

**Evaluation of the Sufficiency of Existing Data to Estimate
the Impact of Improper Payments on the
Railroad Retirement Act Benefit Program
Report No. 03-12, September 17, 2003**

EXECUTIVE SUMMARY

This report presents the results of the Office of Inspector General's evaluation of the sufficiency of existing data to estimate the impact of improper payments on the Railroad Retirement Act (RRA) benefit program. The Railroad Retirement Board (RRB) administers comprehensive retirement-survivor benefit programs mandated by the RRA.

The Improper Payments Information Act of 2002 requires agency heads to annually review all programs and identify those that may be susceptible to significant improper payments. In May 2003, the Office of Management and Budget (OMB) issued guidance that defines "significant improper payments" as annual erroneous payments exceeding both 2.5 % of program payments and \$10 million.

As a test of the sufficiency of existing data to support the annual review required under the Improper Payments Information Act, we attempted to estimate the extent of improper payments in the RRA program using data drawn from the RRB's benefit payment and accounting systems. Our fieldwork also included tests of selected overpayment transactions related to the death of an annuitant and concurrent entitlement to Social Security benefits.

We were able to conclude that the RRA program does not experience improper payments in excess of the 2.5% threshold established by OMB. However, limitations on the available data restricted our ability to develop a more precise estimate of monetary impact. For example, we were unable to adjust our estimate for overpayments and underpayments related to prior fiscal years, and could not eliminate all transactions that did not meet OMB's definition of improper payments.

Our tests included an assessment of the impact of payment processing cut-off dates on the RRA program's overpayment experience when accounts receivable are established as a result of an annuitant's death. Our review of a random sample of 312 overpayments established due to the death of the annuitant indicates that approximately \$16 million (or 50%) were associated with notices of death received after the cut-off date for monthly payment processing.

We also examined the RRA program's overpayment experience for accounts receivable established as a result of an annuitant's concurrent entitlement to Social Security benefits. We observed that certain routine adjustments are recognized as debt; some overpayments due to concurrent entitlement may be avoidable; and the Payment Rate Entitlement History system does not always report complete information for some Social Security transactions.

We have recommended that the Office of Programs determine the need for system enhancements or alternate sources of data to support the annual determination of the RRA program's susceptibility to improper payments required by the Improper Payments Information Act of 2002. We have also offered recommendations for the reduction of overpayments and the quality of data reported by existing systems. Management concurs with our findings and recommendations.

INTRODUCTION

This report presents the results of the Office of Inspector General's (OIG) evaluation of the sufficiency of existing data to estimate the impact of improper payments on the Railroad Retirement Act (RRA) benefit program.

Background

The Railroad Retirement Board (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 RRA and the Railroad Unemployment Insurance Act (RUIA). During fiscal year (FY) 2002, the RRB paid over \$8 billion in benefits.

The Improper Payments Information Act of 2002 contains requirements in the areas of improper payment identification and reporting. It requires agency heads to annually review all programs and activities, identify those that may be susceptible to significant improper payments, estimate annual improper payments in the susceptible programs and activities, and report the results of their improper payment activities. The legislation also requires the Office of Management and Budget (OMB) to prescribe guidance for Federal agency use in implementing the act. OMB issued the guidance in May 2003. OMB's guidance addresses the specific reporting requirements called for in the act and lays out the general steps agencies are to perform to meet those requirements. The guidance defines key terms used in the law, such as programs and activities, and offers criteria that clarify the meaning of the term "significant improper payments."

OMB's Memorandum M-03-13, dated May 13, 2003, outlines how Federal agencies should implement the Improper Payments Information Act. OMB has defined as improper any payment that should not have been made or that was made in an incorrect amount (including inappropriate denials of payment). The terms "improper payment" and "erroneous payment" have the same meaning.

