

Review of Supplemental Annuities
Report No. 99-17, September 30, 1999

Executive Summary

This report presents the results of the Office of Inspector General's review of the accuracy and timeliness of supplemental annuities paid by the Railroad Retirement Board (RRB).

The RRB administers the health and welfare provisions of the Railroad Retirement Act (RRA) that provide retirement benefits for eligible railroad employees, their spouses, widows and other survivors. In 1965, Congress amended the RRA to include a "supplemental annuity" for career railroad employees. Beginning in 1966, current and future retirees who met additional requirements, primarily related to length of service, were eligible to receive this benefit.

A supplemental annuity is available only to individuals who worked in the railroad industry prior to October 1981 and meet the minimum service requirement of 25 years. As a result, supplemental annuities will eventually be phased out. Supplemental annuity payments totaled approximately \$78 million during fiscal year 1998.

Our review determined that supplemental annuities are processed with approximately 96% case accuracy. Although case accuracy is relatively high, errors do occur. The two most frequent adjudicative errors were related to the establishment of supplemental annuity beginning dates and the reduction for private pension benefits. We also identified entitled individuals to whom benefits were never paid and non-entitled individuals who are receiving supplemental annuities.

The eligibility requirements, payment calculation and related financing impacts are complex. Although supported by automated payment systems, the quality of the adjudicative process still relies on claims examiners for accurate decisions regarding key provisions of the RRA.

We have made recommendations to identify and correct over 7,000 supplemental annuities with an estimated aggregate financial impact of approximately \$11 million. We also identified errors in the use of creditable service, the treatment of tax liability cases and computation of private pension reductions for which we were unable to fully estimate the financial impact.

Because the supplemental railroad retirement annuity program is financed on a pay-as-you-go basis, many of the errors identified by the audit impact both retired railroad employees and their former railroad employers.

Our audit included an analysis of the timeliness of supplemental annuity payments. Although generally timely, we found that approximately 2% of the supplemental annuities with beginning dates in years after 1994 were paid more than one year after the

entitlement date.

This report contains twenty recommendations for corrective action. In response to 17 of our findings, the Office of Programs has agreed to take either the OIG's recommended corrective action or has proposed an acceptable alternative action.

The Office of Programs did not concur with our recommendation to identify and correct cases in which the reduction for a private pension may not have been correctly applied. They raised concerns about the low number of beneficiary overpayments that would be reopened under current regulations and the cost effectiveness of such a project.

We believe that an estimate of the number of reopenable cases is premature based on the available data. In addition, each beneficiary overpayment is associated with a related understatement of tax credits to a railroad employer. A decision to review and correct affected cases would have a positive impact on railroad employers.

The Board has broad discretion in matters relating to the correction of errors and may wish to direct implementation of the recommendation. If the Board so directed, the cases could be reopened, the beneficiary overpayments could be waived and the railroad employers could receive the tax credits to which they are entitled.

The Office of Programs has declined action on two recommendations related to data transfer and accuracy. We have reviewed the findings and believe that management's evaluation of the impact of these conditions, although it differs from the OIG's position, is reasonable.

The full text of management's response is included as Appendix VI to this report.

Background

The Railroad Retirement Board (RRB) is an independent agency in the executive branch of the Federal government. The RRB administers the health and welfare provisions of the Railroad Retirement Act (RRA) that provide retirement benefits for eligible railroad employees, their spouses, widows and other survivors. At the end of fiscal year (FY) 1998, there were approximately 718,000 annuitants receiving benefits under the RRA.

There are four types of benefits available to retired railroad employees. The regular railroad retirement annuity is composed of tier I benefits, based on railroad and non-railroad earnings and tier II benefits which are computed using railroad compensation only. In addition to the tier I and tier II benefits, individuals who were considered vested under both the RRA and Social Security Act at the end of 1974 may be entitled to an additional benefit known as the Vested Dual Benefit.

In 1965, Congress amended the RRA to include a "supplemental annuity" for career railroad employees. Beginning in 1966, current and future retirees who met additional

requirements, primarily related to length of service, were eligible to receive this benefit.

