

Review of Vested Dual Benefits Appropriations Report No. 98-15, June 16, 1998

This report presents the results of the Office of the Inspector General's (OIG) audit of the Railroad Retirement Board's (RRB) Vested Dual Benefits Appropriations process and the Quarterly Benefit Account Adjustments process.

Background

The Railroad Retirement Act of 1974 eliminated the advantage of railroad workers qualifying for both railroad retirement and social security benefits over those railroad workers only qualifying for railroad benefits. However, it was not considered fair to penalize those individuals who had already qualified under the previous guidelines. The Act re-established the payment of social security benefits to those individuals who were retired or near retirement, and were considered vested when the 1974 Act became effective. The restored amount is called the vested dual benefit or windfall.

Each year as part of its budget submission, the RRB requests an appropriation for vested dual benefits. The agency bases the projections and assumptions used in the preparation on similar information necessary to complete the Triennial Actuarial Valuations. Section 15(g) of the Railroad Retirement Act of 1974 requires that the RRB, at intervals not longer than three years, estimate the liabilities created by the Act and include the estimates in its annual report. The Bureau of the Actuary prepares both the appropriation requests and the Triennial Actuarial Valuations.

When the RRB makes benefit payments, the payments are deducted from the appropriate trust funds such as the Dual Benefits Payment Account (DBPA), the Railroad Retirement Account (RRA), and the Social Security Equivalent Benefit Account (SSEB). In the absence of Benefit Component Accounting (Benefit Accounting), which would deduct actual amounts paid from the trust funds, the RRB uses estimates or accruals to allocate benefit payments to the correct trust funds. Each month, amounts are accrued for benefit payments and posted to the general ledger.

The Bureau of Fiscal Operations makes a quarterly benefit account adjustment to the trust funds based on information prepared by the Bureau of the Actuary. This procedure is termed the Quarterly Benefit Account Adjustment. This adjustment matches the monthly accruals to the Windfall Estimate and Tier 1 Liability Reports, which are summaries of benefits paid for the month. In Report No. 86-04, entitled "Review of Accounting for Social Security Equivalent Benefits and Vested Dual Benefits," the OIG recommended the adjusted amounts originally charged to the DBPA agree with amounts calculated based on the monthly Windfall Estimate Report.

Objective, Scope, and Methodology

The objective of this review was to determine if the Vested Dual Benefits Appropriations (VDB) process and Quarterly Benefit Account Adjustments (Quarterly Adjustments) process were proper, timely, and accurate. In order to meet these objectives, we reviewed pertinent laws and regulations, bureau procedures, flow charts, prior audit reports, and risk assessments conducted by the RRB. We also held discussions with various RRB personnel.

For the VDB process, we reconciled the Fiscal Year 1998 request. We performed a trend analysis on appropriations for vested dual benefits for the previous six Fiscal Years 1992-97. We also included the 18th, 19th, and 20th Actuarial Valuations for comparisons of VDB projections. For the Quarterly Adjustments process, we performed a reconciliation of the third quarter of Fiscal Year 1997, as well as a trend analysis for Fiscal Years 1996 and 1997.

This audit was conducted in accordance with generally accepted government auditing standards at RRB headquarters from February to May 1998.

RESULTS OF REVIEW

Based on our review, we believe the VDB process and the Quarterly Adjustments process were proper, timely, and accurate. We also noted that internal controls over the VDB process and the Quarterly Adjustments process were operating efficiently and effectively. However, we determined that system users do not periodically change passwords used to gain access to the bureau's computer systems. The bureau also uses a paper process rather than an electronic one for transferring information between bureaus. The OIG has included recommendations that will further strengthen internal controls in the Bureau of the Actuary.

I. VDB Process

For the VDB appropriation for Fiscal Year 1998, we traced source documents through the RRB's Budget Submission without exception. The schedules for the VDB appropriation supported the amount requested. Our comparison of previous budget submissions to actual appropriations noted the expected continual decrease in both amounts. The Vested Dual Benefit sections of the 18th, 19th, and 20th Valuations also project the continued decline. These trends are attributable to the decreasing railroad population receiving or eligible for vested dual benefits.