OMB has defined "significant improper payments" as annual erroneous payments exceeding both 2.5 % of program payments and \$10 million. For those programs and activities susceptible to significant improper payments, the guidance instructs agencies to use statistical sampling to estimate its annual improper payment experience based on the gross total of both overpayments and underpayments.

The program accounts receivable (PAR) system is a mainframe computer application that supports the agency's debt recovery operations. It contains the detailed history of each debt recognized by the RRB, including the cause, amount, collections, outstanding balance and final disposition. The Payment Rate Entitlement History (PREH) system is an on-line system that supports RRA benefit payment operations by providing a history of transactions. The PREH One-Payment-Only record includes detailed history of each underpayment including the accrual period, type of payment, amount disbursed and any amounts withheld. The RRB's general ledger is a collection of all agency financial accounts, and supports financial management and reporting. The general ledger summarizes the debt recovery transactions and disbursements that have been recorded in PAR and PREH.

This evaluation addresses areas of management performance that support the RRB's strategic goal of safeguarding agency trust funds through prudent stewardship.

Objective, Scope and Methodology

The objective of this evaluation was to assess the sufficiency of existing data to estimate the impact of improper payments on the RRA programs. The scope of this project was limited to the assessment of selected FY 2002 data drawn from the RRB's benefit payment and accounting systems.

In order to achieve this objective, we attempted to estimate the extent of RRA program improper payments. As part of this process, we:

- reviewed prior audits,
- obtained and reviewed the Improper Payments Act of 2002 and related OMB guidance,
- obtained a download of debt established on the PAR system,
- obtained a download of transactions displayed in the One-Pay-Only screen of the PREH system,
- analyzed the data obtained from the PAR system to identify transactions that met the definition of an improper payment within the meaning of the Improper Payments Act,
- analyzed selected data obtained from the RRB's general ledger,
- assessed the impact of payment processing cut-off dates on the effectiveness of the agency's termination action in a random sample of 312 overpayments established due to the death of the annuitant, and
- reviewed the 414 overpayments caused by concurrent entitlement to Social Security benefits that could not be identified as routine mechanical adjustments to assess the potential for improved performance.

The details of our estimation methodology are presented in Appendix I to this report.

Our work was performed in accordance with generally accepted government auditing standards as applicable to the project's limited objective. Fieldwork was performed at the RRB headquarters in Chicago, Illinois during April through July 2003.

RESULTS OF EVALUATION

Data currently available in the RRB's systems is sufficient to support a general estimate of the magnitude of improper payments. However, limitations on the data available in the PREH system indicate that existing data would not support an estimate of erroneous payments sufficient to assess changes in program experience from period to period.

Based on the data reviewed, the OIG has concluded that the RRA program is not susceptible to significant improper payments within the meaning of the Improper Payments Information Act, according to the criteria published by OMB. Accordingly, the RRB will not be required to use statistical sampling to measure its progress in reducing improper payments in the RRA program.

During our evaluation, we observed that some overpayments related to the death of the annuitant and concurrent entitlement to Social Security benefits could be reduced or avoided. We have also noted that the RRB continues its practice of reporting certain routine Social Security adjustment transactions as debt, thus inflating reports of the agency's overpayment experience.

The details of our findings and recommendations follow. The full text of management's response is included as Appendix II to this report.

Availability of Data Limits Analysis of Improper Payments

As a test of the sufficiency of existing data, the OIG attempted to estimate the RRA program's exposure to improper payments using data drawn from the agency's general ledger, the PREH system and the PAR system. We were able to develop a general estimate that would support evaluation under OMB criteria. However, limitations on the data precluded the type of precise estimation required to measure improvement in program performance from year to year.

During our assessment of the RRB's improper payment experience against OMB criteria, limitations in the data restricted our ability to estimate actual overpayments and underpayments. As a result, the OIG's estimate of \$127 million of actual erroneous payments is overstated because we could not identify and subtract the value of all transactions that did not meet OMB's definition or that did not pertain to the period under examination. For example, we were unable to eliminate overpayments and underpayments related to:

- prior fiscal years,
- re-issued benefit payments,

- the return of over-reimbursements, and
- the recertification of partial awards to final amounts.

