

OFFICE OF INSPECTOR GENERAL
Audit Report

**Audit of Internal Controls over Medicare Premium
Transfers Between the Railroad Retirement Board
and Centers for Medicare and Medicaid Services**

Report No. 10-09
May 21, 2010



RAILROAD RETIREMENT BOARD

TABLE OF CONTENTS

INTRODUCTION	1
Background	1
Objectives	2
Scope	2
Methodology	2
RESULTS OF AUDIT	4
Completeness of Transfers	4
Recommendations	5
Management’s Response	5
Accuracy of Funds Transfer Requests is Not Ensured.....	5
Recommendations	6
Management’s Response	6
Timeliness of Transfer Requests Needs Improvement.....	6
Recommendation.....	8
Management’s Response	8
Segregation of Duties.....	8
Recommendation.....	8
Unauthorized Individuals Prepare and Certify Funds Transfer Requests.....	9
Recommendation.....	9
Management’s Response	9
Corrective Actions for Excess Medicare Premiums Payments and Medicare Premium Refunds.....	10
Recommendations	11
Management’s Response	11
Documented Internal Controls.....	12
Recommendations.....	13
Management’s Response	13
ATTACHMENT 1	14
Office of Programs’ Management Response.....	14

INTRODUCTION

This report presents the results of the Office of Inspector General's (OIG) audit of the internal controls for Medicare premium transfers between the Railroad Retirement Board (RRB) and the Centers for Medicare and Medicaid Services (CMS).

Background

The RRB is an independent agency in the executive branch of the Federal government. The RRB administers retirement and survivor benefit programs for railroad workers and their families that provide income protection for aged and disabled annuitants. RRB annuitants receive monthly benefit payments and the RRB has authority to determine which RRB annuitants meet eligibility requirements for Medicare. Medicare premium amounts are established by law and the RRB withholds Medicare Part B premiums from the annuitant's monthly benefit payment. The RRB periodically transfers the premiums that were withheld to CMS.¹ Likewise, CMS reimburses the RRB when retroactive Medicare premium adjustments occur and when excessive premiums may have been transferred. The RRB Medicare premium withholdings for fiscal years 2009 and 2008 totaled \$488 million and \$490 million, respectively.

The Office of Programs administers various aspects of the Medicare program. Within the Office of Programs, the Programs Support Division is responsible for requesting Medicare premium transfers between the Railroad Retirement Act (RRA) trust funds and the Medicare account. The RRB uses Standard Form 1081, Voucher and Schedule of Withdrawals and Credits, to record the funds transfer requests (transfer requests). The Bureau of Fiscal Operations (BFO) is responsible for executing the transfer of funds based on documentation provided by the Office of Programs.

The RRB established a process which requires the periodic test of internal controls by the organizational units responsible for day-to-day operations. During a test of internal controls in December 2008, the Office of Programs was unable ensure that the RRB was reimbursed by CMS for retroactive Medicare premium adjustments for funds previously issued from RRA trust funds. The Office of Programs found that the RRB had not requested reimbursement from CMS for these refunds for many years. The Office of Programs found that excessive funds were transferred to CMS due to overlapping Medicare premium totals being reported from two separate sources. As a result of these inaccurate or missing premium transfers, the RRB received approximately \$24 million for the period June 1995 through July 2009. The Office of Programs developed new procedures and implemented new controls to address these issues.

¹ 42 USC § 1395s (b)

This audit was undertaken as a result of the internal control issues identified by the Office of Programs during their review of Medicare premium transfers. According to the “Standards of Internal Control in the Federal Government”, internal control is an integral component of an organization’s management that provides reasonable assurance that the following objectives are being achieved: effectiveness and efficiency of operations, reliability of financial reporting, and compliance with applicable laws and regulations. Internal control is a major part of managing an organization. It comprises plans, methods, and procedures used to meet missions, goals, objectives and, in doing so, supports performance-based management. Internal control also serves as the first line of defense in safeguarding assets and preventing and detecting errors and fraud.² This audit addresses the RRB’s strategic objective to ensure the effectiveness and efficiency of operations.

