OFFICE OF INSPECTOR GENERAL

Audit Report

Audit of the Railroad Retirement Board's Compliance with the Improper Payments Elimination and Recovery Act of 2010 in the Fiscal Year 2014 Performance and Accountability Report

Report No. 15-06
May 15, 2015

RAILROAD RETIREMENT BOARD

EXECUTIVE SUMMARY

Background

The Office of Inspector General for the Railroad Retirement Board (RRB) conducted a mandated audit to assess the agency's fiscal year 2014 compliance with the Improper Payments Elimination and Recovery Act of 2010 (IPERA), which amended the Improper Payments Information Act of 2002 (IPIA).[1]

Findings

Our audit determined that the RRB was not fully compliant with IPERA requirements. The RRB did not comply with the requirements for a risk assessment because the agency did not assess risk for all of the programs that it administers, such as procurement, credit programs, payments to vendors, and payments to Federal employees. As a result of non-compliance for the risk assessment requirement, we were unable to assess compliance for the publication requirement for improper payment estimates for all programs and activities identified as susceptible to significant improper payments under the risk assessment. We found that the agency was in compliance with the other IPERA reporting requirements, when applicable.

In addition, we found that improvement is needed to ensure (1) completeness of reported amounts for the Railroad Retirement Act (RRA) program, and (2) accuracy of reported improper payment amounts for the RRA and Railroad Unemployment Insurance Act (RUIA) programs, including understatements and insufficient supporting documentation.

Recommendations

In total, we made ten detailed recommendations to RRB management related to:

- taking the necessary steps to prepare and submit required plans within the reporting requirement timeframe;
- ensuring that the necessary policies and procedures are developed and documented for the agency's use for the preparation of a risk assessment process that meets IPERA requirements;
- coordinating the preparation of a risk assessment for agency administered programs in accordance with Office of Management and Budget guidance;
- assessing and determining who should be the improper payment official to ensure sufficient knowledge and oversight of all RRB programs;
- reevaluating methodologies and documenting procedures for the computation of improper payment components to ensure that all areas are properly included in the computation of improper payments for the RRA program;

[1] Public Laws 111-204 and 107-300, respectively.

- revising and documenting definitions of improper underpayments for the RRA program in compliance with IPERA guidance, and if similar definitions are used for other programs, revise them accordingly;
- rereviewing RRA underpayments using IPERA guidance and revising the calculation of improper underpayments and its overall computation of improper payments for fiscal year 2013;
- publishing the revised RRA improper payment rate data for fiscal year 2013 in the fiscal year 2015 Performance and Accountability Report;
- developing and documenting the necessary policies and procedures for the review and validation of the RUIA improper data to be reported in the Performance and Accountability Report; and
- ensuring that the proper controls are in place to make sure that the policies and procedures are followed to properly support the improper payment data reported for the RUIA program.

Management Responses and Our Comments

The Executive Committee concurred with the first four recommendations. The Office of Programs agreed with one recommendation, deferred their response for three recommendations, and requested that the remaining two recommendations be redirected to the Bureau of the Actuary. The OIG disagreed that the two recommendations be redirected because the Office of Programs is ultimately responsible for the accuracy of the published improper payment data for their programs. The error our audit identified was mathematical in nature and should have been identified as part of the Office of Programs' quality assurance process as they formulated the improper payment estimates.

The full text of management's responses is included in the appendices.

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INTRODUCTION

This report presents the results of the Office of Inspector General's audit of the Railroad Retirement Board's (RRB) fiscal year 2014 compliance with the Improper Payments Elimination and Recovery Act of 2010 (IPERA), which amended the Improper Payments Information Act of 2002 (IPIA).[2]

Background

The RRB, an independent agency in the executive branch of the Federal government, administers the retirement/survivor and unemployment/sickness insurance benefit programs for railroad workers and their families under the Railroad Retirement Act and the Railroad Unemployment Insurance Act. The RRB paid $12 billion in retirement/survivor benefits and $86 million in unemployment and sickness insurance benefits during fiscal year 2014.

