7 – Other Liabilities omitted account balances and other information that is required by Office of Management and Budget (OMB) Circular A-136 and generally accepted accounting principles (GAAP):
 - Current and noncurrent columns were included in the footnote; however, the full balance of a liability relating to rent reductions recognized over time under STB’s lease agreement, which has current and noncurrent portions, is being reported as a current liability in error.
 - The balances of Unfunded Federal Employees’ Compensation Act (FECA) and Employee Contributions and Payroll Taxes Payable-Office of Personnel Management (OPM) was not included in the total of Intragovernmental Other Liabilities in the footnote; therefore, the amount reported in Note 7 did not agree to the amount reported on the Balance Sheet.

CRITERIA:

U.S. Government Accountability Office GAO-14-704G, *Standards for Internal Control in the Federal Government* (or “Green Book”), September 2014 revision, Section OV4.01 states, “Management may engage external parties to perform certain operational processes for the entity, such as accounting and payroll processing.....Management, however, retains responsibility for the performance of processes assigned to service organizations.”

OMB Circular A-136 Section II.3.8.1. Note 1: Summary of Significant Accounting Policies, Classified Activities, states, “To protect classified information, including which agencies report classified information, all federal reporting entities must include the following in the summary of significant accounting policies:

Accounting standards require all reporting entities to disclose that accounting standards allow certain presentations and disclosures to be modified, if needed, to prevent the disclosure of classified information.”

OMB Circular A-136 Section II.3.8.24. Note 24: Inter-Entity Costs states, “Pursuant to [Statement of Federal Financial Accounting Standards] (SFFAS) 4, as amended, paragraph 113A, reporting entities should disclose that only certain inter-entity costs are recognized for goods and services that are received from other federal entities at no cost or at a cost less than the full cost. An illustrative disclosure that reflects unreimbursed costs that are required to be imputed by GAAP is shown [in this section of the Circular]. Entities should also disclose the general nature of other imputed costs recognized in their financial statements in addition to the information [included in this section of the Circular].”

OMB Circular A-136 Section II.3.8.25. Note 25: Net Adjustments to Unobligated Balance, Brought Forward, October 1 states that agencies must “disclose material adjustments during the reporting period to budgetary resources available at the beginning of the year that are necessary to reconcile the beginning balance to the prior year’s ending balance and explain the adjustments in accordance with SFFAS 7, paragraph 79.”

OMB Circular A-136 Section II.3.2.4. Liabilities – Other Liabilities states, “Other Liabilities are liabilities not recognized in any previous category and may also include liabilities described in previous categories that are immaterial to the agency. It may include liabilities related to grants payable, capital leases, advances and prepayments, deferred revenue, Treasury-managed benefit programs, probable contingencies, accrued liabilities related to ongoing continuous expenses such as Federal employee salaries, accrued employee annual leave, accrued leave in a voluntary leave bank program, non-fiduciary deposit funds, undeposited collections, and the allocation of special drawing rights made by the International Monetary Fund. Other

MANAGEMENT LETTER REPORT

liabilities, including immaterial amounts, must be reported in [the Governmentwide Treasury Account Symbol Adjusted Trial Balance System] (GTAS) using the correct [United States Standard General Ledger] (USSGL) for the liability category. Separate line items for other liabilities is appropriate if the amounts are material to the Balance Sheet. Items not separately reported must be disclosed along with any additional information necessary to understand the liabilities.”

CAUSE:

- An outdated version of OMB Circular A-136 was used to prepare the financial statements and footnotes or required footnotes were judgmentally excluded.
- The Treasury United States Standard General Ledger (USSGL) Crosswalk to the Balance Sheet for FY 2021 GTAS Reporting included significant changes to the classification and presentation of account balances that are included on the face of the Balance Sheet and in the Other Liabilities footnote disclosure. The footnote template that was developed by the agency’s financial management shared services provider to incorporate these changes omitted some balances in error, resulting in the footnote totals of Other Intragovernmental Liabilities not agreeing to the amount reported on the Balance Sheet.
- STB’s control activities performed to review and approve the financial statements and footnotes, including review of the accuracy of the footnote templates and review of the Financial Statements and Notes Review Checklist performed by the service provider, were not sufficient to prevent or detect and correct errors and omissions in the footnotes.