In addition, we observed that some overpayments are not recorded in the PAR system when the overpayment is identified during award computation and is recovered from accrued benefits. This practice tends to understate reports of the program's actual erroneous payment experience. Since these transactions cannot be identified without an individual case review, they could not be factored into the OIG's estimate.

Accrual Periods

The PREH One-Pay-Only screen displays fields for the beginning and ending dates of the period to which accrued payments pertain. In some cases, the accrual period appears to be incorrect. In several cases, the accrual period was one month; however, the accrual exceeded \$3,000, which is generally more than the average monthly benefit. We also identified accrual ending dates that preceded the accrual beginning date, and records with missing accrual ending dates. Without the correct accrual dates, the payment cannot be associated with payment activity for any given fiscal year.¹

Re-Issued Payments and Over-Reimbursements

The RRB is sometimes required to re-issue benefit payments that have not been received by the beneficiary. Beneficiaries may report their checks lost, the post office may be unable to deliver them, or banks sometimes return electronic fund transfers. The agency then researches the problem and re-issues the payment as appropriate. Although codes have been established to identify re-issued benefit payments in the PREH One-Pay-Only screen, these transactions are not always identified with the appropriate code.

As part of the debt recovery process, the RRB may receive funds or withhold benefits in excess of amounts owed. The excess funds are later paid out through the benefit payment systems. As with re-issued benefit payments, we were not able to consistently identify these over-reimbursement transactions.

Absent reliable coding, these transactions cannot be identified and eliminated from the estimates of the RRA program's improper payment experience.

Recertifications of Partial Awards Are Not Reliably Identified

In some situations, the RRB will expedite an initial award of benefits to a first-time annuitant by processing a "partial" award which is an estimate based on currently available information. Subsequently, the partial award is recomputed based on final

¹ Auditor observations about the completeness and/or accuracy of the data pertain exclusively to the manner in which transactions were recorded in the various systems from which we drew data. We did not test, and have drawn no conclusions concerning the design or operation of the individual systems that supplied the historical data for this evaluation.

information and any underpayment that has accrued is paid out. Payments made as a result of the recertification of partial awards to their final amount would not indicate a prior improper payment within the definition established by OMB.

The PREH system provides for coding to distinguish the recertification of partial awards from other recertification activity. Our tests disclosed that such coding could not be relied upon because the codes that identified partial-to-final activity had been used to identify other types of transactions. As a result, we could not eliminate these transactions from our estimate of the RRA program's improper payment experience.

Some Overpayments are Not Recorded in PAR

The first payment issued after an application for benefits has been adjudicated is termed the "initial award." The initial award of benefits may include a retroactive payment of up to 12 months of benefits. Payments for prior periods are processed as accruals outside of the regular monthly check issue operation.

Payment activity described as "initial" may include other activity such as recovery of overpayments. In some cases, these overpayments may not be recorded on the PAR system. Although the accrual is not an improper payment, the related overpayments would be considered an improper payment and should be accounted for as such. The current process does not support identification of overpayments associated with initial activity.

Agency Quality Assurance Studies

In developing our assessment of the RRA programs exposure to improper payments, we considered the results of quality assurance studies performed by the Office of Programs. The high rate of payment accuracy reported by these studies played an important part in the OIG's current assessment of the potential for erroneous payments in excess of the OMB threshold. For purposes of the present assessment, we were able to rely on the Office of Program's studies to the extent that they associate relatively low monetary impact with adjudicative error.

However, in October 2002, the OIG reported that the Office of Programs' annual studies of adjudicative accuracy would not serve as a comprehensive estimate of the monetary impact of improper payments.² We observed that the study's value as a risk assessment tool could be enhanced by expanding the study's scope to measure the monetary impact of three types of errors that are currently excluded from the computation of case and payment accuracy.