Improper payment legislation was enacted to reduce wasteful, improper payments and directed the Office of Management and Budget (OMB) to issue governmentwide guidance regarding reporting requirements. IPERA defines an improper payment as any payment that should not have been made or that was made in an incorrect amount (including overpayments and underpayments) under statutory, contractual, administrative, or other legally applicable requirements. An improper payment includes any payment to an ineligible recipient, any payment for an ineligible good or service, any duplicate payment, and any payment for a good or service not received (except for such payments authorized by law).

IPERA reporting guidance was issued as Appendix C to OMB Circular No. A-123, *Requirements for Effective Estimation and Remediation of Improper Payments*.[3] The guidance defines significant improper payments as (1) both 1.5 percent of program outlays and $10,000,000 of all program or activity payments made during the fiscal year reported or (2) $100,000,000 (regardless of the improper payment percentage of total program outlays). OMB guidance requires each agency's Inspector General to assess IPERA compliance within 180 days after the issuance of the Agency's Financial Report (AFR) or Performance and Accountability Report (PAR).[4] Agencies that are non-compliant with IPERA are subject to additional reporting requirements. Non-compliance for one year requires that the agency submit a plan describing the actions to be taken to become compliant. Non-compliance for two consecutive fiscal years for the same program or activity requires a review from OMB to determine if additional funding would help the agency to become compliant.

[2] Public Laws 111-204 and 107-300, respectively.
[3] OMB, *Management's Responsibility for Internal Control,* Circular No. A-123, (December 21, 2004).
[4] OMB, *Appendix C to Circular No. A-123, Requirements for Effective Estimation and Remediation of Improper Payments,* M-15-02 (October 20, 2014).

IPERA guidance states that agencies are to establish primary and secondary accountable officials, who are primarily charged with responsibility for implementing improper payment guidance and its requirements. Implementation of IPERA guidance should be a significant responsibility and be a major focus of the primary and secondary accountable officials. The RRB's Executive Committee (1) oversees day-to-day operations of the agency in conformance with existing laws, regulations, and policies; (2) makes recommendations to the Board Members on agency-related policy issues; and (3) promotes coordination and communication on matters of agency-wide policy and direction. The Executive Committee is also responsible for oversight and problem-solving regarding cross-organizational internal control issues, and functions as the agency's senior management council with respect to the responsibilities outlined in OMB Circular No. A-123.

Within the RRB, the Office of Programs compiles and reports improper payment data for the annual PAR. The RRB's improper payment amounts for fiscal year 2013, as reported in the RRB's fiscal year 2014 PAR, were $82.1 million (0.70 percent of $11.7 billion in outlays) for the Railroad Retirement Act program and $4.2 million (3.7 percent of $116 million in outlays) for the Railroad Unemployment and Insurance Act program.[5]

Audit Objective

The mandated objectives of this audit were to:

1. determine whether the RRB is in compliance with the IPERA;
2. evaluate the accuracy and completeness of improper payment reporting; and
3. evaluate agency performance in reducing improper payments.

Scope

The scope of the audit was fiscal year 2013 improper payment data reported during fiscal year 2014.

[5] Railroad Retirement Board, *Performance and Accountability Report for Fiscal Year 2014*, (Chicago, IL., November 2014).

Methodology

To accomplish the audit objectives, we:

- identified criteria from IPERA laws, as well as OMB's governmentwide guidance for IPERA;
- reviewed the improper payments portion of the RRB's fiscal year 2014 PAR and related postings;
- assessed the accuracy and completeness of agency reporting and evaluated the agency's performance in reducing and recapturing improper payments;
- tested several samples of improper payment case-related data to assess the accuracy of agency determinations of proper or improper for overpayments and underpayments;
- interviewed appropriate agency staff; and
- reviewed agency documentation, including support for overpayments and underpayments.

