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## MANAGEMENT LETTER

In planning and performing our audit of the financial statements of the U.S. Nuclear Waste Technical Review Board (NWTRB) for the year ended September 30, 2005, we considered NWTRB's internal control structure in order to determine our audit procedures for the preparation of audited financial statements, but not to provide assurance on the internal control structure beyond that which is required in the *Report on Internal Control Over Financial Reporting* and the *Report on Compliance with Laws and Regulations and Other Matters*, both of which are consolidated into the *Independent Auditors' Report*. Additionally, we reviewed accounting policies and procedures and considered the impact of those policies and procedures on internal controls and operating efficiency.

As per the *Independent Auditors' Report*, we did not identify any reportable conditions or material weakness in internal control, or instances of non-compliance with significant laws and regulations. Under standards issued by the American Institute of Certified Public Accountants, *reportable conditions* are matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the agency's ability to record, process, summarize, and report financial data consistent with the assertions by management in the financial statements. *Material weaknesses* are reportable conditions in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements, in amounts that would be material in relation to the financial statements being audited, may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

The purpose of this letter is to provide suggestions for management's consideration for the improvement of the entity's budgeting, procurement, disbursing, accounting, financial reporting, program execution and compliance functions. In particular, we are focusing on opportunities to modify the internal control structure to better integrate the processes and control structures of the NWTRB with the processes and control structures at its service providers (GSA Heartland and GSA National Payroll Center). This includes potential changes in policies and procedures for your consideration and potential issues to consider related to those changes.



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## List of Recommendations

The recommendations discussed below are divided into the following categories.

- Formalize Documentation of Transaction Authorization and Processing Procedures
- Formalize Post-Payment Verification and Reconciliation Procedures
- Check Vendors and Scholars Against Excluded Parties List System
- Extend Service Continuity Planning Beyond Information Technology to Human Resources

### Formalize Documentation of Transaction Authorization and Processing Procedures

During our audit, we requested copies of accounting manuals and standard forms for processing transactions. We also conducted detailed interviews with the William Barnard, Executive Director, Joyce Dory, Director of Administration, Linda Hiatt, Management Analyst, Karyn Severson, Director of External Affairs concerning systems, and Bill Harrison (in charge of information technology) regarding systems, processes, controls, policies and procedures for accounting, financial management, financial reporting, budgeting, and program execution.

While the NWTRB has substantial policies and procedures, they are not up-to-date and recorded in a single place. It would be advisable for the NWTRB to ensure that it has a complete set of written procedures (preferably in the form of checklists like the one in Appendix A) and standard forms in one reference book. We understand that this process is underway.

Checklists are an excellent manner to ensure consistency and continuity in the collection, processing and reporting of financial data. Below are some suggested categories that are meant to be a generic topic list as a starting point that can be tailored to your particular needs.

- Reviewing, approving and processing payroll
- Reviewing, approving and processing contractor and vendor payments
- Reviewing, approving and processing government credit card payments
- Reviewing, approving and paying travel expenses
- Reviewing, approving and paying employee reimbursements
- Post-payment verification and reconciliation procedures
- Preparing monthly financial reports for the Executive Director and Chairman
- Asset capitalization policies
- Monitoring auditor recommendations



## **Implement Post-Payment Verification and Reconciliation Procedures**

NWTRB has a series of month-end assurance procedures that address tracking expenditures, budget execution, and preparing summary financial reports for senior management. The spreadsheet tools and compilation procedures have recently been updated and we provided our feedback orally on the improvements. However, we believe it helpful to address these issues in writing.

The objective of post-payment verification and reconciliation procedures is to determine that GSA Heartland and GSA National Payroll Center have processed all payment request information accurately (no errors in numbers, vendor names, expense classification, fund and organization codes, etc.), completely (they did not miss any transactions submitted) and timely (transactions are recorded in the proper accounting period). A side benefit is that you have more accurate, complete and timely financial information for budget versus actual analysis, but that is a different issue.