EFFECT:

- STB was not in compliance with federal financial reporting requirements due to the exclusion of required footnotes.
- Intragovernmental Other Liabilities was understated by \$179,000 in Note 7 of the interim footnotes to the financial statements.
- Current amounts and non-current amounts of Other Liabilities were overstated or understated, respectively, by reporting all of the balances in this category as current.

RECOMMENDATION:

We recommend that:

- STB management should review the current version of OMB Circular A-136 to independently verify that all required footnotes are included and bring any omissions to the service provider’s attention so that errors or omissions can be corrected.
- STB management should review the service provider’s Financial Statement and Notes Review Checklist to verify that the checklist is up to date and includes all required elements per OMB and Treasury guidance and then complete the checklist independently. Alternatively, STB management should develop and complete its own review checklist based on current Treasury and OMB reporting requirements.
- STB management should request its financial management service provider to:
 - Reevaluate the inclusion of account balances that were excluded in the Other Liabilities footnote, or

- Disaggregate (i.e., separately report) intragovernmental other liabilities balances reported as a single line item on the balance sheet that are not included in the footnote so that the total amounts reported for Other Liabilities on the Balance Sheet and in the footnote agree.

MANAGEMENT RESPONSE:

STB management concurs with the condition and will consider the recommendations provided when determining if a corrective action plan should be developed once the audit concludes.

General Comments

The Surface Transportation Board (STB or Board) appreciates the opportunity to provide comments for this Management letter. The STB and its Shared Service Provider, Enterprise Service Center (ESC) Department of Transportation (DOT), agree with the overall identified conditions.

For the non-publishable interim notes, the STB Chief Financial Officer (CFO) relied on the previously audited notes since the Office of Management Budget had not issued the updated OMB Circular A-136 guidance until 8/10/2021. However, the STB CFO and staff will review the current version of OMB Circular A-136 to verify that all required footnotes are included and bring any omissions to the service provider's attention so that errors or omissions can be corrected.

The STB CFO has discussed with Allmond & Company the use of the Government Accountability Office (GAO) 2021 update to the [Financial Audit Manual] (FAM) Volume 3 Reporting Checklist (formerly FAM 2010/2020 financial reporting checklist) and the STB will use it as its own review checklist to ensure it meets Treasury and OMB reporting requirements.

The STB and ESC agrees to the difference in Net Adjustments to Unobligated Balance, Brought Forward, October 1 and line 2490 from the prior year [Statement of Budgetary Resources] (SBR) and ESC will provide a reconciliation of this difference.

The STB and ESC note that the full disclosure for Other Liabilities includes Rent Reductions recognized over time under STB's lease agreement. This Rent reduction should include Current Liability for Rent Reductions up to one year with the remainder as Noncurrent Liability. ESC will break these amounts out accordingly in the fiscal yearend Notes Presentation.

The STB and ESC agree that the balances of Unfunded FECA and Employee Contributions and Payroll Taxes Payable-OPM were not included in the total of Intragovernmental Other Liabilities in the footnote; therefore, the amount reported in Note 7 did not agree to the amount reported on the Balance Sheet. ESC has completed a mapping change in order to correctly tie Note 7 to the Balance Sheet and it will be reported properly for fiscal yearend.

AUDITORS' RESPONSE:

We will conduct follow-up procedures in FY 2022 to determine whether corrective actions have been developed and implemented.

FINDING 2: Employee Benefits Election Forms Were Not Maintained in Employees' Electronic Official Personnel Folders (e-OPFs) per Office of Personnel Management (OPM) Requirements

CONDITION:

The Surface Transportation Board's (STB's) internal controls over the maintenance of employees' personnel records are not sufficiently designed to prevent, detect, or correct errors in employees' payroll records. During our interim review of 64 payroll transactions selected from the population of all employees paid during the period of October 1, 2020 through May 31, 2021, we noted the following testwork exceptions:

- Two (2) instances in which we were not able to inspect and verify the employees' Thrift Savings Plan (TSP) elections because the agency was not able to provide the TSP election forms in effect for the pay periods selected.
- Three (3) instances in which we were not able to inspect and verify the employee's Federal Employees' Health Benefits (FEHB) Program election because the agency was not able to provide the SF-2809 FEHB election form in effect for the pay period selected.

During our year-end review of 34 payroll transactions selected from the population of all employees paid during the period of June 1, 2021 through September 30, 2021, we identified the following additional testwork exceptions:

- Two (2) instances in which we were not able to inspect and verify the employees' Thrift Savings Plan (TSP) elections because the agency was not able to provide the TSP election forms in effect for the pay periods selected.
- Seven (7) instances in which we were not able to inspect and verify the employee's Federal Employees' Health Benefits (FEHB) Program election because the agency was not able to provide the SF-2809 FEHB election form in effect for the pay period selected. Two (2) of the seven (7) exceptions were for employees who were included in both the interim and year-end samples.