We conducted this performance audit in accordance with generally accepted government auditing standards.[6] 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 objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

We conducted our fieldwork at RRB headquarters in Chicago, Illinois from December 2014 through April 2015.

[6] Excluding the appendix regarding other matters.

RESULTS OF AUDIT

Our audit determined that the RRB was not fully compliant with IPERA requirements. The RRB did not comply with the requirements for a risk assessment because the agency did not assess risk for all of the programs that it administers, such as procurement, credit programs, payments to vendors, and payments to Federal employees. As a result of non-compliance for the risk assessment requirement, we were unable to assess compliance for the publication requirement for improper payment estimates for all programs and activities identified as susceptible to significant improper payments under the risk assessment. We found that the RRB was in compliance with the other IPERA reporting requirements, when applicable.

Compliance Requirements	Assessment
Published an AFR or PAR for the most recent fiscal year and posted that report and any accompanying materials required by OMB on the agency website.	Compliant
Conducted a program specific risk assessment for each program or activity that conforms with Section 3321 of Title 31 U.S.C. (if required).	Not Compliant
Published improper payment estimates for all programs and activities identified as susceptible to significant improper payments under its risk assessment (if required).	Unable to determine based on non-compliance cited above.
Published programmatic corrective action plans in the PAR or AFR (if required).	Not Required
Published, and has met, annual reduction targets for each program assessed to be at risk and measured for improper payments.	Not Required
Reported a gross improper payment rate of less than 10 percent for each program and activity for which an improper payment estimate was obtained and published in the PAR or AFR.	Compliant
Reported information on its efforts to recapture improper payments.	Compliant
Conducted a payment recapture audit for each program and activity that expends $1 million or more annually, if conducting such audits would be cost effective.	Alternative program in place and accepted by OMB.

In addition, we found that improvement is needed to ensure (1) completeness of reported amounts for the RRA program, and (2) accuracy of reported improper payment amounts for the RRA and RUIA programs, including understatements and insufficient supporting documentation. This report also discusses the agency's performance in reducing improper payments.

The details of the audit findings and recommendations for corrective action follow. The full text of management's responses is included in the appendices.

RRB Not Compliant with Improper Payment Risk Assessment Requirements

The RRB is not compliant with the requirements under Public Law 111-204. The RRB did not prepare risk assessments for all programs the agency administers, as required.

The RRB administers the Medicare program for RRB beneficiaries. IPERA guidance identifies programs administered by agencies as including procurement, credit programs, payments to vendors, and payments to Federal employees. A risk assessment evaluates risk factors that include the complexity of the program being reviewed, the volume of annual payments, and recent changes in program funding, authorities, practices, or procedures. In addition, to address a prior year recommendation made by the Office of Inspector General, the Office of Programs stated in the PAR that the RRB Medicare program is "determined to be at low risk."[7] This statement is misleading because it is based on incomplete data that did not address all of the applicable components for the RRB Medicare program and because the assessment did not meet the minimum requirements of a risk assessment, as defined by IPERA guidance.

The RRB did not prepare a risk assessment for the other programs that it administers because the agency's focus for improper payments has been limited to its benefit paying programs, which were identified in older OMB guidance. As a result of the importance being placed on the benefit paying programs, the RRB's improper payment official is organizationally placed within the Office of Programs and therefore may not have knowledge of the other agency administered programs outside of that office. In addition, risk assessments were not prepared because the RRB does not have documented policies and procedures to assess risk, from an improper payments perspective, for all of the programs that it administers. Risk assessments were also not prepared because the agency is not following all of the applicable guidance for improper payment reporting that is provided in various OMB publications, but is instead relying on the reporting guidance provided in OMB Circular A-136, *Financial Reporting Requirements*. OMB Circular A-136 does not provide the specific, detailed compliance requirements that are provided in other OMB publications.

