Monitoring of the RRB's Planning for Possible Legislative Changes
Report No. 01-13, August 30, 2001

INTRODUCTION

This report presents the results of the Office of Inspector General's (OIG) review of the Railroad Retirement Board's (RRB) planning for possible legislative changes.

BACKGROUND

The RRB is an independent agency in the executive branch of the Federal government. The RRB's primary function is to administer comprehensive retirement-survivor and unemployment-sickness benefit programs for the nation's railroad workers and their families. These benefits are provided under the Railroad Retirement Act (RRA) and the Railroad Unemployment Insurance Act.

During fiscal year 2000, the RRB paid nearly $8.3 billion in retirement-survivor benefits to approximately 724,000 beneficiaries. Payroll taxes paid by railroad employers and their employees are the primary source of funding for RRA benefits. Employees and employers pay tier 1 taxes at the same rate as social security taxes. Both employees and employers also pay tier 2 taxes which are used to finance RRA benefits over and above social security levels. In addition, there is a supplemental annuity tax charged to employers to fund a supplemental annuity program for certain career employees who were in railroad service prior to October 1981. In fiscal year 2000, the RRB collected approximately $77 million in supplemental annuity taxes and paid $73 million in supplemental annuity benefits.

RRB trust funds not immediately required for benefits are invested in obligations of the United States. The market value of the trust funds as of the end of fiscal year 2000 was $19.4 billion.

The Railroad Retirement and Survivors' Improvement Act of 2000 – H.R. 4844 was introduced in the House of Representatives on July 13, 2000. The bill provides for significant changes to RRB benefits and financing of future benefits. The benefit provisions include improving widow and widower benefits, elimination of a maximum benefit limitation, restoring an unreduced annuity feature for those retiring at age 60 with 30 years of service and reducing a vesting provision to five years of service (for service credited after 12/31/95).

The financing provisions contained in the bill include the establishment of an independent investment trust that is responsible for the investments used to support retirement annuities, a pre-determined structure for establishing the tier 2 tax rates and elimination of the supplemental annuity tax.

The House of Representatives (House) passed the bill by a large majority on September 7, 2000. Opposition to the bill in the Senate, directed at the early retirement feature and the investment provisions, precluded its passage. A new bill, H.R. 1140, which is substantially identical to the previous legislation (H.R. 4844), was introduced in the House in early 2001. H.R. 1140, Railroad Retirement and Survivors' Improvement Act of 2001, was amended in committee to provide for revised effective dates. A companion bill, S. 697, was introduced in the Senate on April 4, 2001.

OBJECTIVE, SCOPE AND METHODOLOGY

The objective of the review was to determine if the RRB's planning efforts are adequate to prepare for significant program changes that are likely to be enacted as a result of the pending legislation. Our review of the RRB's planning efforts, both formal and informal, were limited to the actions performed by the RRB through January 31, 2001 in anticipation of the proposed legislative changes. We monitored the progress of the proposed legislation throughout the completion of the fieldwork.

To accomplish the objective, the OIG:

- reviewed the Railroad Retirement and Survivors' Improvement Act of 2000 and 2001 and related Senate bills;
- reviewed RRB administrative reports;
- interviewed RRB personnel;
- reviewed and assessed the adequacy of management controls; and,
- determined whether the RRB identified the resources required to implement the expected changes.

The review was performed in accordance with generally accepted government auditing standards appropriate for this type of review. The fieldwork was performed at the RRB headquarters office in Chicago, Illinois from January through July 2001.

RESULTS OF REVIEW

The RRB's planning efforts through January 31, 2001 were adequate to provide reasonable assurance that the agency could implement the provisions of the pending legislation if enacted. The review showed that the RRB would incur a delay in the processing of certain retirement cases if the legislation is passed with retroactive effective dates or if the bill is passed very close to the effective date of benefit changes. The effective dates applicable to the legislation are beyond the agency's control. The agency expects that the current version of the bill will be modified to allow sufficient time for implementation.

The RRB can improve on its initial planning efforts by assigning specific planning responsibility to appropriate agency managers. In addition, the agency should re-examine and/or verify cost projections submitted to the Board Members' offices. A detailed discussion of the OIG's monitoring activities and recommendations for corrective actions are discussed in the following sections of the report.

ASSIGNMENT OF RESPONSIBILITY

The Office of General Counsel, in conjunction with the Executive Committee, assumed the primary responsibility to plan for the implementation of the proposed legislation. The Office of General Counsel provided legal assistance and guidance to RRB personnel when requested. The Bureau of Actuary and the Bureau of Fiscal Operations were also involved in the planning. The Office of Legislative Affairs maintained close contact with congressional offices and interested parties, and informed RRB headquarters management of developments. While there was no formal designation of responsibility, the Executive Committee was aware that the Office of Programs' Policy and Systems section (Policy and Systems) took the lead in planning for the proposed legislation.

Policy and Systems began the analysis of the proposals prior to March 2000 and reviewed provisions of the bill. Policy and Systems planned for the proposed legislation by:

- forming a group comprised of representatives from the Office of Programs operational components (Operations, Assessment and Training, Field Service, and the Resource Management Center) to develop plans for a training meeting on the proposal;
- monitoring and analyzing the bills and various changes as they were being made; and
- working with the Bureau of Information Services to identify systems that would be impacted by the proposed legislation. Policy and Systems then analyzed the extent of the changes needed for computer systems coding, programming, and procedural changes.

