

**Management Information Report**  
**Payment and Case Accuracy Issues Related**  
**to the Financial Statement Audit**  
**Report No. 99-07, March 24, 1999**

This report presents the results of the Office of Inspector General's (OIG) review of payment and case accuracy issues as they relate to the agency's financial statements and internal control structure.

**Background**

The Railroad Retirement Board (RRB) is an independent agency in the executive branch of the federal government. The agency's mission is to pay benefits as mandated by the Railroad Retirement Act and the Railroad Unemployment Insurance Act. In fiscal year (FY) 1997, the RRB paid almost \$8.3 billion in benefits to over 800,000 individuals.

The independent public accounting firm of Arthur Andersen LLP conducted the first audit of the RRB's financial statements. Their audit of the agency's financial statements for the fiscal year ended September 30, 1993 resulted in a disclaimer of opinion. Arthur Andersen cited the inaccuracy of benefit payments as a potential unrecognized source of financial liability. Because the agency was unable to estimate the potential liability related to benefit underpayments the auditors disclaimed their opinion.

Subsequent audits of the agency's financial statements conducted by Arthur Andersen LLP (FY 1994 and FY 1995), KPMG Peat Marwick LLP (FY 1996) and the OIG (FY 1997) resulted in similar disclaimers of opinion. The auditor's report on the RRB financial statements for fiscal year 1997 stated:

“The RRB's accounting records and other documentation are inadequate to achieve the financial statement assertion regarding accuracy of benefit payments. Accordingly, adjustments to the consolidated financial statements and supplementary schedules, if any, related to inaccurate benefit payments, cannot be determined. Therefore, we were unable to obtain sufficient audit evidence to determine the proper accounting and reporting of benefit payments.”

Specifically, the auditors were concerned that the agency might have broad financial exposure resulting from the incorrect calculation of benefit payments in prior years.

In response to auditor recommendations, the agency addressed the audit issue by adopting new regulations governing administrative finality. These new regulations which govern the reopening of cases in which an adjudicative error has been identified became effective September 29, 1997. Fiscal year 1998 was the first full fiscal year during which these regulations were effective.

**Objective, Scope and Methodology**

The purpose of this review was to summarize the issues related to benefit payment accuracy as they have impacted the financial statement audit and to make recommendations for corrective action appropriate to the current status of the issues.

In order to accomplish this objective, we:

--interviewed management in the Office of Programs;

--examined the reports and workpapers of prior financial statement audits;

--obtained and reviewed documents, regulations and pertinent historical evidence not previously considered;

--analyzed available performance statistics.

Our work was conducted in accordance with generally accepted government auditing standards as applicable at RRB headquarters during August through December 1998.

### **Findings and Recommendations**

We have determined that existing regulations governing the finalization and reopening of adjudicative decisions sufficiently limit the agency's financial liability. However, benefit payment accuracy remains a serious concern.

Although the Office of Programs has established and consistently exceeded its performance goal for payment accuracy, it does not have a goal for case accuracy. In addition, existing performance statistics are not adequate to measure performance against a specific case accuracy goal.

### **Liability Recognition**

We have determined that the agency does not have broad financial exposure resulting from the incorrect calculation of benefit payments in prior years. As a result, past benefit payment errors do not indicate the existence of a liability requiring financial statement recognition or disclosure. The Office of Programs has demonstrated that existing regulations sufficiently limit the recourse of claimants who believe that their benefits may have been calculated incorrectly and that such claims do not represent a significant source of liability.

The identification of benefit payment errors rests with the agency. The agency does not routinely search for errors in previously adjudicated cases. When errors are identified either during routine agency operations or by the Office of Inspector General, the Office of Programs takes corrective action as appropriate based on existing regulations.

The auditors were satisfied that there is no unrecognized liability related to benefit payment accuracy that could have a material impact on the fiscal year 1998 financial statements. As a result, we did not assess a material internal control weakness or disclaim an opinion on the financial statements because of benefit payment accuracy issues. In addition, nothing has come to our attention to indicate the existence of any material non-compliance with the Railroad Retirement Act as concerns benefit entitlement or payment.

Although the issue of liability related to benefit payment errors has been resolved, benefit payment error rates remain a matter of significant concern because benefit payment is the primary mission of the agency.

**Performance Measurement and Reporting**

The Bureau of Quality Assurance (BQA) within the Office of Administration performs annual studies of benefit payment accuracy and efficiency. This unit, which is organizationally independent of the Office of Programs, performs studies of both initial processing and post-initial adjudicative actions. Their reports provide statistics on payment accuracy, case accuracy and timeliness for the three major categories of RRA beneficiaries: employee, spouse and widow.