A supplemental annuity is available only to individuals who worked in the railroad industry prior to October 1981 and meet the minimum service requirement of 25 years. As a result, supplemental annuities will eventually be phased out. A detailed discussion of eligibility requirements is presented in Appendix I to this report.

In most cases, the maximum monthly supplemental annuity is \$43. Supplemental annuity payments totaled approximately \$78 million during fiscal year FY 1998. A detailed discussion of the supplemental annuity rate calculation is presented in Appendix II.

The supplemental railroad retirement annuity program is financed on a pay-as-you-go basis by a cents-per-hour tax levied only on employers. If the retired employee is entitled to a private pension, the supplemental annuity is reduced by that part of the private pension financed by employer contributions. Any savings to the RRB resulting from reductions caused by private pensions are returned to the employer in the form of tax credits.

Railroad employers who maintain a negotiated pension plan are exempt from the tax for any employee covered by that plan. In such cases, the employer must reimburse the RRB for any supplemental annuity benefits actually paid, after reductions for private pension benefits.

Agency decisions become final when the time limit for requesting further administrative or judicial review has expired or when a dissatisfied claimant has exhausted his administrative and judicial rights. Title 20 of the code of Federal Regulations Part 261, "Administrative Finality," provides for the reopening and revision of otherwise final decisions.

The RRB's strategic plan states that "we will optimize accuracy in providing benefits" as the agency's first strategic objective in meeting its overall goal of providing excellent customer service. This audit speaks directly to this key area of agency performance.

Objective, Scope and Methodology

The objective of this review was to assess the timeliness and accuracy of supplemental annuity payments. In order to achieve our objectives, we:

- reviewed the applicable laws and regulations;
- reviewed a random sample of supplemental annuities in current pay status as of March 27, 1999;
- used analytical review techniques to identify annuitants at high risk for error in the payment of a supplemental annuity;
- reviewed judgment samples of supplemental annuities to confirm whether errors existed in the high risk groups;

-- discussed the processing implications of the sample results with Office of Programs management and staff; and,

-- re-calculated benefits as necessary to determine the financial impact of errors.

The review process included tests of entitlement, re-calculation of benefits and review of other decisions related to payment accuracy based on law and regulation. We also evaluated the accuracy of benefit adjudication as it impacts the supplemental annuity financing provisions of the RRA.

We assessed internal controls only as they specifically related to the results of the sample and analytical review.

The work was performed in accordance with generally accepted government auditing standards as applicable to the audit objectives. Fieldwork was conducted at RRB headquarters during March through August 1999.

Findings and Recommendations

Our review determined that supplemental annuities are processed with approximately 96% case accuracy. Although case accuracy is relatively high, errors do occur. The two most frequent adjudicative errors were related to the establishment of supplemental annuity beginning dates and the reduction for private pension benefits. We also identified entitled individuals to whom benefits were never paid and non-entitled individuals who are receiving supplemental annuities.

The eligibility requirements, payment calculation and related financing impacts are complex. Although supported by automated payment systems, the quality of the adjudicative process still relies on claims examiners for accurate decisions regarding key provisions of the RRA.

We reviewed a randomly selected sample of 333 supplemental annuities and identified fifteen (4%) cases with actual or potential payment errors. If the entire population of 182,000 annuities were examined in detail, we would expect to identify over 8,000 incorrect supplemental annuities. In addition to the random sample, we reviewed judgmentally selected cases in order to test for specific errors among the entire population of annuitants.

We have made recommendations to identify and correct over 7,000 supplemental annuities with an estimated aggregate financial impact of approximately \$11 million. These errors include cases in which required private pension reductions were not applied, supplemental annuity beginning dates were established incorrectly and entitled individuals were not paid.

We also identified errors for which we were unable to fully estimate the financial impact.

We have questioned the accuracy of the use of creditable service and the treatment of tax liability cases. We also identified computational errors related to the private pension offset.

Our audit included an analysis of the timeliness of supplemental annuity payments. Although generally timely, we found that approximately 2% of the supplemental annuities with beginning dates after January 1995 were paid more than one year after the date of entitlement.