Objectives

The audit objectives were to:

- determine if internal controls were properly designed and placed in operation to ensure the accuracy, timeliness and completeness of Medicare premium fund transfers between the RRB and CMS; and
- determine the completeness of the controls used to identify and correct the Medicare refunds and excessive premium payments.

Scope

Our scope was limited to the internal controls for:

- Medicare premium transfers for the period October 2009 through December 2009; and
- the process used by the Office of Programs during calendar year 2009 for Medicare refunds from CMS to the RRB and excessive premium funds transfers from the RRB to CMS.

Methodology

To accomplish the audit objectives, we:

- interviewed RRB staff;
- reviewed applicable laws, regulations and agency procedures,
- gained an understanding of internal controls,
- tested internal controls for proper design and placement in operation,

² “Standards for Internal Control in the Federal Government,” GAO/AIMD 00-21.3.1 (11/99) page 4.

- reviewed supporting documentation for Medicare premium fund transfers and
- tested internal controls for proper design and placement in operation, including the review of the accuracy, timeliness and completeness of transfers made between the RRB and CMS.

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. Fieldwork was conducted from December 2009 through April 2010 at RRB headquarters in Chicago, Illinois.

RESULTS OF AUDIT

Our review determined that the Office of Programs' internal controls over Medicare premium transfers:

- are not properly designed or placed in operation to ensure the accuracy, timeliness and completeness of Medicare premium fund transfers between the RRB and CMS, and
- were not properly designed to ensure the completeness of the identification and correction of the Medicare refunds and the excessive premium payments.

The details of our findings and recommendations for corrective action follow.

Completeness of Transfers

The Office of Programs has no assurance that all of their transfer request forms are received and executed by BFO.

A variety of control activities are used in information processing. Examples include edit checks of data entered, accounting for transactions in numerical sequences, comparing file totals with control accounts, and controlling access to data, files, and programs. Control activities help to ensure that all transactions are completely and accurately recorded.³

Throughout the three-month test period 235 separate transfer requests were prepared by the Programs Support Division. The Programs Support Division delivers the transfer requests to a BFO incoming tray, from which BFO staff retrieves the documents, executes the transfer requests and posts the transactions in the RRB's financial records. BFO obtains and documents confirmation of the transaction in their records. However, the Programs Support Division does not obtain a copy of the confirmation because it is not required by agency procedures. We also found that there is no sequential numbering system for the individual transfer requests and batch totals are not used during processing.

Our tests of transactions disclosed one transfer request that had been prepared by the Programs Support Division but the actual funds transfer had not been executed by BFO staff. The Office of Programs was unaware of this unexecuted transfer because they do not secure confirmations for these transactions. Other unexecuted funds transfers could exist.

³ "Standards for Internal Control in the Federal Government," GAO/AIMD 00-21.3.1 (11/99) pages 13, 14 and 15.

Recommendations:

We recommend that the Office of Programs:

1. develop and implement controls to ensure the completeness of the transfer requests delivered to BFO, and
2. strengthen internal controls to ensure that funds transfer confirmations are reconciled to the transfer requests.

Management's Response

The Office of Programs concurs with the recommendations and has agreed to develop and implement the recommended controls. The Office of Programs has also agreed to strengthen controls to ensure that funds transfer confirmations are reconciled to the transfer requests. The full text of management's response is provided as Attachment 1.

Accuracy of Funds Transfer Requests is Not Ensured

Internal controls do not ensure the accuracy of the transfer requests or provide certainty that the transfer requests are always prepared.

Documented agency procedure provides specific instructions for the preparation of the transfer request forms, such as the basis for the creation of the voucher number and computation of the amounts to be recorded on the request forms.

Our tests disclosed many inaccuracies in the funds transfer requests which totaled more than \$3.2 million from the period October 2009 through December 2009. For example, we found that:

- agency procedure is not always followed and errors are not always detected during the review and approval process,
- agency procedures does not always require a complete set of supporting documentation to be maintained for, and attached to, each transfer request,
- some essential source documents are not always used when required,
- some transfer requests could not be validated because the primary support for the transfer requests was not maintained in its entirety and could not be reproduced,
- many of the transfer requests contained an inaccurate manually created voucher number, which impacts the ability to trace a recorded funds transfer to the originating transfer request, and

- one transfer request submitted to and processed by BFO did not contain the signature of the certifying officer.