As a result of the OIG's report, the Office of Programs agreed to expand the study's scope to capture the cost of errors in the application of temporary work deductions and

²"Effectiveness of the RRA Quality Assurance Program in Estimating Exposure to Improper Payments," OIG Audit Report #03-01, October 9, 2002.

to consider developing a methodology to measure the monetary impact of errors that do not affect recurring payment rates. They rejected a recommendation to revise the study methodology to capture the cost of certain errors that are later corrected as a result of system edits, review referrals and other controls.

Recommendation

1. We recommend that the Office of Programs determine the need for system enhancements or alternate sources of data to support the annual determination of the RRA program's susceptibility to improper payments required by the Improper Payments Information Act of 2002.

Management's Response

The Office of Programs agrees and noted that they are already developing their methodology.

RRB's Experience with Improper Payments

In our opinion, the RRA benefit program does not experience significant improper payments based on the criteria established by OMB pursuant to the Improper Payments Act of 2002. Our review of existing data disclosed nothing to indicate that the agency's experience with improper payments exceeds the OMB threshold of 2.5% of program payments. Accordingly, the RRB is not required to perform statistical sampling to measure and monitor improper payments in the RRA program.

To determine whether the RRA benefit program is subject to significant improper payments within the meaning of the Improper Payments Act of 2002, we used OMB's criteria. We estimated \$217 million, 2.5% of the approximately \$8.7 billion in benefits paid under the provisions of the RRA during FY 2002, as the threshold amount for determining whether improper payments in the RRA should be considered significant. Improper or erroneous payments are defined as payments that should not have been made or were made for the incorrect amount. Improper payments include both overpayments and underpayments both actual and potential.

Using selected data drawn from the agency's general ledger, the PAR system and the PREH system, we assessed the RRA program's known experience with improper payments based on corrections to annuitant payment records. Corrections in the payment record are evidenced by the recognition of debt and the payment of benefits outside of the monthly check issue.

Based on our analysis of available data, we estimate that actual improper payments in the RRA program did not exceed \$127 million in FY 2002. This estimate is based on the approximately \$42 million in RRA program accounts receivable, recognized during FY 2002, that were associated with benefit overpayments. In addition, the agency paid approximately \$85 million outside of the monthly check issue that could not be immediately associated with activity other than payment correction.

Since identified improper payments do not exceed \$127 million, the RRA program would be considered to experience significant improper payments only if unidentified overpayments and underpayment are expected to exceed \$90 million. We consider it improbable that the RRA program experiences unidentified overpayments and underpayments in excess of \$90 million because:

- agency estimates of RRA adjudicative case accuracy typically exceed 90% and the estimated cost of inaccuracies are typically under \$1 million during the first year;
- consistent with the demographics of the RRB's program, annuitant death is the most significant cause of known overpayments and the RRB performs matches with the Social Security Administration and the Centers for Medicare and Medicaid Services to identify unreported deaths; and
- consistent with a beneficiary population that is nearly 85% over age 65, the RRA experiences a relatively low number of overpayments due to post-retirement earnings.³

Fraud has been an historic problem in Federal social entitlement programs because of their reliance on self-disclosure. Although the RRB has implemented a number of monitoring programs to identify potential fraud, some deaths and earnings may go undetected. Fraudulent payments that have been identified and subject to recovery are included in the agency's accounts receivable experience.

Overpayments Established Due to the Death of the Annuitant

Our tests of PAR data included an assessment of the impact of payment processing cut-off dates on the RRA program's overpayment experience when accounts receivable are established as a result of an annuitant's death. We observed that constraints on the automated processing of payments cause some overpayments.

Payments released after the death of the annuitant are the largest single cause of overpayments recognized by the RRB each year. In FY 2002, the RRB recognized approximately 28,000 debts, valued in excess of \$32 million related to such payments. Minimizing erroneous payments addresses the agency's strategic goal to safeguard customers' trust funds through prudent stewardship.