Following is a detailed discussion of each type of error identified by the audit along with recommendations for corrective action and management's response. Appendix V presents a summary listing of the errors identified and the recommendations to which they relate. The full text of management's response is included as Appendix VI to this report.

Pension Reduction Not Always Applied

Our review determined that required reductions for private pensions are not being applied in all cases. In nine of the sample cases, required private pension information had either not been obtained or had not been included in the final annuity computation.

The RRA requires supplemental annuities be reduced by that portion of a private pension funded by employer contributions. Approximately 21% of all supplemental annuities are currently being reduced for private pensions.

The Office of Programs has established procedures for determining the private pension status of employee annuitants. Form G-88P, "Employer's Supplemental Pension Report," is used to obtain the required information concerning entitlement to a private pension and the amount funded by employer contributions.

Field office personnel release the G-88P when an applicant for retirement benefits appears to meet the eligibility requirements for a supplemental annuity. In most other situations, a claims examiner at RRB headquarters will release the G-88P. Internal controls are not adequate to ensure that form G-88P is released in all cases where it is needed.

Our sample review of supplemental annuities identified five cases in which the supplemental annuity was not properly reduced for an employer-funded pension. In each of these cases, a G-88P had been obtained and indicated that the supplemental annuity should be reduced.

We also identified four cases in which a G-88P was required but had not been obtained. We obtained the required private pension information for these four cases and determined that private pensions were not payable. As a result, there was no payment error associated with the omission of the G-88P from the original annuity adjudication process in those cases.

Pension Information . . .	Sample Cases	Required G-88P Not Obtained or Pension Reduction Applied	Benefit Computation Error
Required	104	9 (8.6%)	5 (4.8%)
Not Required	229	N/A	N/A
Total	333	9 (2.7%)	5 (1.5%)

Based on the identified error rates, there are approximately 2,700 supplemental annuities in pay status that were not properly reduced for private pensions. We estimate the monetary impact at \$7.8 million attributable to both prior periods (\$4 million) including provision for recurring errors over a period of five additional years (\$3.8 million).

Employers who are subject to the cents-per-hour payroll tax are entitled to tax credits in the amount of any reduction for an employer funded private pension. These cases are commonly called “tax credit” cases. Employers who reimburse the RRB for supplemental annuities on a dollar-for-dollar basis (“tax liability” cases) are charged net of any applicable pension reduction.

Non-recognition of private pension entitlement impacts both payment accuracy and program funding. In most cases, the beneficiary will be overpaid. In tax credit cases, there is a related understatement of tax credits due the railroad employer. In tax liability cases, the effect is to overcharge the railroad employer.

A detailed discussion of our sample methodology and results is presented in Appendix III.

Recommendations

We recommend that the Office of Programs:

- identify and correct cases in which the reduction for a private pension may not have been correctly applied (recommendation #1); and
- develop an internal control to ensure required private pension reductions are identified and included in the annuity calculation (recommendation #2).

Management’s Response

The Office of Programs does not concur with our recommendation to identify and correct cases in which the reduction for a private pension may not have been correctly applied. Based on their estimate of the number of beneficiary overpayments that would be subject to reopening and correction, they do not believe that implementation of the

recommendation will be cost effective.

The Office of Programs agrees that action should be taken to ensure that the required private pension reductions are identified and included in the annuity calculation. However, they plan to study the condition identified by the audit in order to determine whether the recommended action, or some alternative measure, will be most appropriate.

OIG's Comments

We understand that, under normal circumstances, the Office of Programs would not reopen all of the overpayments identified as a result of the implementation of this recommendation. We respect the Office of Program's position based on the limitations imposed by current regulations. However, we believe that an estimate of the number of reopenable cases is premature based on the available data. In addition, the Board has reserved the right to direct reopening of any case that it deems proper.

Each beneficiary overpayment is associated with a related understatement of tax credits to railroad employers. A decision to review and correct affected cases would have a positive impact on railroad employers. If the Board so directed, the cases could be reopened, the beneficiary overpayments could be waived and the railroad employers could receive the tax credits to which they are entitled.