CRITERIA:

The Government Accountability Office's (GAO) *Standards for Internal Control in the Federal Government*, states, "Internal control and all transactions and other significant events need to be clearly documented, and the documentation should be readily available for examination... All documentation and records should be properly managed and maintained."

Electronic Code of Federal Regulations, Title 5-Administrative Personnel, Chapter 1- Office of Personnel Management, Subchapter B-Civil Service regulations, part 293-Personel records, subpart A-Basic Policies on Maintaining Personnel records, section 293.103. Recordkeeping Standards states that:

- “(a) The head of each agency shall ensure that persons having access to or involved in the creation, development, processing, use, or maintenance of personnel records are informed of pertinent recordkeeping regulations and requirements of the Office of Personnel Management and the agency.
- (b) The Office is responsible for establishing minimum standards of accuracy, relevancy, necessity, timeliness, and completeness for personnel records it requires agencies to maintain.”

U.S. Office of Personnel Management Operating Manual – The Guide to Personnel Recordkeeping, Update 13, June 1, 2011, Chapter 1: General Personnel Recordkeeping Policies, Electronic Records, states, “The purpose of the electronic Official Personnel Folder (e-OPF) and the paper Official Personnel Folder (OPF) is to document the employment history of individuals employed by the Federal Government. The electronic Official Personnel Folder must be complete; that is, when combined with any other documents the agency chooses to retain in paper, or is required by law or regulation to be maintained in paper, it must contain all the information.

OPM requires that each agency ensure that electronic Official Personnel Folder systems:

- Be thoroughly documented.
- Be able to produce legible paper copies of all records.
- Have access controls to ensure a high level of security and confidentiality.
- Allow correction and removal of erroneous records under strict authorization controls.
- Include backup and disaster recovery procedures.”

CAUSE:

- STB and its payroll and personnel shared service provider do not have control procedures in place to ensure that employees’ benefit election forms are thoroughly and accurately documented in the electronic Official Personnel Folder (e-OPF) in accordance with OPM requirements.
- STB and its payroll and personnel shared service provider do not have control procedures in place to ensure that employees’ benefit election forms are updated in the electronic Official Personnel Folder (e-OPF) when employees change their benefit elections.

EFFECT:

- STB’s document availability and retention policies and procedures do not comply with OPM requirements.
- The failure to verify and maintain employees’ official personnel records increases the risk for misstatement in payroll expense and related liabilities; in addition, incorrect amounts could be withheld from employees pay.
- The full effects of the conditions listed above will be assessed when the year-end testing procedures have been completed. At interim, the potential effects of this issue include:
 - Potential non-compliance with 5 U.S. Code (USC) Chapter 84, Subchapter III – Thrift Savings Plan and Federal Employees Health Benefits Act of 1959 (P.L. 86-382).
 - Potential misstatements of the financial statements and footnotes relating to payroll expenses and liabilities
- Incorrect health, life, and retirement benefits information in the eOPF can negatively affect employees in the event of a loss or claim and cause incorrect amounts to be withheld from their pay.

RECOMMENDATION:

We recommend that:

- STB should perform routine reviews of employee benefit elections and Official Personnel Folders to ensure they are complete and accurate.
- STB should address missing or unavailable supporting documentation with its shared service

provider to ensure that document retrieval tools are available and are working properly to allow retrieval of all stored documents.

MANAGEMENT RESPONSE:

STB management concurs with the condition and will consider the recommendations provided when determining if a corrective action plan should be developed once the audit concludes.

General Comments (Interim Response)

The Surface Transportation Board (STB or Board) appreciates the opportunity to provide comments for this Management letter. The STB and its Shared Service Provider, Interior Business Center (IBC) U.S. Department of the Interior (DOI) have discussed these findings and agree with the overall condition. The STB notes that, with the assistance of DOI IBC, all additional support for the five exceptions have been identified and will be provided along with this response.