Additional inaccuracies could exist as a result of these internal control deficiencies.

Recommendations:

We recommend that the Office of Programs:

3. strengthen internal controls to ensure that agency procedure is followed for the preparation of the funds transfer request forms,
4. revise agency procedures to require that source documents be attached and maintained as supporting documentation for the funds transfer requests,
5. strengthen the review process to ensure the accuracy of the preparation of the funds transfer request forms,
6. lengthen the required retention period for essential supporting reports, and
7. take corrective action for the noted error cases.

Management's Response

The Office of Programs concurs with Recommendations Nos. 3, 5, 6, and 7. Specifically, the Office of Programs has agreed to:

- strengthen controls to ensure that agency procedure is followed in the preparation of the funds transfer request forms,
- strengthen the review process to better ensure the accuracy of funds transfer requests,
- review applicable records retention schedules and determine what additional action may be necessary to ensure that essential supporting records are retained for an appropriate period; and
- finalize the correction process.

The Office of Programs has also agreed with Recommendation No. 4 and plans to revise procedures to require that source documents be maintained to support certification of the transfer request. The full text of management's response is provided as Attachment 1.

Timeliness of Transfer Requests Needs Improvement

Medicare premium transfer requests are generally not processed within acceptable timeframes. In the absence of agency timeliness standards, we

considered a transfer request timely, based on the type of transaction, if it was prepared within the following time standards:

Transfer Requests Resulting from the Automated Medicare Adjustment Program

This type of refund is due from CMS after a refund check has been issued to the annuitant from the RRB on the first day of the month. We considered a refund timely if the transfer request was prepared by the second business day of the month. We found that 62% of these transfer requests were not prepared within this time standard. The transfer requests were prepared as much as two weeks after the RRB issued the refund check.

Transfer Requests Resulting from Manually Issued Refunds and Returned Payments

These types of Medicare premium transfers result from manually issued refunds and returned payments. Since these transactions had already occurred, we applied a one-day standard for the transfer requests prepared based on system generated reports. We found 17% of the transfer requests were not prepared within this time standard. The transfer requests related to manually issued refunds were processed as much as four days late and the returned payment items were processed as much as two months late.

Transfer Requests Resulting from Non-Entitlement

Other transfer requests are based on the receipt of an additional transfer request form that is associated with a particular annuitant. These additional transfer request forms are manually prepared by and received from the Survivor Benefits Division within the Office of Programs. We considered these manually prepared requests timely if they were prepared within five business days. We found that 59% of these transfer requests were prepared as much as 60 days after entitlement ended.

Transactions should be 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 the initiation and authorization through its final classification in summary records.⁴

Delays could result in all of the necessary transfer requests not being prepared, which could impact agency trust funds. Delays could also impact the timeliness of recording financial transactions.

⁴ "Standards for Internal Control in the Federal Government," GAO/AIMD-00-21.3.1 (11/99) page 15.

Recommendation:

We recommend that the Office of Programs:

8. establish a timeliness standard for the processing of transfer requests.

Management's Response

The Office of Programs concurs with the recommendation and has agreed to establish timeliness standards for transfer requests. The full text of management's response is provided as Attachment 1.

Segregation of Duties

Existing controls over transfer requests are not effective to ensure proper segregation of duties. Our tests of transactions disclosed three instances where the funds transfer requests were prepared and certified by the same individual.

Key duties and responsibilities need to be divided or segregated among different people to reduce the risk of error or fraud. This should include separating responsibilities for authorizing transactions, processing and recording them, reviewing the transactions, and handling key related assets. No one individual should control all key aspects of a transaction or event.⁵

Agency procedure does not always address the need for separate preparers and reviewers as provided in other funds transfer procedures.

Without proper segregation of duties, the possibility of error or fraud exists.

Recommendation:

We recommend that the Office of Programs:

9. strengthen its internal controls to ensure proper segregation of duties.