This recommendation will remain open until such time as the Board affirms the Office of Programs decision to decline the recommendation or, if the Board so directs, implementation is completed.

Errors Related to the Private Pension Reduction

As previously discussed, supplemental annuities must be reduced by an amount equal to the employer funded portion of any private pension being paid. We identified five errors in the computation of the amount of that reduction, two with monetary impact, three without monetary impact.

Computational and Procedural Errors

We also identified three cases containing procedural and computational errors related to examiner handling. These are the types of errors that can be expected to occur when complex benefit formulae are implemented in a manual benefit processing environment.

In one case, the use of an incorrect, manually computed pension reduction resulted in a supplemental annuity payment error. In the two other cases, the supplemental annuity was paid correctly in spite of the errors.

Because of the variety of different errors that may have occurred due to manual examiner handling, we do not believe it is practical to attempt a mass case correction. In addition,

what was once an entirely manual process is now supported by automated systems. As a result, we do not believe corrective action is required.

Errors Caused by the G-88P PC Program

We identified a case in which the personal computer based application (G-88P PC) used to compute the private pension reduction contained a programming error. Although this error did not have a monetary impact on the sample case, it could have caused an incorrect payment in other unidentified cases. (In the case identified by the audit, the incorrectly computed reduction reduced the supplemental annuity to zero. A correctly computed reduction would have had the same effect.)

Based on our examination of sample cases and analysis of available automated data, we do not believe that it is practical to identify and correct errors resulting from the use of the G-88PC program. In addition, the computational error identified by the audit has been corrected in the currently used version of this software.

However, the scope of this audit did not include accuracy testing of the G-88P PC programs for all types of cases. We believe that such testing would ensure computational accuracy.

Data Input Errors

The sample review included one case in which the private pension reduction was calculated correctly but was incorrectly input to the benefit payment system. The present internal control structure is inadequate to prevent data input errors committed when examiners transfer payment information from supporting manual or desktop processes.

Authorization is an internal control intended to prevent errors related to manual handling. The exception identified by the audit was not subject to pre-payment authorization by another examiner or supervisor. However, authorization is a manual review process and cannot be expected to be 100% effective in identifying errors.

Recommendations

We recommend that Office of Programs:

-- test the current version of G-88P PC program to ensure that it produces accurate computations in all circumstances (recommendation #3); and

-- develop an internal control to ensure the accuracy of supplemental annuity input to automated payment systems (recommendation #4).

Management's Response

The Office of Programs concurs with our recommendation to test the G-88P PC program stating that such testing is performed on an annual basis.

The Office of Programs does not concur with our recommendation for an internal control to ensure the accuracy of supplemental annuity input to automated payment systems. They believe that implementation of a new control would be an excessive response to the single transcription error identified by the audit.

OIG's Comments

We have reviewed the audit findings and management's response. We believe that management's evaluation of the condition identified by the audit, although it differs from the OIG's position, is reasonable.

Tax Liability Cases Not Recognized

When railroad employees are covered by a supplemental pension plan established pursuant to a collective bargaining agreement, the railroad does not pay a cents-per-hour tax to fund the supplemental annuity. In these cases, the former employer incurs a tax liability in the amount of the supplemental annuity paid. These cases are commonly referred to as "tax liability" cases.

We analyzed data related to the supplemental annuities of individuals that we believed to be at high risk for pension reduction errors.

We identified three tax liability cases (all former employees of the same railroad) for which no G-88P was obtained. In tax liability cases, as in tax credit cases, payment of a private pension may require a reduction of the supplemental annuity. It is not possible to make an accurate payment determination without the information contained in the G-88P.

We obtained G-88Ps for the three cases discussed above and determined that no beneficiary payment error existed. However, the G-88p is also used to determine the tax liability status of these cases. As a result of the omitted G-88p, the related tax liabilities were not recognized; the railroad was never billed and the supplemental annuity was not funded as required.