As a result of not preparing a risk assessment for the other programs that the RRB administers, the RRB has not identified other programs that could be susceptible to significant improper payments, and any amounts from these programs have not been identified or reported. Thus, we are unable to determine RRB's compliance with the identification of all risk susceptible programs, and therefore if they have published improper payment estimates for all programs, as required by IPERA guidance. Due to this instance of non-compliance, within 90 days of the determination of non-compliance, the RRB will have to submit a plan to the Senate Committee on Homeland Security and Governmental Affairs, the Committee on Oversight and Government Reform, and OMB.

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[7] Railroad Retirement Board Office of Inspector General (RRB OIG), *Audit of the Railroad Retirement Board's Fiscal Year 2013 Compliance with the Improper Payments Elimination and Recovery Act of 2010*, OIG Report No. 14-05 (Chicago, IL., March 28, 2014).

The plan is required to describe the actions that the agency will take to become compliant, and shall include:

I. measurable milestones to be accomplished in order to achieve compliance for each program or activity;

II. the designation of a senior agency official who shall be accountable for the progress of the agency in coming into compliance for each program or activity; and

III. the establishment of an accountability mechanism, such as a performance agreement, with appropriate incentives and consequences tied to the success of the senior agency official in leading agency efforts to achieve compliance for each program and activity.

Recommendations

We recommend that the Executive Committee:

1. take all of the necessary steps to prepare and submit the required plans within the 90 day reporting requirement;

2. ensure that the necessary policies and procedures are developed and documented for the agency's use for the preparation of a risk assessment process that meets IPERA requirements;

3. coordinate the preparation of a risk assessment for agency administered programs in accordance with OMB guidance; and

4. assess and determine who should be the improper payment official to ensure that they have sufficient knowledge and oversight of all RRB programs.

Management's Response

The Executive Committee concurred with all four recommendations prior to the release of the draft report based on the content presented at the closing conference. After the draft report was issued, the Chief Financial Officer confirmed that their previous responses remained appropriate. For the first recommendation, they stated that they will follow the reporting requirements as outlined in the OMB Memorandum 15-02. In regard to the second recommendation, they stated that they will document policies and procedures for the agency's use for the preparation of risk assessments. In response to the third recommendation, they stated that they will coordinate the preparation of risk assessments for appropriate programs administered. For the fourth recommendation, they stated that the Chief Financial Officer will be the agency improper payment official.

RRA Improper Payment Estimate May Not be Complete

OMB guidance provides that the agency's Inspector General evaluate the completeness of agency reporting. We determined that the overall computation of improper payments for the RRA program may not be complete. The RRA improper payment calculation is comprised of several components of overpayments and underpayments, including known, estimated, and unquantified. The Office of Programs conducts quality assurance reviews of newly adjudicated cases and cases with subsequent adjustments. As part of this process, they review samples and evaluate underpayments as proper versus improper for the cases with subsequent adjustments, but not for newly adjudicated cases, which may result in an incomplete estimate.

In addition, the Office of Programs did not include estimates of some pending workloads in their computation of improper payments. The RRA improper payment calculation currently includes one workload of pending adjustments, but it does not include other workloads with pending adjustments.

Agencies are required to provide valid annual estimates of improper payments. GAO *Standards for Internal Control in the Federal Government* (GAO Standards) state that control activities help to ensure that all transactions are completely and accurately recorded.[8]

The Office of Programs has continued to base their calculations on previously established methodologies, not considering any additional cases and workloads that should be factored into the overall computation of improper payments. As a result of incomplete data, the RRA improper payment components may not be accurate, leading to an inaccurate improper payment amount being reported for the RRA program.

<u>Recommendation</u>

5. The Office of Programs should reevaluate their methodologies and document their procedures for the computation of improper payment components to ensure that all areas are properly included in their computation of improper payments for the RRA program.

<u>Management's Response</u>

The Office of Programs stated that they agree to reevaluate their methodologies to ensure all appropriate areas are included in our improper payment computations for the RRA program. Any changes will be properly documented in their procedures and reflected in the analysis of fiscal year 2014 improper payments.