Management's Response

The Office of Programs disagrees with the auditor's findings that one individual controls all key aspects of a transaction and the possibility of fraud exists, but the Office of Programs plans to review the current preparation and certification practices for funds transfers, identify practices that will provide for adequate

⁵ Standards for Internal Control in the Federal Government," GAO/AIMD-00-21.3.1 (11/99) page 14.

separation of duties, and update procedure as necessary. The full text of management's response is provided as Attachment 1.

Unauthorized Individuals Prepare and Certify Funds Transfer Requests

Internal controls are not sufficient to ensure that only properly authorized individuals prepare and authorize funds transfer request forms. During our review, we found many transfer requests that were prepared or certified by individuals not officially designated to process these transactions per Office of Programs' procedure.

Transactions and other significant events should be authorized and executed only by persons acting within the scope of their authority. This is the principal means of assuring that only valid transactions to exchange, transfer, use, or commit resources and other events are initiated or entered into. Authorizations should be clearly communicated to managers and employees.⁶

We were advised that due to the limited staff size in the Programs Support Division, employees other than those designated to perform those functions are permitted to prepare funds transfer requests.

The potential for error increases when staff performs job functions that they are not officially authorized to perform or have not received proper training. The potential for fraud increases when unauthorized staff is allowed to sign off on documents that can potentially provide access to or legally obligate the assets of the agency. Preparation of transfer requests by preparers and certifiers other than those designated in Office of Programs procedure can give the impression of impropriety.

Recommendation:

We recommend that the Office of Programs:

10. strengthen its internal controls to ensure that only employees officially designated as having authority to prepare or certify funds transfer requests be allowed to perform this function.

Management's Response

The Office of Programs concurs with the recommendation and will update procedures to clarify which positions are authorized to perform this function. The full text of management's response is provided as Attachment 1.

⁶ "Standards for Internal Control in the Federal Government," GAO/AIMD-00-21.3.1 (11/99) pages 14 and 15.

Corrective Actions for Excess Medicare Premiums Payments and Medicare Premium Refunds

The Office of Programs found that the RRB was not being reimbursed by CMS for retroactive Medicare premium adjustments for funds previously issued from RRA trust funds. They also found that excessive funds were transferred to CMS due to overlapping Medicare premium totals being reported from two sources. As a result of these issues and corrective actions taken by the RRB, approximately \$24 million was refunded to the RRA trust fund account from the Medicare account.

Our review determined that the internal controls over the identification and correction of the excess Medicare premium transfer amounts and Medicare premiums refunded to the RRB were inadequate to ensure the completeness of the corrective actions taken.

Although we were advised that an informal, undocumented review took place for the financial data, we did not find evidence of a documented plan of controls, procedures or approvals, a complete supervisory review and record of the review and approval process, or reconciliation to confirm transfer amounts.⁷

Internal Control and all transactions and other significant events need to be clearly documented and the documentation should be readily available for examination. The documentation should appear in management directives, administrative policies, or operation manuals and may be in paper or electronic form. All documentation and records should be properly managed and maintained. In addition, control activities help to ensure that all transactions are completely and accurately recorded.⁸

Excess Medicare Premiums Payments

We found that the Office of Programs did not utilize confirmation reports of prior transactions when identifying and calculating the excess Medicare premium amounts to be transferred back to the RRB. Instead, the calculation of the Medicare premium amounts to be transferred back to the RRB from CMS was based on transfer requests prepared by the Office of Programs, but were not noted as having been reconciled to confirmed transfer amounts. As a result,

⁷ In conjunction with the OIG's Auditor's Reports for the RRB's financial statements for fiscal years ended September 30, 2009 and 2008, the OIG reported a material weakness for internal controls over non-integrated sub-systems because internal controls do not ensure the completeness of transactions originating in non-integrated sub-systems. "Report on the Railroad Retirement Board's FY 2009 Financial Statements", OIG Report #10-02, pages 102 and 103.

⁸ "Standards for Internal Control in the Federal Government," GAO/AIMD-00-21.3.1 (11/99) page 15.

there is no reasonable assurance that the calculated amount of the \$15.7 million in excessive premium payments refunded to the RRB during fiscal year 2009 is complete or accurate.