Recommendations

We recommend that the Office of Programs:

- identify and correct unrecognized tax liability cases (recommendation #5); and
- develop an internal control to ensure that tax liability cases are properly recognized at the time of the initial award (recommendation #6).

Management's Response

The Office of Programs will evaluate the problem of unrecognized tax liability cases further before making a decision concerning the identification and correction of such cases. They also noted that new regulations may soon direct specific action on these cases.

The Office of Programs already has a control in place to identify tax liability cases among the former employees of the Long Island Railroad. They have agreed to study the situation further in order to determine if additional controls for other employers are needed.

Supplemental Annuities Not Paid to Entitled Annuitants

The Monthly Attainment Program (MAP) is a mainframe computer application used to identify beneficiaries who become entitled to payment of a supplemental annuity after their ABD. The MAP program is run each month and produces a listing of individuals who will shortly attain entitlement.

We identified 433 instances in which an apparently entitled individual may not have been paid a supplemental annuity. Analysis of selected cases disclosed that the MAP program does not identify all individuals who are entitled to a supplemental annuity.

Internal controls are inadequate to ensure that the supplemental annuities are paid to all entitled individuals. As a result, some individuals may never receive the supplemental annuity to which they are entitled.

Only a few cases (between 5 and 50) are impacted each year. However, the condition is unacceptable because identification and payment of entitled individuals is a fundamental part of the agency mission. We estimate the cases questioned by the audit represent approximately \$2 million in unpaid benefits, some of which date back more than 20 years.

Recommendations

We recommend that the Office of Programs:

- identify and correct cases in which entitled individuals have not been paid a supplemental annuity through oversight (Recommendation #7); and
- develop a comprehensive means of identifying attainment cases (Recommendation #8).

Management's Response

Management concurs with the audit findings and has agreed to take the recommended corrective action.

Supplemental Annuity Award Never Processed

We identified a case in which PREH system data indicated that a supplemental annuity was due but never paid. (The Payment Rate Entitlement and History System (PREH) is a mainframe database designed to store historical data about beneficiary entitlement and payment). The automated database record for this case shows a supplemental annuity beginning date and an accounting date for the initial supplemental annuity award. However, the file does not include an award form and the system does not show a payment voucher date.

The annuitant was underpaid approximately \$6,200 dating back to 1976. The Office of Programs is currently developing this case for payment.

The case described above appears to be unique. We searched for additional exceptions of this type and identified none.

Recommendation

We recommend that the Office of Programs research this case to ensure that the conditions that resulted in non-payment no longer exist (Recommendation #9).

Management's Response

Management concurs with the audit finding and has already taken the recommended action.

Incorrect Entitlement Dates Established

Internal controls are inadequate to ensure that the individuals who are eligible for a supplemental annuity prior to age 65 are paid from the correct beginning dates. We analyzed the beginning dates of supplemental annuities in pay status and questioned the accuracy of over 11,000 cases in which the beginning date of record is inconsistent with applicable laws and regulations.

Our detailed testing of individual cases revealed both payment errors and clerical errors without monetary impact. These errors are the result of weaknesses in the automated systems that support the attainment and payment processes as well as manual case adjudication.

In order to pay the supplemental annuity correctly, it must be identified properly by an automated system, the correct beginning date must be established and it must be paid from that date. Errors can occur anywhere in the process. We have observed both mechanical and manual errors in establishing supplemental annuity beginning dates.

Although we have seen cases in which alert claims examiners identified entitlement date errors and made the appropriate correction, the present internal control structure is not adequate to prevent such errors.

We estimate that approximately 4,000 (36%) of the questioned cases were paid incorrectly. Establishment of an incorrect annuity beginning date is a closed period error; the payment error does not recur indefinitely. The cases questioned by the audit represent approximately \$800,000 in beneficiary underpayments related to periods of one month to five years.

We estimate that, in approximately 7,000 of the questioned cases (64%), the supplemental annuity was paid from the correct beginning date but an incorrect date was recorded in PREH. A more detailed discussion of PREH accuracy begins on page 18.