[8] Government Accountability Office, *Standards for Internal Controls in the Federal Government*, GAO/AIMD-00-21.3.1 (Washington, D.C., November 1999). A newer version, effective beginning in fiscal year 2016, has been published, GAO 14-704G (Washington, D.C., September 2014).

RRA and RUIA Estimates Are Not Accurate

OMB guidance provides that the agency's Inspector General evaluate the accuracy of agency reporting. We found that the:

- estimated improper payments for the RRA program was not accurate;
- estimated improper payment data for the RUIA program was not accurate; and
- supporting documentation for estimated RUIA overpayments was not sufficient.

Improper Payments for the RRA Program are Understated

The fiscal year 2013 improper payment data for the RRA program was not accurate because it did not identify all improper payments. The Office of Programs includes various components in its overall computation of improper payments, and the component for known improper underpayments was not accurate. The Office of Programs conducts quality assurance reviews and underpayments discovered through this process are assessed as being proper or improper. However, we found that the Office of Programs did not always apply the definition of an improper payment, as defined in IPERA guidance, in its assessment.

The Office of Programs developed their own criteria for the determination of whether underpayments were proper or improper. Their definitions were documented as a handwritten document dated in 2006 that factored the timeliness of corrective action as a basis to assess whether the underpayment was proper or improper. That criteria does not comply with IPERA guidance, which defines an "improper payment" as any payment that should not have been made or that was made in an incorrect amount (including overpayments and underpayments) under statutory, contractual, administrative, or other legally applicable requirements; and includes any payment to an ineligible recipient, any payment for an ineligible service, any duplicate payment, and payments for services not received.

The Office of Programs projected their rate of improper RRA underpayments (42.15%) to the monetary value of non-categorized payments of $35.4 million population of underpayments, which resulted in their determination that improper underpayments totaled $14.9 million. We reviewed all of the underpayment cases and applied IPERA's definition of an improper underpayment, which resulted in determining that the Office of Programs did not apply IPERA's definition of an improper payment for 27 of the underpayments that they previously assessed as proper. As a result, we determined that the estimated 42.15% for improper underpayments is significantly understated, thereby impacting the overall computation of improper payments for the RRA program, as well as their estimated amounts for the root causes of errors. Consequently, if their computation for improper payments included all of the exception cases identified by the Office of Inspector General, improper payments for the RRA program would have increased to approximately $92 million.

Recommendations

We recommend that the Office of Programs:

6. revise and document their definitions of improper underpayments for the RRA program in compliance with IPERA guidance, and if similar definitions are used for other programs, revise them accordingly;

7. review the RRA underpayment cases again using IPERA guidance and revise the calculation of improper underpayments and its overall computation of improper payments for fiscal year 2013; and

8. publish the revised RRA improper payment rate data for fiscal year 2013 in the fiscal year 2015 PAR.

Management's Response

The Office of Programs stated that they are currently consulting with the Social Security Administration to determine if their methodology for determining proper and improper payments of post adjudication underpayments is in alignment with that of the RRB. They also stated that they are deferring their formal response to these recommendations for 60 days until they have the opportunity to exchange information and thoroughly analyze this issue.

Estimated Improper Payment Data for the RUIA Program are Understated

Inaccurate estimated RUIA improper data for fiscal year 2014 was published in the PAR. We found errors in the documentation supporting the RUIA estimate that were not detected by the Office of Programs. The RUIA estimated outlays, reported as $106.5 million, should have been reported as $114.8 million. The RUIA estimated improper payments, reported as $3.7 million, should have been reported as $4.0 million.

GAO Standards state that control activities help to ensure that all transactions are completely and accurately recorded.

This error was not detected because the Office of Programs does not have documented policies and procedures for the review and validation process for RUIA improper payment data that is reported in the PAR. As a result, readers of the RRB's PAR were misinformed regarding the estimated improper payments for fiscal year 2014.

Recommendations

We recommend that the Office of Programs:

9. develop and document the necessary policies and procedures for the review and validation of the RUIA improper payment data to be reported in the PAR; and

10. ensure that the proper controls are in place to make sure that the policies and procedures are followed to properly support the improper payment data reported for RUIA program.