To put this requirement for post-payment verification and reconciliation procedures in proper context, and to identify obstacles to efficiently and effectively accomplishing this control objective, it is important for management to read the SAS 70 Review reports of GSA Heartland, which are reports by outside auditors and address the effectiveness of GSA's systems and controls. Our analysis of the SAS 70 Review reports identified some obstacles to a smooth integration of the accounting cycle between GSA and the entity's using it as an accounting service provider. Accordingly, we are sharing a more detailed analysis of this issue, as contained in our Workpaper # 110.1 – SAS Reports Analysis, presented as Appendix B to this Management Letter. We suggest you review that workpaper and then read pages 15-19 of the SAS 70 Review on GSA Heartland. In brief, the issues at hand are as follows.

GSA Heartland's SAS 70 Review report states that the effectiveness of their internal controls depends upon their customers having effective internal controls in the following areas:

- Controls to provide reasonable assurance that transactions are input and processed completely and accurately.
- Controls to provide reasonable assurance that output reports accurately and completely reflect the information supplied to the External Services Division.
- Controls to provide reasonable assurance that any significant obligation, accrual or payment anomalies affecting budgeted amounts are identified and resolved in a timely manner.

All of these controls can be easily accomplished with a formal post-payment verification and review process that contains a set of procedures to compare source documents and transmittals to general ledger detail reports from FMIS showing all transactions processed in a given month.



This process would be similar to reconciling your bank account and is a key feature of any accounting system.

There are two problems at GSA Heartland inhibiting this reconciliation and review process from occurring smoothly:

1. **No transaction detail report** – GSA Heartland does not provide its customers with general ledger details showing all transactions processed in a given period. As part of our audit procedures, we requested this in the form of a data export to Excel, which we received. However, significant formatting was required to make it useable. GSA Heartland should develop a Transactions Detail Report, provide it to its customers each month, and subject that report to the scope of the annual SAS 70 Review. We have audited several other independent federal agencies and only one routinely accesses the FMIS system and download's the agency's transactions at the end of each month.
2. **Transaction identifiers not consistently entered** – Our tests of transactions revealed that data entry of ACT numbers and vendor information is incomplete. ACT numbers are the unique identifiers of payment batches submitted to GSA Heartland for processing. Our test of transactions reviewed that ACT numbers were often skipped on data entry, and when they were entered, it could be in any of five different data elements. This made sourcing and vouching more difficult than it needed to be, but we were able to do it.

We encourage management to address these issues with GSA, determine how to best obtain a monthly transaction detail, then use that detail to compare to your internal transaction detail in your Excel spreadsheet.

Additionally, each quarter, GSA produces financial statements. You can utilize the Fund Balance with Treasury on the balance sheet and the to program expenditures on the statement of net cost as additional checks and balances against the figures reported on GSA's Organizational Status Report and other financial data sources.

We conclude this subject with specific comments on the Excel spreadsheet for tracking transaction detail, monitoring budget execution and preparing monthly financial reports:

- Label individual sheets within the workbook. Sheet 1 is Personnel Costs. Sheet 2 is BVA (Budget vs. Actual Report). Sheet 3 is some form of detail sheet. Sheet 4 is Transaction Detail Ledger.



- You need to develop a procedures summary sheet that addresses the source documents for each sheet and the order of operations of data entry. For example, step one is to download transaction detail from FMIS, compare to transactions entered from transmittals, then fill in IPAC payments for rent and telephone, etc. This also can serve as a narrative explanation of the process and footnotes for what is being concluded (Sheet 2 is Column E-F, which is mostly items in transit).
- You need to develop a procedures checklist for collecting and entering data into each sheet. This is most pertinent for Sheet 1 and Sheet 4.
- The workbook contains a significant estimate on sheet 1 cell F3, Staff ASR, which drives formulas. You need a procedure to monitor the accuracy of this estimate. All other estimates are essentially from budget documents.
- You need to develop a standard filing system where you have a monthly report with checklists and supporting documents behind it. Again, this should be prepared and filed consistently, which components in the same order.