Although the scope of the changes required for enactment of the proposal will be significant, RRB personnel stated that increased computer usage and enhanced databases allow the RRB to make changes quickly with fewer personnel.

Government standards for internal control state that the control environment is affected by the manner in which an agency delegates authority and responsibility throughout the organization. Also, responsibility should be assigned to designated personnel in order to ensure the establishment and implementation of procedures for the enforcement of internal control. Without the specific designation of responsibility, the RRB has not established effective accountability for the planning effort.

Recommendation:

The Senior Executive Officer should assign specific planning responsibility to senior agency managers within their areas of functional responsibility (Recommendation No. 1).

Management's Response:

Management concurs with the recommendation.

COST ESTIMATES

RRB Board Members requested that cost estimates for implementing the proposed legislation be submitted in a relatively short time period. Policy and Systems personnel were given approximately two and one half weeks to prepare cost projections, which they submitted on September 30, 2000. They used their judgement and the Board's guidance in preparing the cost projections. As such, Policy and Systems stated that projected costs were developed in a coordinated and conscientious manner to ensure the most efficient transition as possible. Congress did not pass the initial bill and the proposed legislation was reintroduced in the current legislative session.

A strong system of internal control requires timely and accurate financial information to make operating decisions, monitor performance and allocate resources. Due to the timeframe provided to develop the cost estimates, and since over nine months has elapsed since the report was prepared, it would be prudent to reexamine the estimates. It is possible that the cost projections may not be accurate in the current operating environment. As a result, the cost projections could be under or over estimated.

Recommendation:

The agency's Executive Committee should reexamine the cost projections submitted to the Board (Recommendation No. 2).

Management's Response:

Management concurs with this recommendation.

RELATED ISSUE - PRIVATE DISBURSING AGENT

The legislation provides that a private disbursing agent will be used to pay RRB beneficiaries rather than continuing to have the Department of the Treasury (Treasury) pay benefits under the Railroad Retirement Act.

Section 105(a) of the pending legislation creates a new independent Railroad Retirement Investment Trust (Trust) for the purpose of investing the assets of the RRB. In addition, the RRB would direct the Trust to transfer to the independent disbursing agent amounts necessary to pay benefits as authorized under the Railroad Retirement Act. The independent disbursing agent is defined as a nongovernmental financial institution to be selected by the RRB after consulting with the Board of Trustees of the Trust and the Secretary of the Treasury.

RRB management stated that neither they nor railroad labor organizations or railroad management had proposed or provided support for the establishment of an independent disbursing agent. This concept was developed during legislative committee discussions.

RRB management indicated that the use of a private disbursing agent could have a negative effect on customer service if not properly implemented. Initially, the RRB would be required to develop a new system for utilizing the private disbursing agent in addition to monitoring the current system with Treasury. As a result, additional work would be created. Also, RRB personnel expect other problems could occur, but would not be revealed until the RRB attempted to implement the new legislation.

The RRB has established procedures for Treasury to issue RRB payments. Treasury also provides services related to undeliverable and returned checks, reclamations, and debt collection. The RRB believes a private disbursing agent would be more costly and less efficient than continuing to use the services of Treasury. Plus, the RRB would have to explore privacy issues, including the private disbursing agent's access to RRB beneficiary information.

Policy and Systems prepared a statement that assessed the impact of using a disbursing agent other than Treasury. The statement acknowledged that the impact would depend on the service that the private disbursing agent would provide and the methods used for delivering services. The statement also provided a list of items that the Agency must do, including establishing new procedures. For example, the transfer of funds to a private disbursing agent would require that the RRB perform the following:

- maintain the current interfaces, processes and procedures for working with Treasury on RRA payments until all activity related to the payments issued by them are transferred to a new disbursing agent;

- determine which rules (commercial or governmental) apply to RRA benefit payments made by a non-government disbursing agent; and
- establish new procedures for the certification and distribution of payments, recovery process for incorrect payments and the coordination of offset efforts with other agencies.

The RRB contacted the Treasury for guidance regarding the use of a private disbursing agent. Treasury personnel told the RRB to wait for final passage of the legislation before planning for this provision because RRB disbursements would remain at Treasury until the private disbursing agent is in place. RRB management indicated that it might require up to two years to fully transfer the disbursement function to an independent disbursing agent.

Treasury personnel indicated that they also have reservations about the RRB using an independent disbursing agent. Treasury has indicated to the RRB that it will express its concerns on this provision as the legislation continues to evolve.

Since passage of the legislation is beyond the authority of the agency, the OIG is not making any recommendation related to this issue.

The OIG considers the RRB's planning efforts through January 31, 2001 to be adequate to provide reasonable assurance that the agency could implement the provisions of the pending legislation if enacted. The agency can improve on its initial planning efforts by implementing the recommendations made. Although a specific recommendation was not made regarding the independent disbursing agent, the RRB may wish to prepare a position paper that outlines the specific problems associated with this provision.