

OFFICE OF INSPECTOR GENERAL

Audit Report

Review of the Technical Approach and Methodology Used
to Determine the Annual Financial Interchange Amount
for the Year Ended September 30, 2008

This report was prepared by KPMG LLP, under contract to the U.S. Railroad Retirement Board, Office of Inspector General, and by acceptance, it becomes a report of the Office of Inspector General.

Original Signed by....

Martin J. Dickman
Inspector General
U.S. Railroad Retirement Board

Report No. 10-07
May 19, 2010



RAILROAD RETIREMENT BOARD



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**Independent Accountants' Report
on Applying Agreed-Upon Procedures**

Office of Inspector General
U.S. Railroad Retirement Board:

We have performed the procedures enumerated in the attached Exhibit, which were agreed to by the Office of Inspector General (OIG) of the U.S. Railroad Retirement Board (RRB), solely to assist you in evaluating the technical approach and methodology underlying the Financial Interchange (FI) between RRB and the Social Security Administration, and between RRB and the Centers for Medicare and Medicaid Services for the year ended September 30, 2008. RRB's management is responsible for the FI technical approach and methodology, and the resulting calculations. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards applicable to attestation engagements contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The sufficiency of these procedures is solely the responsibility of the RRB OIG. Consequently, we make no representation regarding the sufficiency of the procedures described in the attached Exhibit either for the purpose for which this report has been requested or for any other purpose. Our procedures and findings are summarized in the Exhibit.

We were not engaged to, and did not, conduct an examination, the objective of which would be the expression of an opinion on the technical approach and methodology underlying the FI calculation as performed by RRB. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the RRB OIG and RRB management, and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

May 14, 2010

Agreed-Upon Procedures and Findings for the Analysis of the Technical Approach and Methodology underlying the 57th Determination of the Financial Interchange (FI)

Procedure 1

Analyze the methodology underlying the FI calculation.

- a. Obtain an understanding of the FI determination methodology and process to determine whether the RRB Bureau of the Actuary's FI methodology is designed to adhere to the requirements set forth in section 7(c)(2) of the Railroad Retirement Act of 1974, as amended (RRA).

Findings

We analyzed the methodology underlying the FI calculation.

- a. We obtained an understanding of the FI determination methodology¹ and process and determined that the FI methodology, as designed by RRB, adheres to the requirements set forth in the RRA.

Procedure 2

Assess whether the methodology is implemented as designed.

- a. Analyze the RRB FI data models, and data inputs and outputs employed by the RRB in the FI determination, to determine if the FI methodology has been implemented as designed.

Findings

We assessed whether the methodology is implemented as designed.

- a. We analyzed the RRB FI data models, and data inputs and outputs employed by the RRB in the FI determination, and determined that the FI methodology has been implemented as designed.

Procedure 3

Analyze assumptions and their impact.

- a. Identify the assumptions contained within the FI determination model, analyze the assumptions, and assess the impact of these assumptions on the FI calculation.

Findings

We analyzed the FI process assumptions and their impact.

- a. We identified assumptions contained within the FI determination model (described in further detail below), analyzed the assumptions, and assessed the impact of these assumptions on the FI calculation. Each assumption influences the FI calculations. Therefore, if the assumptions are not reasonable the risk increases that the process used in determining the FI determination amounts will be unreliable.

¹ The purpose of the RRA is to mandate that the RRB and the Secretary of Health and Human Services determine the position that the Federal Old-Age and Survivors Insurance, the Federal Disability Insurance, and the Federal Hospital Insurance Trust Funds would be in if the RRA did not exist and employment covered under the RRA was instead covered under the Social Security Act, the Federal Insurance Contributions Acts and Medicare/Medicaid.

Agreed-Upon Procedures and Findings for the Analysis of the Technical Approach and Methodology underlying the 57th Determination of the Financial Interchange (FI)

The FI model assumptions identified and analyzed include:

- i) The data sources serving as inputs to the FI calculation (the Payment Rate and Entitlement History and Employment Data Maintenance databases, specifically) are sufficiently complete and accurate to produce reliable estimates.
- ii) The FI methodology produces an accurate estimate of the impact on the Federal Old-Age and Survivors Insurance (OASI), the Federal Disability Insurance (DI) and Federal Hospital Insurance (HI) Trust Funds, if employment under RRA had been covered under the Social Security Act (SSA), and that any changes in the SSA or Medicare/Medicaid, such as changes in benefits eligibility, will be acknowledged and accurately incorporated into the FI calculation by the RRB Bureau of the Actuary.
- iii) The use of statistical sampling methods in the FI determination is appropriate and/or necessary because of an excessively costly computational burden or data availability constraints.
- iv) In relying on sampling to calculate Social Security Equivalent Benefits (SSEB) and Medicare/Medicaid taxes, the samples are representative of the populations from which they are pulled and sampling error is small enough to produce reliable estimates.
- v) The current stratification method is a sufficiently reliable sampling method for the Benefits calculation.
- vi) It is appropriate to assume that the mode and timing of benefit payments would be similar for the SSA and RRA annuitant populations.
- vii) Recent history is a reasonable predictor of the near future, as relates to forward-looking projections, for example:
 - The Bureau of the Actuary assumes that the future change in OASI and DI benefits for the projected 9 months can be predicted accurately by applying the percent increase of actual SSEB benefits during that period to the actual FI benefits as of December of the determination year. The Bureau of the Actuary then uses a geometric series to distribute the projected benefit amounts across the months.
 - The Bureau of the Actuary assumes that the lump sum benefits remain constant in the short term.
- viii) Errors are minimized in the FI calculation.

We determined that the above assumptions are reasonable. However, the documentation of the process is insufficient for a knowledgeable third party to replicate the FI process without verbal explanation from Bureau of the Actuary employees.