Management's Response and Our Comments

The Office of Programs stated that they agree with the substance of these recommendations, however, they disagree with the organizational direction. The Office of Programs requested redirection of these recommendations to the Bureau of the Actuary because the Bureau of the Actuary should be held accountable for the analysis, calculations, and documentation they provide for other organizations. The Office of Programs stated that they discussed this matter with the Bureau of the Actuary, who agrees that these recommendations should be addressed to them.

While the OIG agrees that the Bureau of the Actuary should be accountable for the data they provide to other organizations, the OIG feels that the Office of Programs also has a responsibility to ensure that the data agrees with supporting documentation provided by the Bureau of the Actuary. This error was mathematical in nature and it did not require specialized knowledge for its detection.

Insufficient Supporting Documentation for RUIA Overpayment Estimates

Support maintained by the Office of Programs was not readily available for examination to verify the accuracy of the overpayment estimates component of RUIA improper payment reporting. As part of its quality assurance review, the Office of Programs sampled 422 unemployment and sickness claims and used those results to provide an assessment of whether the errors were proper or improper. These overpayment estimates are one of several components in the overall computation of improper payments for the RUIA program. Support maintained by the Office of Programs consisted of the quantity of claims reviewed, the number of errors, and the type of errors. Additional documentation was maintained only for claims cited for errors. Therefore, identifying data was not documented for most of the 422 claims.

GAO Standards state that internal controls 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 operating manuals and may be in paper or electronic form. All documentation and records should be properly managed and maintained.

The Office of Programs explained that while the claim numbers are not documented for claims without errors, each claim can still be identified through the review of other layers of underlying documents. Their method of documentation has remained consistent for some years and it has been sufficient for the purposes of their quality assurance reviews.

As a result, we were unable to validate approximately $1 million of reported overpayment estimates, the second most monetarily significant component of the $4.3 million of improper payments reported for the RUIA program. Consequently, the reported overpayment estimates component may not be accurate, thereby impacting the overall improper payments for this program.

The Office of Programs explained that they have changed their method for documenting these reviews beginning with fiscal year 2014. As a result of claims identification being maintained for each claim, no recommendation will be made for corrective action. We will assess this change next year, when we conduct the next mandated improper payments audit.

Evaluation of Performance

Outlays, improper payments, overpayments identified, and overpayments recovered increased for the RRA program, and decreased for the RUIA program, as shown in the chart below.

Improper Payment Data (in millions of dollars)

	RRA Program		RUIA Program	
	FY 2013	FY 2012	FY 2013	FY 2012
Outlays	11,650.4	11,347.3	116.0	119.2
Improper Payments	82.1	61.8	4.2	4.6
Amounts Identified as Debts	57.0	42.6	24.9	28.9
Amounts Recovered	42.6	40.9	26.0	29.3

The significant increase in the improper payments for the RRA program is attributable to the establishment and recording of debts for Long Island Rail Road occupational disability fraud cases. Our previous improper payment report discussed the need for the agency to account for these improper payments. In the PAR, the RRB stated that these increases may be an anomaly from a historical perspective, because very few improper payments have been detected for this area.

As a result of an Office of Inspector General investigation and actions taken by the RRB, approximately $12.3 million was established for these improper payments; however, due to decisions made by the RRB, these debts have been written off as uncollectible.

Whereas the amount recovered for the RRA program in fiscal year 2013 increased, the recovery efforts were disproportionate to the increase in debts identified, due to the reasons explained earlier in this report. In their response, the Office of Programs stated that if the $12.3 million were removed from the amounts identified as debts, the recoveries would be proportionate. The OIG does not agree that the $12.3 million should be removed from the calculation, as these amounts were recorded as debts in the agency's receivable system and therefore should be included in the calculation of the agency's recovery efforts.

While recovery efforts for the RUIA program decreased in fiscal year 2013, there was a comparable decrease in the debts identified.