Recommendations

We recommend that the Office of Programs:

- identify and correct previously adjudicated cases for which incorrect supplemental annuity beginning dates may have resulted in payment errors.(Recommendation #10); and
- develop internal controls to ensure the accuracy of the beginning dates from which supplemental annuities are paid (Recommendation #11).

Management's Response

The Office of Programs concurs with the audit findings and will evaluate the cases identified by the audit to determine the appropriate corrective action for the different types of errors. Their study of these cases will also address the issue of improved internal control as recommended by this audit.

Payment Made to Non-Entitled Individuals

Supplemental annuities may only be awarded to individuals who meet the eligibility requirements as established in the RRA (see Appendix I). These requirements include a closing date, based on age, after which further employment in the railroad industry will render the employee ineligible for a supplemental annuity at retirement.

Our review of sample cases identified one case in which the annuitant had worked past his closing date and was thus ineligible for a supplemental annuity. We used analytical review techniques to test the closing date determinations for all employee annuitants. We questioned the closing date determination in an additional 14 cases.

Because this type of error always results in a benefit overpayment and all cases questioned were awarded prior to 1995, they are not subject to correction under existing regulations (Title 20 of the Code of Federal Regulations, Part 261, "Administrative Finality." In addition, since the closing date requirement applies only to persons born prior to October 1916, there is a low probability of future annuitants being impacted by this

provision of the law.

Accordingly, we make no recommendation for corrective action in this matter.

Creditable Service Errors

Our testing identified 267 cases in which the PREH system contained unexplained inconsistencies between the total service as recorded and the amount of service credited to the supplemental annuity computation.

The amount of a supplemental annuity is based on the years of service credited to the employee for that purpose. The number of years of service credited to the supplemental annuity calculation will normally equal total railroad employment plus any qualifying military service. In most cases, the supplemental annuity will be computed based on the same record of creditable service as the regular RRA annuity. A more detailed discussion of the use of wages, compensation and military service is included in Appendix II. (Wages are earnings from employment covered by the Social Security Act. Earnings from employment covered by the RRA are referred to as "compensation.")

We compared the years of service used in computing supplemental annuities with the years of service used in computing the regular RRA annuities. We tested the records of each employee annuitant in current pay status for a regular RRA annuity regardless of supplemental annuity payment status.

We identified the two basic types of errors:

-- military service originally designated as wages was later used as compensation when the supplemental annuity was awarded; and

-- military service originally designated as compensation was later excluded from the supplemental annuity calculation.

We also observed differences between the total service credited and the amount of service used for the supplemental annuity even though no military service credits are indicated in the automated record.

We questioned 267 cases in which it appears that military service may have been improperly credited during the award of a supplemental annuity. The incorrect application of military service may result in an incorrect entitlement determination or in the overpayment or underpayment of a supplemental annuity to an entitled individual.

We reviewed 23 of the questioned cases in detail and identified 13 errors. The errors included four underpayments, six overpayments and one case in which a non-entitled individual received a supplemental annuity.

We also found two cases in which railroad service posted after retirement made an annuitant eligible for a supplemental annuity that was previously denied due to lack of service. (A worker's earnings record may not be complete at the time he/she applies for a retirement annuity. This is a common occurrence that typically relates to earnings during the final calendar year of employment prior to retirement.) The changed entitlement status of these annuitants had not been recognized and their supplemental annuities had never been paid.

The PREH system receives information about annuities after they have been processed. This system includes a variety of edits designed to identify inconsistent data such as the circumstances described above. Once identified, the cases are listed for review and correction as necessary. The Master Benefit File (MBF), PREH's predecessor, included a comparable control process.

The Bureau of Information Systems (BIS) performs a preliminary review of supplemental annuity cases identified by PREH as requiring review. If a rate correction is required, BIS refers the case to the Office of Programs.

We have made no projection concerning the monetary impact of the 267 cases questioned by the audit because such an estimate would require a case-by-case assessment.

Recommendations

We recommend that the Office of Programs:

- identify and correct cases in which the supplemental annuity has been paid incorrectly as a result of an error in determining creditable service (Recommendation #12);
- identify and correct cases in which entitled individuals were not paid a supplemental annuity because of an error in determining creditable service (recommendation #13); and
- strengthen internal control over the determination of creditable service in the adjudication of supplemental annuities (recommendation #14).