Medicare Premium Refunds

We found no evidence of documented internal controls related to the process and procedures that the Office of Programs applied regarding the identification and calculation of Medicare premium refunds that were refunded back to the RRB. There was no evidence of a plan of controls, an audit trail of the review and approval process or a complete supervisory review. As a result, there is no reasonable assurance of the completeness of the \$8.7 million in Medicare premium refunds reimbursed to the RRB during fiscal year 2009.

Recommendations:

We recommend that the Office of Programs:

11. secure confirmation reports and test the accuracy of the calculation of the amount of funds transferred back to the RRB from CMS and take any necessary corrective actions, and
12. conduct an independent study to determine the completeness of the identification and calculation of the amounts refunded from CMS.

Management's Response

In regard to Recommendation No. 11, the Office of Programs disagrees with the auditor's finding that the process offered "no reasonable assurance" but they do agree that securing confirmation reports as described in the report and comparing them to the related transfer requests would have strengthened the process and they plan to complete this test next month. The full text of management's response is provided as Attachment 1.

The Office of Programs disagrees with the OIG's finding and rejects Recommendation No. 12. The Office of Programs stated that they believe that their management has adequate assurance that the amount reimbursed is complete because a coordinated methodical approach was used to determine the amount refunded. The Office of Programs also stated that the OIG did not identify any errors related to the \$24.5 million reimbursed to the RRB by CMS and Recommendation No. 11, which they have agreed to implement, addresses nearly two-thirds of that amount. The Office of Programs also stated that they believe that their approach to identify these transactions provided reasonable assurance that no material errors occurred during the process. Additionally, the Office of Programs stated that they believe that their actions provided reasonable

assurance in all regards and that no further action is necessary. The full text of management's response is provided as Attachment 1.

OIG's Comments on Management's Response

The OIG did not report any errors related to the \$24.5 million because we did not audit the calculation of this reimbursement. Our audit objective was to determine the completeness of the controls used to identify and correct the Medicare refunds and excessive premium payments. In their written response for this recommendation, the Office of Programs states that their coordinated methodical approach provides assurance that the amount reimbursed is complete. We found that the Office of Programs' methodical approach did not meet GAO Standard of Internal Controls in the Federal Government. There was no evidence of a documented plan of controls, procedures or approvals, a complete supervisory review, an audit trail of the review and approval process, or reconciliation to confirm transfer amounts.

Per the GAO Standards of Internal Controls in the Federal Government, control activities occur at all levels and functions of the entity. They include a wide range of diverse activities such as approvals, verifications, reconciliations, performance reviews, maintenance of security, and the creation and maintenance of related records which provide evidence of execution of these activities as well as appropriate documentation. As previously stated, we stand by our position that without these documented controls, there is no reasonable assurance of the completeness for the \$24.5 million reimbursement. An independent study would be beneficial to determine the completeness and accuracy of the reimbursed amount.

Documented Internal Controls

Our audit found that management control documentation for the Transfer of Funds and RRA Benefit Payment assessable units does not provide agency management with a reasonable standard of internal controls that is consistent with the Government Accountability Office (GAO) Standards of Internal Control for the Federal Government. This occurs because the documented objectives and control techniques focus more on agency operations and less on internal controls. For example, management control documentation for the Transfer of Funds assessable unit does not address segregation of duties, proper execution of transactions and events and the completeness of recording transactions.

The Management Control Review Committee is responsible for overseeing a process to identify and eliminate management control weaknesses. The committee is also responsible for ensuring the accuracy and completeness of reports on management controls.

The RRA Benefits Payment assessable unit is responsible for creating procedure for the Transfer of Funds assessable unit. They are also responsible for various agency systems that result in reports used as the basis for different types of transfer requests. One of the objectives provided in their chart of controls is to “ensure the accuracy of transfer of funds processes.”

Control activities include policies, procedures and mechanisms in place to help ensure that agency objectives are met. Several examples include: proper segregation of duties (separate personnel with authority to authorize a transaction, process the transaction, and review the transaction); physical controls over assets (limited access to inventories or equipment); proper authorization; and appropriate documentation and access to that documentation.⁹

The risk of error or fraud increases without the development and implementation of GAO internal control standards. Agency management could place too much reliance on the incorrect control objectives and the incomplete control techniques. In addition, control deficiencies could go undetected if the applicable controls are not listed and tested.