For the first recommendation, the STB will look at its control procedures to ensure that employee's benefit election forms are thoroughly and accurately documented in the electronic Official Personnel Folder (e-OPF) in accordance with OPM requirements. The STB's current use of Employee Express allows employees to complete and submit forms electronically which are then processed automatically in [Federal Payroll and Personnel System] (FPPS) and recorded in the employee's e-OPF. This process has replaced the need for hardcopy processing of these types of benefit elections. In addition, the STB clearly discloses that employees are responsible for verification of benefit selection. Employee's leave and earnings statements contain the following: "Employee is Responsible for Verification of Pay, Deductions, and Leave." The STB will determine what additional reviews maybe needed of employee's e-OPF's to ensure they are complete, accurate, and readily available in a manner appropriate for a small agency.

For the second recommendation, the STB and DOI IBC were able to locate the missing or unavailable supporting documentation from the document retrieval tools and will ensure that the STB will be able to readily retrieve all stored documents going further.

AUDITORS' RESPONSE:

We will conduct follow-up procedures in FY 2022 to determine whether corrective actions have been developed and implemented.

FINDING 3: Lack of Sufficient Internal Control over Financial Reporting Relating to Upward and Downward Adjustments of Prior Year Obligations

CONDITION:

The Surface Transportation Board's (STB's) internal control over financial reporting lacks sufficient control procedures to ensure the reliability of its Undelivered Orders (UDO) balances. Specifically, we noted that offsetting entries recorded for Upward Adjustments and Downward Adjustments of Prior Year Unpaid Undelivered Orders were the result of invalid posting logic used by the STB's financial management service provider to record the STB's transactions.

We noted the following exceptions during our review of current and prior year obligations:

- Seven (7) of 34 downward adjustment of prior year obligations transactions totaling \$136,955.53, for which transactions to perform changes to non-dollar elements of existing obligations or to

reverse deobligations were recorded using downward adjustments and then reversed by applying entries to upward adjustments of prior year obligations rather than reversing the downward adjustment directly.

CRITERIA:

The Government Accountability Office (GAO), Standards for Internal Controls in the Federal Government, (issued September 2014), Principle 10 – Design of Appropriate Types of Control Activities, 10.03, Accurate and Timely Recording of Transactions, states,

“Transactions are promptly recorded to maintain their relevance and value to management in controlling operations and making decisions. This applies to the entire process or life cycle of a transaction or event from its initiation and authorization through its final classification in summary records. In addition, management designs control activities so that all transactions are completely and accurately recorded.”

The Government Accountability Office (GAO’s) Standards for Internal Control in the Federal Government, Principle 10.01: Design Control Activities, states, “Management should design control activities to achieve objectives and respond to risks. The following attributes contribute to the design, implementation, and operating effectiveness of this principle:

- Response to Objectives and Risks
- Design of Appropriate Types of Control Activities
- Design of Control Activities at Various Levels
- Segregation of Duties

CAUSE:

- The general ledger system used by the STB’s financial management service provider does not appear to have the functionality to directly record a reversal of a downward adjustment to a prior year obligation or to make a non-dollar amount change to a contract without creating a misstatement of both downward and upward adjustment balances.
- STB does not currently have policies and procedures in place to validate upward and downward adjustment activity in the general ledger and to make the necessary corrections to ensure that both balances are accurate and reflect the true economic substance of each transaction.

EFFECT:

A control deficiency or control gap relating to internal control over financial reporting can lead to material misstatements to the financial statements and line items not being properly valued or classified in accordance with generally accepted accounting principles.

If uncorrected, the STB’s Statement of Budgetary Resources will be misstated as follows:

- Unobligated Balance from Prior Year Budget Authority, net and Total Budgetary Resources will be overstated by \$136,955.53 and
- New Obligations and Upward Adjustments and Total Status of Budgetary Resources will be overstated by \$136,955.53.

RECOMMENDATION:

We recommend that:

- STB management should work with the service provider to identify, at least quarterly, upward adjustments that have been offset by downward adjustments in the general ledger or perform an independent review of the general ledger activity of both accounts so that manual adjustments can be recorded to properly state the ending balances of both accounts, if needed.
- STB management should design and implement policies and procedures which enhance the internal review process for upward and downward adjustment transactions and includes a reconciliation of the UDO balances with the supporting documentation to ensure that transactions have been recorded correctly.

MANAGEMENT RESPONSE:

Management concurs with the condition and will consider the recommendation provided when determining if a corrective action plan should be developed once the audit concludes.