Management's Response

The Office of Programs will evaluate the cases identified by the audit and take corrective action as appropriate. They have also agreed to determine the feasibility and financial impact of identifying cases in which entitled individuals were not paid a supplemental annuity because of an error in determining creditable service. Their study of these cases will also address the issue of improved internal control.

PREH System Data Inaccuracies

The PREH system is the automated system that maintains information concerning the

results of the benefit adjudication process and the data that supports it. When the PREH system became operational in 1995, it was loaded with the data from its predecessor system, the MBF.

PREH captures an enormous amount of information including facts about the personal history of RRB beneficiaries and the basis of benefit entitlement and payment decisions.

Nine percent of the cases reviewed as part of the random sample included at least one error. We also identified incorrect data in PREH during our analytical review of the full population of 181,703 supplemental annuities. Most of the errors were related to supplemental annuity beginning dates and the date employment rights were relinquished. This data tends to be historical in nature and is typically not associated with payment errors.

We also identified data errors that can be associated with actual or potential payment error such as incorrect or absent:

- date of birth;
- current connection code;
- collective bargaining code; and
- military service use codes.

The overall accuracy of the PREH system is a matter beyond the scope of this audit. Although some of these errors may be attributed to examiner handling, we did identify one situation in which another automated system appears to be passing incorrect data to PREH.

We believe that one or more of the automated payment processing systems is responsible for passing incorrect beginning dates to PREH at which time it becomes part of the historical record. In addition, our analytical review of supplemental annuities in pay status led us to question the accuracy of approximately 7,000 beginning dates. We frequently observed records in which the PREH system is reporting a payment processing date instead of the actual date of the supplemental annuity beginning date.

Although errors in the historical record do not have an adverse impact on payment accuracy, they will reduce the future usefulness of that data. Future actions that rely on PREH data, such as implementation of amendments to the RRA or tests of benefit payment accuracy, will be adversely impacted by errors in that record.

Recommendations

We recommend that the Office of Programs:

- request programming changes as necessary to ensure that the correct supplemental annuity beginning date is recorded in the PREH (recommendation #15);

-- identify and correct currently inaccurate supplemental annuity beginning dates, if such correction can be made without manual handling (recommendation #16); and

-- assess the implications of other PREH inaccuracies identified by the audit and determine whether any programming or procedural changes are indicated (recommendation #17).

Management's Response

The Office of Programs will investigate the condition cited by the audit to determine whether the current processing systems pass incorrect beginning dates. They will take corrective action as indicated by the results of their research.

The Office of Programs will investigate approaches to determine whether there is a cost effective means of identifying and correcting the PREH record when it contains inaccurate supplemental annuity beginning dates. Their analysis will also consider the benefit of making such corrections.

The Office of Programs disagrees with our recommendation to assess the implication of other PREH inaccuracies identified by the audit. They cite the fact that maintenance and evaluation of the PREH database is handled outside the Office of Programs, and has been addressed by a prior audit. The Office of Programs will make recommendations to the Bureau of Information Services if conditions requiring correction are identified incidental to their efforts to improve the overall accuracy of supplemental annuity processing. They will not perform a separate assessment.

OIG's Comments

We have reviewed the audit findings and management's response related to the assessment of the implications of PREH inaccuracies. We believe that management's decision to not perform a separate assessment, although it differs from the OIG's recommendation, is reasonable.

Timeliness

As part of our review of supplemental annuities, we examined timeliness of processing. In order to focus on current experience, our analysis included only the 21,449 supplemental annuities with beginning dates in January 1995 or later.

In general, supplemental annuities are processed within acceptable time frames. This conclusion is based on audit testing that revealed 80% of supplemental annuities are paid within 90 days of the beginning date. In the absence of an agency timeliness standard, we considered a supplemental annuity "timely" if it was paid within 90 days of the date the annuitant was first entitled to receive that benefit.