Other Matters – Future Improper Payment Estimates

The following information was not audited and is provided for informational purposes. As a result, it was not prepared in accordance with generally accepted government auditing standards.

The Office of Inspector General's ongoing audits, ongoing investigations related to the occupational disability program, and previously expressed audit concerns could result in higher future improper payment estimates for the RRA program. We are proactively reporting these matters so that the RRB can take steps to address them in a timely manner.

An audit is currently being conducted by the RRB Office of Inspector General that has identified potential unestablished debts in the agency's receivable system and significant delays in the establishment of debts. Debts are the most significant component in the calculation of improper payments reported by the RRB for the RRA and RUIA programs. Debts not established, or debts established after the reporting period, would result in understated improper payments.

The Office of Inspector General has previously expressed concerns regarding occupational disability annuities and its impact on improper payment reporting. Recent RRB statistics show that job information forms had not been submitted by the railroad at the time the disability decision was made for 86% of disability applicants during fiscal year 2014. Regulations require submission of this information. The job information form is provided to the railroads to give them an opportunity to comment on the job duties described by the disability applicant. The Office of Inspector General previously recommended that agency procedures be modified to ensure that every reasonable effort be made by the RRB to obtain the form during the established response period.[9] To date, the RRB has not responded to this recommendation, which remains open. As a result, the ratings are being made without the required form, thereby potentially resulting in significant improper payments in the RRA program.

[9] RRB OIG, *Audit of Job Duty Verification Procedures for Long Island Rail Road Occupational Disability Applicants*, OIG Report No. 13-02 (Chicago, IL., January 15, 2013).

UNITED STATES GOVERNMENT

FORM G-115F (1-92)

MEMORANDUM

RAILROAD RETIREMENT BOARD

April 27, 2015

TO : Heather Dunahoo
Assistant Inspector General for Audit

FROM : George V. Govan GEORGE GOVAN
Chief Financial Officer

SUBJECT: Draft OIG Report on IPERA – Fiscal Year 2014 Performance & Accountability Report

This is in response to your request for comments on the above draft report. Following are my comments on recommendations addressed to the Executive Committee:

1. ***Take all of the necessary steps to prepare and submit the required plans within the 90 day reporting requirement.***

   Concur. We will follow the reporting requirements as outlined in the Office of Management and Budget memorandum 15-02, dated October 20, 2014.

   Target Completion Date: July 15, 2015.

2. ***Ensure that the necessary policies and procedures are developed and documented for the agency's use for the preparation of a risk assessment process that meets IPERA requirements;***

   Concur. We will document policies and procedures for the agency's use for the preparation of risk assessments.

   Target Completion Date: June 30, 2015.

3. ***Coordinate the preparation of a risk assessment for agency administered programs in accordance with OMB guidance; and***

   Concur. We will coordinate the preparation of risk assessments for appropriate programs administered.

   Target Completion Date: June 30, 2015.

4. ***Assess and determine who should be the improper payment official to ensure that they have sufficient knowledge and oversight of all RRB programs.***

   Concur. The Chief Financial Officer will be the agency improper payment official. The Executive Committee considers this recommendation implemented.

If you or your staff has any questions, please advise.

cc: Executive Committee
John Walter, Chief of ABFM
Thomas McCarthy, Chief of TADS
Debra Stringfellow-Wheat, Supervisory Auditor
Lawrence Haskin, Executive Assistant
Jeffrey Baer, Director of Audit Affairs
Henry Rueden, Financial Management and Program Analysis Manager

UNITED STATES GOVERNMENT

MEMORANDUM

FORM G-115f (1-92)

RAILROAD RETIREMENT BOARD

May 12, 2015

TO : Heather Dunahoo
Assistant Inspector General for Audit

FROM : Janet M. Hallman Janet M. Hallman
Director of Program Evaluation and Management Services
Through: Michael Tyllas Michael A. Tyllas, PhD
Director of Programs

SUBJECT: **Audit of the Railroad Retirement Board's Compliance with the Improper Payments Elimination and Recovery Act of 2010 in the Fiscal Year 2014 Performance and Accountability Report**

Office of Programs Response

Recommendation 5

The Office of Programs should reevaluate their methodologies and document their procedures for the computation of improper payment components to ensure that all areas are properly included in their computation of improper payments for the RRA program.