General Comments

The STB agrees with the overall finding and that it needs to update its internal control processes over financial reporting to ensure the reliability of its Undelivered Orders (UDO) balances. The STB has discussed this finding with its service provider and identified control reports that the service provider will send to STB for review of the general ledger activity of both accounts. This will ensure that manual adjustments can be recorded to properly state the ending balances of both accounts, if needed.

In addition, the STB Section of Financial Services will design and implement policies and procedures which enhance the internal review process for upward and downward adjustment transactions that includes a reconciliation of the UDO balances with the supporting documentation to ensure that transactions have been recorded correctly.

AUDITORS' RESPONSE:

We will conduct follow-up procedures in FY 2022 to determine whether corrective actions have been developed and implemented.

FINDING 4: Improvement Needed in the Review and Approval of Journal Vouchers

CONDITION:

Improvement is needed in internal control over financial reporting relating to the review and approval of journal vouchers recorded in the Surface Transportation Board's (STB's) general ledger. During fiscal year (FY) 2021, we identified the following error:

- A journal entry to adjust the balances of Depreciation Expense and Accumulated Amortization on Leasehold Improvements was recorded in an incorrect amount and did not agree with the supporting schedule included in the journal voucher package, resulting in an understatement of both balances in the amount of \$83,773.34.

CRITERIA:

The Government Accountability Office (GAO's) Standards for Internal Control in the Federal Government, Principle, issued September 2014, 10.01: Design Control Activities, states, "Management should design control activities to achieve objectives and respond to risks. The following attributes contribute to the design, implementation, and operating effectiveness of this principle:

- Response to Objectives and Risks
- Design of Appropriate Types of Control Activities
- Design of Control Activities at Various Levels
- Segregation of Duties

The Government Accountability Office (GAO), Standards for Internal Controls in the Federal Government, Principle 10 – Design of Appropriate Types of Control Activities, 10.03, Accurate and Timely Recording of Transactions, states, "Transactions are promptly recorded to maintain their relevance and value to management in controlling operations and making decisions. This applies to the entire process or life cycle of a transaction or event from its initiation and authorization through its final classification in summary records. In addition, management designs control activities so that all transactions are completely and accurately recorded."

Government Accountability Office (GAO), Standards for Internal Controls in the Federal Government, Section OV4.05, states, "A smaller entity...faces greater challenges in segregating duties because of its concentration of responsibilities and authorities in the organizational structure. Management, however, can respond to this increased risk through the design of the internal control system, such as by adding additional levels of review for key operational processes, reviewing randomly selected transactions and their supporting documentation, taking periodic asset counts, or checking supervisor reconciliations."

CAUSE:

- STB management executed a Blanket Authorization (Blank Approval for Routine Accounting Adjustments) with the service organization, which allows the service organization to record certain routine entries without STB management's prior review and approval. An additional level of review could have prevented the error from occurring.
- Journal voucher entries are not agreed to the supporting schedules when entries are prepared and the review that was performed was insufficient to prevent or detect and correct the errors.

EFFECT:

- Material adjustments could be recorded to the STB's general ledger without the review and approval of the Chief Financial Officer, which could result in a material misstatement in the agency's financial statements.
- Assets and other account balances that are not correctly valued could be reported in the agency's financial statements.
- Misstatements of the September 30, 2021 financial statements and related footnotes, as follows:
 - \$83,773.34 understatement of Depreciation Expense on the Statement of Net Cost
 - (\$83,773.34) understatement of Accumulated Amortization of Leasehold Improvements on the Balance Sheet
 - \$83,773.34 understatement of Net Cost of Operations on the Statement of Net Cost and Statement of Changes in Net Position

RECOMMENDATION:

We recommend that:

- STB should amend its existing policy regarding the review and approval of journal vouchers to include a review of all non-reversing entries recorded during the fiscal year and to review all year-end journal vouchers before they are recorded in the agency's general ledger.

MANAGEMENT RESPONSE:

Management concurs with the condition and will consider the recommendation provided when determining if a corrective action plan should be developed once the audit concludes.

General Comments

The STB agrees that improvement is needed in its internal control over financial reporting relating to the review and approval of journal vouchers recorded in STB's general ledger. The STB and its service provider have discussed this finding. In Fiscal Year 2022, the STB, in consultation with its service provider, will update its policy regarding blanket authorizations and the review and approval of journal vouchers (including all non-reversing entries) before they are recorded in the STB's general ledger.

AUDITORS' RESPONSE:

We will conduct follow-up procedures in FY 2022 to determine whether corrective actions have been developed and implemented.

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