Over half of the supplemental annuities in the population were awarded at the same time as the regular railroad retirement annuity. An additional 30% were awarded after the regular RRA annuity but within ninety days of the supplemental annuity beginning date.

In 20% of cases, processing required more than 90 days; 98% of all supplemental annuities had been processed to payment within one year of the beginning date. However, in a few cases, handling time appears to have been excessive. Approximately two percent of the cases were in-process for more than one year; a few were not paid until two years or more after entitlement began.

The Office of Programs has not established a timeliness standard for the processing of supplemental annuities. Although the Office of Programs tracks delayed cases, the exceptions identified during our review indicates that it may not be effective in preventing unnecessary delays.

Recommendations

We recommend that the Office of Programs:

-- establish a timeliness standard for internal use by Office of Programs management in the evaluation of supplemental annuity processing (recommendation #18); and

-- implement or improve controls designed to identify delayed processing (recommendation #19).

Management's Response

The Office of Programs has agreed to establish an internal timeliness standard and to determine whether there are additional, cost effective, controls that can address delays in processing.

Accuracy and the Claims Processing Environment

As previously stated, our review determined that supplemental annuities are processed with approximately 96% accuracy. This is a very high accuracy for a population that included adjudicative decisions made over the last 30 years. Nearly 65% of the supplemental annuities in pay status were awarded before 1989.

In this report, we have made recommendations for improved internal control. Any attempts to improve internal control over the accuracy of supplemental annuities should include consideration of the claims processing environment.

The number of new supplemental annuities has declined drastically since that benefit first became available in 1966. In FY 1975, the RRB awarded 31,300 new supplemental

annuities. By FY 1985, that number had dropped to 10,500. In FY 1995, the RRB awarded only 4,700 new supplemental annuities.

Although declining in number, the RRB can expect to award new supplemental annuities for many decades to come. Supplemental annuities will not be phased-out naturally until retiring railroad workers can no longer meet the basic requirement of one month of railroad employment prior to October 1981.

Many of the errors identified during the audit occurred during manual processing by a claims examiner. With the passage of time, claims examiners will continue to see fewer cases and their expertise in handling them will decrease. As a result, examiner training, however frequent, will have increasingly less value as an internal control. Similarly, post-processing error identification and correction, when performed timely, may be more efficient than controls designed to prevent errors.

Reliability of Information Obtained from Railroad Employers

During the audit, we identified five cases in which required reductions for private pensions had not been made (see page 6). That determination was based on the presence of Form G-88P, "Employer's Supplemental Pension Report," indicating that the annuitant was entitled to an employer funded private pension.

During their review of audit exceptions, the Office of Programs re-released form G-88P to railroad employers in one of the five cases. When the form was returned, it showed no private pension entitlement, thus contradicting the original report. The actual private pension status of that annuitant remains in question.

The Office of Program is dependent on railroad employers to provide accurate information when required. It is unknown to what extent such information may have been inaccurate in the past and we cannot predict the future. However, we believe that the declining number of affected retirees will have a negative impact on the accuracy of employer reports.

Examiner Uncertainty Can Lead to Payment Error

During the audit, we identified a case that illustrates the effect of uncertainty in handling infrequently occurring events.

An employee must relinquish his rights to employment in the railroad industry prior to award of a supplemental annuity. Agency processing systems that support payment of supplemental annuities, both manual and automated, assume that retirees have, or will, automatically relinquish their employment rights.

We identified a case in which an applicant for a disability annuity specifically declined to agree to the standard application language that provided for the automatic relinquishment of his rights at a future date. Examiner uncertainty about the handling of this unusual case

led to a chain of events that caused the Office of Programs to establish an incorrect supplemental annuity beginning date and underpay the annuitant. The details of this case are presented in Appendix IV.

Recommendation

We recommend that the Office of Programs review and correct the case in which the annuitant received an incorrect supplemental annuity beginning date as a result of uncertainties related to the date he relinquished his employment rights (recommendation #20).

Management's Response

The Office of Programs will review the case in question and take appropriate action.

Appendices to this report are available upon request.