### **Check Vendors Against Excluded Parties List**

The Federal government maintains an Excluded Party List System (EPLS) to track individuals and companies that are prohibited from doing business with the Federal government. That system is available on the World Wide Web at:

<http://www.epls.gov/>

During our audit, we did not see any evidence of checking vendors or consultants against the EPLS. Since you have very few vendors, it would easy to do this for: (1) each new vendor, and (2) check all vendors at the beginning of each fiscal year. This step should be added to sections of the related party transaction and conflict of interest policy that you recently updated that pertain to vendors and technical consultants. Below is a suggested addition:

Sentence 2: “Additionally, each prospective staff and consultant candidate needs to be checked against the Federal Government’s Excluded Parties List Service. This will involve checking each of the candidate’s employers within a reasonable time period. If a former employer appears on the Excluded Parties List Service, judgment will need to be applied to determine if the individual in question was in the senior management of the entity at the time of the malfeasance or in any way involved in activities leading to debarment from Federal contracts.”



## **Extend Service Continuity Planning Beyond Information Technology to Human Resources**

The GAO document “Internal Control Management and Evaluation Tool” published August 2001 is an excellent source of internal control standards and self assessment tools. The document contains a section on Risk Assessment that discusses the importance of a number of issues that fall into the general categories of service continuity and succession planning. One of the requirements is that agencies consider the risks of possible natural catastrophes or criminal or terrorist actions and develop data storage, data recovery, and service continuity plans to address the risk of operational disruptions. In this area, NWTRB has very well defined and tested data backup, data recovery, emergency preparedness and disaster recovery plans.

However, the continuity planning concepts utilized for IT disaster recovery has not been extended to personnel continuity. This means evaluating the effectiveness of succession planning for financial operations, a topic we discussed with Dr. Barnard.

The GAO document “Internal Control Management and Evaluation Tool” published August 2001 contains a section on Risk Assessment that discusses the importance of succession planning. The specific internal control standard is:

“Risk identification activities consider certain human capital-related risks, such as the inability to provide succession planning and retain key personnel who can affect the ability of the agency or program activity to function effectively, and the inadequacy of compensation and benefit programs to keep the agency competitive with the private sector for labor.”

Based on the small size of the organization, key person dependencies are abundant and unavoidable. We recommend you evaluate the adequacy of succession planning done to date and develop a plan to do this in a more formal manner. Reviewing succession planning annually would be appropriate.

If you would like some guidance on how to conduct succession planning, the American Productivity and Quality Center (APQC) website contains a wealth of information on best practices. The website is:

[www.apqc.org](http://www.apqc.org)

The website contains a link to the APQC “Succession Management Resource Center.”

Our comments on better documentation of policies and procedures will also serve as a compensating control to key person dependencies.



## **Tracking Auditor Recommendations**

It is expected that the management of each federal agency have policies and procedures in place to track actions taken in response to auditor findings or recommendations. We would like you to prepare a written response to this letter for our files. During next year's audit, we will review progress on the items addressed in this letter.

This letter is intended solely for the information and use of the management of the U.S. Nuclear Waste Technical Review Board and is not intended to be and should not be used by anyone other than management.