Recommendations:

We recommend that the Office of Programs:

13. work with the Management Control Review Committee to revise management control documentation for the Transfer of Funds and the RRA Benefit Payments assessable units to be consistent with GAO guidance for internal controls, and
14. work with the Management Control Review Committee to revise the objectives and control techniques to accurately depict organizational responsibilities of the Transfer of Funds and RRA Benefit Payments assessable units.

Management's Response

The Office of Programs concurs with the recommendations and plans to review and update management control documentation for these assessable units. The full text of management's response is provided as Attachment 1.

⁹ OMB Circular A-123, *Management's Responsibility for Internal Control*, Section II.C, page 8.



UNITED STATES
GOVERNMENT
MEMORANDUM

ATTACHMENT 1

FORM G-115f (1-92)
RAILROAD RETIREMENT BOARD

MAY 17 2010

TO: Diana Krueel
Acting Assistant Inspector General for Audit

FROM: Catherine A. Leyser *Catherine A. Leyser*
Director of Assessment and Training

THROUGH: Dorothy Isherwood *D. Isherwood*
Director of Programs

SUBJECT: **Draft Report –Internal Controls Over RRB-CMS Medicare Premium Transfers**

Internal Controls Over RRB-CMS Medicare Premium Transfers

**Overall
Comments**

The Office of Programs generally agrees with the Office of Inspector General's (OIG) recommendations to strengthen controls over the current funds transfer process. We value their input to this process, which had just undergone a period of transition and change that made it more vulnerable to non-conformance and error.

However, we disagree with the OIG's conclusions concerning the recent correction of past errors in the Medicare premium transfer process. The Office of Programs identified those errors through an internal review process and corrected them timely and accurately using proven methods. We believe that we were fully effective in this area.

**Recommendation
1**

We recommend that the Office of Programs develop and implement controls to ensure the completeness of the transfer requests delivered to BFO.

**Office of
Programs
Response**

We concur. We will develop and implement the recommended controls by September 30, 2010.

**Recommendation
2**

We recommend that the Office of Programs strengthen internal controls to ensure that funds transfer confirmations are reconciled to the transfer requests.

**Office of
Programs
Response**

We concur. We will strengthen controls to ensure that funds transfer confirmations are reconciled to the transfer requests by September 30, 2010.

**Recommendation
3**

We recommend that the Office of Programs strengthen internal controls to ensure that agency procedure is followed for the preparation of the funds transfer request forms.

**Office of
Programs
Response**

We concur. We will strengthen controls to ensure that agency procedure is followed in the preparation of the funds transfer request forms by September 30, 2010.

**Recommendation
4**

We recommend that the Office of Programs revise agency procedures to require that source documents be attached and maintained as supporting documentation for the funds transfer requests.

**Office of
Programs
Response**

We agree that source documents should be maintained in the Office of Programs as an attachment to the SF-1081 to support certification of the transfer request. We will revise our procedures as necessary by September 30, 2010.

**Recommendation
5**

We recommend that the Office of Programs strengthen the review process to ensure the accuracy of the preparation of the funds transfer request forms.

**Office of
Programs
Response**

We concur. We will strengthen the review process to better ensure the accuracy of funds transfer requests by September 30, 2010.

**Recommendation
6**

We recommend that the Office of Programs lengthen the required retention period for essential supporting reports.

**Office of
Programs
Response**

We concur. We will review applicable records retention schedules and determine what additional action may be necessary to ensure that essential supporting reports are retained for an appropriate period. We will make this determination by September 30, 2010.

**Recommendation
7**

We recommend that the Office of Programs take corrective action for the noted error cases.

**Office of
Programs
Response**

We concur. We are finalizing the correction process and expect to complete action on this recommendation by June 30, 2010.

Recommendation 8 We recommend that the Office of Programs establish a timeliness standard for the processing of transfer requests.

Office of Programs Response We concur. We will establish timeliness standards for transfer requests by September 30, 2010.