Payment accuracy measures the percentage of dollars paid correctly as a result of adjudication actions performed during the fiscal year being studied. Case accuracy measures the number of cases that do not contain a material error. BQA defines a material error as (1) an incorrect payment which has accumulated to a total of \$5.00 or more at the point the error is identified, (2) an incorrect payment which totals less than \$5.00 which totals 1% or more of the monthly annuity rate, or (3) any situation in which a non-entitled benefit is paid. Payment accuracy studies report on the percentage of “correct dollars” paid while case accuracy studies report the percentage of correct cases. (A detailed discussion of payment versus case accuracy is presented as the Appendix to this report.)

**Performance Measurement**

In its strategic plan, the agency has established a payment accuracy goal of 99%. BQA reports that the Office of Programs has exceeded that goal for all categories studied since 1993. However, the Office of Programs has not established a goal for case accuracy. As a result, management is not able to effectively assess current performance or assess the impact of processing changes on case accuracy.

**Performance Reporting**

BQA reviews each of the three major benefit types independently and reports accuracy rates separately for employee, spouse and widow annuitants. Following is a chart summarizing the case accuracy rates for initial processing as reported by BQA for the past five fiscal years by type of annuitant.

**Table I**

<b>Type of Annuitant</b>	<b>FY 1997</b>	<b>FY 1996</b>	<b>FY 1995</b>	<b>FY 1994</b>	<b>FY 1993</b>
Employee	96.4%	94.7%	95.4%	92.3%	93.3%
Spouse	92.6%	94.1%	92.9%	90.1%	92.9%
Widow	90.1%	90.3%	88.5%	87.2%	83.7%

While the statistical precision achieved by the studies is sufficient to indicate upward and downward trends over time, it is not sufficient for the measurement of incremental improvement from year-to-year. For example, the case accuracy study of initial processing in fiscal year 1997 estimates with 95% confidence that true case accuracy rates are within the ranges shown below.

**Table II – Fiscal Year 1997 Case Accuracy**

<b>Benefit Type</b>	<b>Range of Actual</b>	<b>Precision</b>
Employee	93.5% - 99.3%	+/- 2.9%
Spouse	89.0% - 96.2%	+/- 3.6%
Widow	86.3% - 93.9%	+/- 3.8%

While the BQA studies are informative and provide valuable information to management, the established precision levels may be too broad for use in measuring the progress of the agency in meeting a case accuracy goal.

### **Overall Case Accuracy**

Performance results as reported by BQA are valid for each of the independently sampled benefit types. However, in addition to sample results for employee, spouse and widow applications, BQA also reports an overall average for case accuracy. The overall accuracy rate as reported is not statistically valid because it does not reflect the proportion of the three benefit types as they occur in the actual population.

As a result, the figures reported for overall case accuracy do not provide meaningful information to management and should not be used.

### **Recommendation No. 1**

We recommend that the Office of Programs establish a goal for case accuracy.

### **Management's Response**

Management agrees in principle with the recommendation concerning establishment of case accuracy goals. However, the Office of Programs would like to evaluate the issues and ramifications of goal setting in this area before setting performance targets.

### **Recommendation No. 2**

We recommend that the Office of Programs design a plan for statistical measurement of case accuracy that will provide meaningful feedback on the effectiveness of agency case accuracy initiatives.

### **Management's Response**

Management agrees in principle with the recommendation concerning statistical measurement of case accuracy. The Office of Programs will initiate discussions with the Office of Administration and the Bureau of Quality Assurance to discuss strategies for review of FY 2000 processing.

**Recommendation No. 3**

We recommend that the Office of Programs request that BQA review the calculation and presentation of “overall” performance statistics.

**Management’s Response**

Management has agreed to ask the Office of Administration to review the statistical presentation of “overall” performance.

**APPENDIX**

The Bureau of Quality Assurance (BQA) studies both payment and case accuracy. Payment accuracy assesses the quality of benefit payment processing in terms of total dollars paid. Case Accuracy assesses the quality of benefit payment processing in terms of beneficiaries. Following is a discussion of the two types of measures along with examples.

BQA uses the following definition of payment accuracy:

“The payment accuracy rate measures the percentage of dollars paid correctly as a result of adjudication actions performed during the fiscal year being studied. For initial cases, the percentage is calculated using the dollars paid and payable on the annuity beginning date.”

Payment accuracy rates provide information about the monetary accuracy of the monthly payments in the aggregate. Payment accuracy does not consider errors that have no impact on the recurring monthly rate.

BQA defines case accuracy as “the percentage of cases that do not contain a material error.” Case accuracy provides information about the impact of errors on individuals in the beneficiary populations.

Following is an example illustrating the difference between the two measures. Examples are taken from BQA’s study “Processing of Initial Age and Service, Spouse and Widow(er) Applications in Fiscal Year 1997.”

	<b>Case Accuracy</b>	<b>Payment Accuracy</b>
Number of Widows in the Sample	243	

Number of Widows with a material monetary error in their case (recurring or non-recurring)	24	
Total monthly check issue for the Widows in the Sample		\$ 191,051.75
Dollar amount of errors in the monthly check issue		\$ 584.50
Error Rate	9.9%	.31%
Accuracy Rate	90.1%	99.69%