*Martin & Wall, P.C.*

Martin & Wall, P.C.  
December 8, 2005

## Appendix A

### Post-Payment Verification and Reconciliation Procedures Checklist



# U.S. Nuclear Waste Technical Review Board

## Post-Payment Verification and Review Procedures

(See Accounting Manual for more details)

**Month Ending:** \_\_\_\_\_

ACTIVITY	INITIALS	DATE
Compare GSA detail report to transmittals submitted. Verify accuracy and completeness of:		
Payment amount		
Payee information (as anti fraud procedure, examine accuracy of names and search for similar names to existing vendors, which is a test for false vendor schemes)		
Date posted (primarily concerned about crossing fiscal years)		
Identify and review any automated payment transactions such as IPAC payments for rent and phones.		
Determine if there are any transactions on the GSA detail report that were not authorized. If yes, note and inquire with GSA.		
Select a sample of transactions transmitted that month, compare to paper files, and verify that there is:		
Proper authorization (signature or initials of person authorized to initiate transactions)		
Proper documentation (original invoice or contract)		
Note any transactions requiring further investigation due to accuracy, completeness, timeliness, or suspicious nature		
Execute procedures for updating financial analysis spreadsheet and preparing monthly financial reports. (See separate procedures checklists for this step).		

Comments:

## Appendix B

### GSA SAS 70 Review Report Analysis



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## **SAS 70 Reports Analysis**

### **U.S. Nuclear Waste Technical Review Board**

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Workpaper 110.1 SAS 70 Reports Analysis  
Audit for FYE September 30, 2005  
Prepared by Dana Barooshian, November 7, 2005

The U.S. Nuclear Waste Technical Review Board (NWTRB) utilizes GSA Heartland as an accounting service provider for transactions processing and financial reporting, and GSA National Payroll Center (NPC) for payroll processing.

This document is a workpaper documenting our analysis of the SAS 70 Reports prepared by PriceWaterhouseCoopers:

- GSA's Heartland Financial Center External Services Division (ESD) and Pegasys Financial Management system, dated September 26, 2005, covering the period of July 1, 2004 – June 30, 2005.
- GSA's National Payroll Center (NPC), Payroll Accounting and Reporting (PAR) system, dated September 26, 2005, covering the period of July 1, 2004 – June 30, 2005.

The reader should not that the SAS 70 reports are designed more as evaluations of information systems security and data processing controls than accounting and financial reporting internal controls.

## **GSA Heartland SAS 70 Report Analysis**

### **I. OVERVIEW OF REPORT FINDINGS**

#### **Entity-Wide Security Management**

GSA Heartland's SAS 70 Report addresses entitywide security on pp. 23-29. No material weaknesses in controls identified in report.

#### **Access Control**

GSA Heartland's SAS 70 Report addresses these issues on pages 30-32. No material weaknesses in controls identified in report.

#### **Application Software Development and Change Control**

GSA Heartland's SAS 70 Report addresses application software development and change control on pp. 40-44. Report identifies a number of deviations from internal control standards, but nothing that results in a material weakness in internal control that would create a significant risk of failure to achieve control objectives.

#### **System Software Control**

GSA Heartland's SAS 70 Report addresses systems software controls on pp. 45-47. No relevant exceptions to control standards reported.

#### **Segregation of Duties**

GSA Heartland's SAS 70 Report addresses segregation of duties on pp. 48-52. Two relevant findings are in the report. SD-2.1 (pg. 50) notes issues with removal of terminated access. More important to an analysis of control effectiveness of the NWTRB financial process, finding SD-2.2, management reviews of effectiveness of control techniques, stated "exceptions were noted regarding supervisory review of source documents. See AN-1.1." AN1.1(pg. 53), source documents are controlled and require authorizing signatures, found evidence of source documents entered with no evidence of review and input of a document that was not signed by an authorizing official.

#### **Service Continuity**

GSA Heartland SAS 70 Report addresses segregation of duties on pp. 66-69. Report presents extensive documentation of data backup, offsite data storage, and disaster recovery plans to ensure service continuity in the event of a disruption. We are satisfied that the accounting service provider is taking adequate steps to ensure service continuity to the NWTRB.

## **Completeness Controls**

GSA Heartland's SAS 70 Report addresses completeness controls on pages 58-60. No relevant exceptions to control standards reported.