Recommendation 9 We recommend that the Office of Programs strengthen its internal controls to ensure proper segregation of duties.

Office of Programs Response Although we disagree with the auditor's findings that one individual controls all key aspects of a transaction and the possibility of fraud exists, we will review the current preparation and certification practices for funds transfers, identify practices that will provide for adequate separation of duties, and update procedure as necessary by September 30, 2010.

Recommendation 10 We recommend that the Office of Programs strengthen its internal controls to ensure that only employees officially designated as having authority to prepare or certify funds transfer requests be allowed to perform this function.

Office of Programs Response We concur. We will update procedures to clarify which positions are authorized to perform this function by September 30, 2010.

Recommendation 11 We recommend that the Office of Programs secure confirmation reports and test the accuracy of the calculation of the amount of funds transferred back to the RRB from CMS and take any necessary corrective actions.

Office of Programs Response Although we disagree with auditor's finding that the process offered "no reasonable assurance," we do agree that securing confirmation reports as described in the report and comparing them to the related transfer requests would have strengthened the process. We expect to complete this test by June 30, 2010.

Recommendation 12 We recommend that the Office of Programs conduct an independent study to determine the completeness of the identification and calculation of the amounts refunded from CMS.

**Office of
Programs
Response**

We disagree with the OIG's finding and reject the recommendation. We believe that Office of Programs management has adequate assurance that the amount reimbursed is complete because a coordinated methodical approach was used to determine the amount refunded. In addition, the OIG did not identify any errors related to the \$24.5 million reimbursed to the RRB by CMS and recommendation #11, which we have agreed to implement, addresses nearly two-thirds of that amount.

In July 2009, during a routine review of operational controls, the Office of Programs observed that errors had occurred in the process for transferring Medicare premiums to the Centers for Medicare and Medicaid Services (CMS). Office of Program's acted immediately to identify the cause of these errors and to recover monies due to the RRB's trust funds. Approximately \$24.5 million due the RRB was identified using a methodical and well coordinated approach during which we:

- identified the underlying cause of the fund transfer errors and the timeframes during which errors occurred,
- reviewed applicable technical files and other relevant documentation;
- consulted with statistical, systems, and procedural experts;
- analyzed each problem area to determine the most effective approach;
- detailed an approach to each problem area based on availability of data;
- produced results based on the planned approaches;
- obtained senior Office of Programs management approval for the request to CMS;
- briefed all levels of agency management, including Board offices; and
- briefed CMS senior staff, responded to their questions and secured their concurrence.

The \$24.5 million transferred to the RRB was fully supported by individual transactions documented in the agency's records. The details of these transactions were shared with CMS at the time the funds were requested. We believe that our approach to identifying these transactions provided reasonable assurance that no material errors occurred during the process.

- The transactions supporting the \$8.7 million in unreimbursed premium refunds were identified by extract from automated systems of which more than 70% required no manual intervention to determine their dollar value.
- Only a minority (\$2.4 million) required additional manual efforts to determine the dollar amount which effort was closely monitored.
- The balance of \$15.7 million was related to only 31 readily identifiable transactions: one transaction per month during each of 31 months. Although summarized manually, the number of months impacted is not in question and OIG recommendation #11 already addresses this component of the refund.

We believe that our actions provided reasonable assurance in all regards and that no further action is necessary.

Recommendation 13 We recommend that the Office of Programs work with the Management Control Review Committee to revise management control documentation for the Transfer of Funds and the RRA Benefit Payment assessable units to be consistent with GAO guidance for internal controls.

Office of Programs Response We concur. We will review and update management control documentation for these assessable units. We will work with MCRC to establish a target date for completion of that process by September 30, 2010.

Recommendation 14 We recommend that the Office of Programs work with the Management Control Review Committee to revise the objectives and control techniques to accurately depict organizational responsibilities of the Transfer of Funds and the RRA Benefit Payment assessable units.

Office of Programs Response We concur. We will review and update management control documentation for these assessable units. We will work with MCRC to establish a target date for completion of that process by September 30, 2010.

cc: Director of Policy and Systems
Director of Operations
Chief Financial Officer
Management Control Review Committee