II. Quarterly Adjustments Process

The OIG examined the third quarter of Fiscal Year 1997 Quarterly Adjustments from source documents to final posting of amounts to the general ledger. Additionally, for the month of

April, we examined the supporting documentation for the daily and recurring benefit estimates and noted no exceptions. Our trend analysis of the Quarterly Adjustments for Fiscal Years 1996 and 1997 comparing month to month balances for the DBPA, the SSEB Account, and the RRA noted some variances attributable to updated economic information from the Office of Management and Budget.

III. Benefit Component Accounting

The use of estimates rather than actual costs in the allocation of benefit payments to the trust funds is an area of concern. Benefit Accounting, which allocates payments based on actual results, would be more accurate than the current method using estimates. In 1995, the RRB began discussions on Benefit Accounting and determined, at that time, the costs of such a system outweigh the benefits. The agency estimated twenty-three computer systems would have to be changed to implement this method.

To date, the OIG is unaware of any new RRB efforts regarding Benefit Accounting.

Recommendation

The OIG recommends that the Board Members request a study to determine the feasibility of implementing a Benefit Component Accounting System. (Recommendation 1)

Management Response

In November 1995, the Executive Committee discussed a potential project to implement actual benefit component accounting. They decided the project should be considered in the Strategic Information Resources Management (IRM) Plan and prioritized in relation to other projects. While it was not included in the last Strategic IRM Plan, on April 29, 1998, the Chief Financial Officer included this issue in response to the Chief Information Officer's request for initiatives to be included in an updated Strategic IRM Plan. See Attachment for management's complete response.

IV. Internal Control Issues

The OIG reviewed the Bureau of the Actuary's current risk assessments (June 1997). The risk assessments identified current internal control techniques used by management. For the VDB process, we verified the following current controls:

- periodic actuarial valuations,
- reviews by the Actuarial Advisory Committee, and
- vested dual benefit projections.

The control identified as actuarial studies was reviewed by Watson Wyatt & Company, consultants used by the OIG, as part of the Fiscal Year 1997 Chief Financial Officer Financial Statement Audit. All internal control techniques were operating effectively.

For the Quarterly Adjustments process, we verified and reviewed samples of the current controls including:

- file dictionaries (program documentation describing what each system does),
- system edits included in the system documentation,
- supervisory review of system changes,
- self-documenting worksheets,
- project inventories, and
- documentation manuals.

Again, the internal control techniques were operating effectively.

During the course of the audit, we noted computer system change requests prepared by a supervisor were self-approved prior to submission to Bureau of Information Systems. The Chief Actuary took corrective action and he or the Supervisory Actuary now approve the supervisor's system change requests.

Unchanged Passwords

System users are not periodically changing passwords used to gain access to the bureau's computer systems. In addition to the use of passwords, good internal control techniques include the periodic changing of the passwords to further strengthen computer system security. The failure to change computer passwords on a regular basis increases the potential for discovery and unauthorized access to the Bureau of the Actuary databases and spreadsheets. In the event of unauthorized access to the computer system, formulas could be improperly changed, resulting in inaccurate trust funds estimates and adjustments.

Recommendation

We recommend the Bureau of the Actuary establish a system for changing computer access passwords on a regular basis. (Recommendation 2)

Management Response

Management agrees with the recommendation and, effective March 1998, began changing passwords on a quarterly basis. See Attachment for management's complete response.

Paper Transfers

Currently, the Bureau of the Actuary uses a paper rather than electronic process (Breakdown of Funds Form G-695) to transfer the estimates for daily and recurring monthly

benefits payments to the Office of Programs. In the past, no system has been available to allow this transfer to be made electronically. The RRB's implementation of V-LAN could make this process more efficient by electronically transferring the information. The V-LAN is the RRB's local area network that allows flexible communication between networked personal computers throughout the RRB. The Bureau of the Actuary is not currently connected to the V-LAN. The use of a paper process may result in the physical loss of the record, misinterpretation of information by the receiver, and potential delays in the delivery of the information.

Recommendation

We recommend that the Bureau of the Actuary meet with Bureau of Information Services management to discuss gaining access to the V-LAN. Based on these discussions, the Bureau of the Actuary should develop a timetable for the conversion of the Breakdown of Funds Form from a paper process to an electronic one utilizing the V-LAN.
(Recommendation 3)

Management Response

Management agrees with the recommendation and has contacted the Bureau of Information Systems about V-LAN access. Once the Bureau of Actuary is connected to the V-LAN, the bureau will begin electronic transmission. See Attachment for management's complete response.