## **Accuracy Controls**

GSA Heartland's SAS 70 Report addresses accuracy controls on pages 61-65. No relevant exceptions to control standards reported.

## **II. SALIENT ISSUES TO NWTRB AUDIT**

### **Scope Limitations**

The SAS 70 Report addressed on a narrow range of financial outputs from GSA Heartland and its Pegasys System and GSA Heartland (page 15-18). When combined with the internal control expectations GSA has of its clients (p. 19), there is a breakdown in the integration of client and GSA control systems, which we will elaborate on momentarily.

First, the table below shows the range of functionality vs. report coverage.

#### **Pegasys Functionality**

Budgeting  
Planning  
Purchasing  
Accounts Payable  
Accounts Receivable  
Automated Disbursements  
General System  
General Ledger  
Credit Card  
Vender  
External Reports

#### **Pegays Outputs Covered in SAS 70 Review**

Open Items Reconciliation  
Organizational Status Report  
Trial Balance  
Disbursing Office (DO File)

The SAS 70 Report specifically states on page 15 that external reports (i.e. the principal financial statements – balance sheet, statement of net cost, statement of changes in net position, statement of budgetary resources, and statement of financing) are prepared based on information from Pegasys, but that evaluating the accuracy, completeness and timeliness of the principal financial statements is beyond the scope of the audit (as is accounts receivable). This is a significant scope limitation that reduces the ability to rely upon this report. We offset this scope limitation by obtaining a data export of the general ledger and conducting more extensive testing than required by materiality thresholds.

## **Controls GSA Expects its Customer to Have in Place**

Listed as “Customer Control Considerations” on page 19, PWC states that the control effectiveness at GSA Heartland is dependent upon its customers having appropriate controls in place. Eight specific internal controls are provided as a partial list.

Controls listed relevant to NWTRB audit are:

- Controls to provide reasonable assurance that transactions are input and processed completely and accurately.
- Controls to provide reasonable assurance that output reports accurately and completely reflect the information supplied to the External Services Division.
- Controls to provide reasonable assurance that any significant obligation, accrual or payment anomalies affecting budgeted amounts are identified and resolved in a timely manner.

All of these controls can be easily accomplished with a formal post-payment verification and review process that contains a set of procedures to compare source documents and transmittals to general ledger detail reports from Pegasys showing all transactions processed in a given month. This process would be similar to reconciling your bank account and is a key feature of any accounting system.

This reconciliation and review process does not occur, for the following reasons:

- GSA Heartland does not provide its customers with general ledger details showing all transactions processed in a given period. As part of our audit procedures, we requested this in the form of a data export to Excel, which we received. However, significant formatting was required to make it useable.
- Data entry of ACT numbers and vendor information is incomplete. ACT numbers are the unique identifiers of payment batches submitted to GSA Heartland for processing. Our test of transactions reviewed that ACT numbers were often skipped on data entry, and when they were entered, it could be in any of five different data elements. This made sourcing and vouching more difficult than it needed to be, but we were able to do it.

## **Recommendation**

Develop comments in management letter on need for post-payment reconciliation and review process, and the needs for GSA Heartland to address these two issues for that to happen.

## **GSA National Payroll Center**

This report provides a thorough documentation of processes and controls in place for payroll processing organized in the same categories as the GSA Heartland report discussed above.

The report listed findings in the following areas:

**Access Controls** AC-3.2 – C (pg. 38-39) identified one issue of user rights exceeding level of authority and one issue of non-security personnel being able to administrative roles for other users. This finds cross reference to SS-1.1 on page 51.

**Completeness Controls** CP-1.1 (pg. 67) identified that there are no control totals to ensure accuracy of data being sent or received between PAR (Payroll Accounting and Reporting) and ETWANS (Electronic Time and Attendance System). Record counts and control totals is an internal control standard not in place.

Other than these items, the report shows the payroll process to be in conformity with internal control standards.