Office of Programs Response

The Office of Programs agrees to reevaluate our methodologies to ensure all appropriate areas are included in our improper payment computations for the RRA program. Any changes will be properly documented in our procedures and reflected in the analysis of FY 2014 improper payments. A close out package will be submitted by November 30, 2015.

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Office of Programs Response, Continued

Recommendations 6, 7, and 8

We recommend that the Office of Programs:

6. revise and document their definitions of improper payments for the RRA program in compliance with IPERA guidance, and if similar definitions are used for other programs, revise them accordingly.

7. review the RRA underpayment cases again using IPERA guidance and revise the calculation of improper underpayments and its overall computation of improper payments for fiscal year 2013; and

8. publish the revised improper payment rate data for fiscal year 2013 in the fiscal year 2015 PAR.

Office of Programs Response to 6, 7, and 8

The Office of Programs is currently consulting with the Social Security Administration to determine if their methodology for determining proper and improper payments of post adjudication underpayments is in alignment with that of the RRB. The business practices of our organizations are very similar and this information would be valuable in reconciling this disagreement between the OIG and Office of Programs on this matter. We are deferring our formal response to these recommendations for 60 days until we have had the opportunity to exchange information and thoroughly analyze this issue.

Recommendations 9 and 10

We recommend that the Office of Programs:

9. develop and document the necessary policies and procedures for the review and validation of the RUIA improper payment data to be reported in the PAR; and

10. ensure that the proper controls are in place to ensure that the policies and procedures are followed to properly support the improper payment data reported for the RUIA program.

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Office of Programs Response, Continued

Office of Programs Response

The Office of Programs agrees with the substance of these recommendations, however, disagrees with the organizational direction. Based on a calculation error by the Actuary specialists resulting in a slight decrease in the RUIA outlay projection for the next fiscal year, the Executive Committee or the Bureau of the Actuary would be the appropriate organization to address these two recommendations. We have discussed this matter with Actuary and they agree that the Office of Programs is not in a position to validate the figures provided and agree that Recommendations #9 and #10 should be addressed to the Actuary. The Actuary should be held accountable for the analysis, calculations, and documentation they provide for other organizations. In addition, it is essential that they fully review and validate any data provided and document their procedures for doing so. The Office of Programs requests redirection of these recommendations to the Bureau of the Actuary.

Evaluation of Performance Section

1. The first complete paragraph on page 11 of the report states, "As a result of an Office of Inspector General investigation and actions taken by the RRB, approximately $12.3 million was established for these improper payments; however, due to decisions made by the RRB, these debts have been written off as uncollectible."

2. The last paragraph on page 11 of the report states, "Whereas the amount for the RRA program in fiscal year 2013 increased, the recovery efforts were disproportionate to the increase in debts identified..."

Office of Programs Response

1. While the 45 individuals who accepted the Voluntary Disclosure and Disposition Program (VDDP) had associated overpayments of $12.3 million dollars, the RRB, the LIRR and the U.S. Attorney were all parties to the agreement. Due to this special program initiated by the U.S. Department of Justice and agreed to by the RRB, these debts have been written off as an expense to the agency. The debts remain compromised to zero only as long as the annuitants abide by the terms of the agreement which include never re-filing for disability benefits at the RRB.

2. The amount of RRA improper payments identified based on FY 2013 data equaled $57 million. Once the VDDP expense of $12.3 million is removed from this figure, the remaining RRA improper payments equal $44.7 million. This is a $2.1 million increase in recoverables from FY 2012. In addition, the increase in RRA recoveries from FY 2012 to FY 2013 was $1.7 million. These two RRA figures are proportionate.