³Annuitants who have reached full retirement age are not subject to a reduction in benefits if they work for a non-railroad employer. Full retirement age is 65 for persons born before 1938. Under the RRA, annuities are not payable to anyone employed by a railroad or railroad labor organization.

Recurring benefits paid under the RRA are issued by the U.S. Department of the Treasury on the instructions of the RRB. Benefit payments are issued on the first business day of each month; payment instructions are transmitted electronically on approximately the 25th of the preceding month. When notice of a terminating event is received after the cut-off date for monthly payment processing, the RRB is unable to terminate the annuity before the scheduled release of the next payment, and an overpayment results.

Our examination of a random sample of 312 overpayments established due to the death of the annuitant indicates that approximately \$16 million (or 50%) were associated with notices of death received after the cut-off date for monthly payment processing.

The RRB is currently working with the Department of the Treasury's Philadelphia Financial Center to implement a process that would permit the agency to intercept payments during the period between the agency's release of instructions to pay and the actual issue of payment by check or electronic fund transfer.

The Office of Programs' prior efforts to implement a payment intercept program date back to 1993 when the Department of Treasury's Chicago Financial Center was responsible for the RRB's benefit payment processing. The current initiative is being coordinated with other enhancements to payment processing operations at the Philadelphia Financial Center and the Office of Programs is optimistic about the outcome.

Recommendation

2. The Office of Programs should continue to pursue implementation of the Payment Intercept process to reduce the number of payments released after death.

Management's Response

The Office of Programs agrees with the recommendation. Although they expect to implement the new process during FY 2004, the actual timing will be dependent on program changes that must be made by Treasury's Philadelphia Financial Center.

Overpayments Resulting from Concurrent Entitlement to Social Security Benefits

Our tests of PAR data included an assessment of the impact of transaction processing on the RRA program's overpayment experience when accounts receivable are established as a result of an annuitant's concurrent entitlement to Social Security benefits. We observed that:

- certain routine adjustments are recognized as debt;
- that some overpayments due to concurrent entitlement may be avoidable; and
- that the PREH system does not always report complete information for some Social Security transactions.

The tier I portion of an employee annuity must be reduced by the amount of any actual social security benefit paid on the basis of non-railroad employment.⁴ Since 1975, if a beneficiary under the RRA is also awarded Social Security benefits, the Social Security Administration determines the amount due, but a combined monthly benefit payment is issued by the RRB.

Routine Social Security Adjustments Recognized As Debt

The RRB records an account receivable for all retroactive annuity adjustments resulting from concurrent entitlement to Social Security benefits, even when the RRB is immediately and fully reimbursed by withholding accrued Social Security benefits. As a result, the RRB records approximately \$7 million per year more in debt and related collections than would otherwise be recognized.

As previously discussed, the tier I portion of an RRA annuity must be reduced for any Social Security benefits that are concurrently payable. As a result of timing differences between the date of entitlement to concurrent benefits and notification to the RRB, reduction of the tier I benefit often requires a retroactive downward adjustment of the RRA annuity.

Under normal circumstances, retroactive downward adjustment of an annuity requires the RRB to seek return of the benefit overpayment from the annuitant. However, in order to facilitate the coordination of benefits between the two agencies, Congress has authorized the Social Security Administration to certify the Social Security benefits of Railroad Retirement annuitants to the RRB so that a single combined payment can be issued. In these cases, termed "LAF Code E," the retroactive payment of Social

⁴Railroad retirement annuities are calculated under a two-tier formula. The first tier is based on Railroad Retirement credits and any Social Security credits an employee has acquired. The amount of the first tier is calculated using Social Security formulas, but with Railroad Retirement age and service requirements. The second tier is based on Railroad Retirement credits only.

Security benefits becomes a paper transaction in which the full amount of the tier I reduction for prior periods is withheld from the Social Security benefits that have accrued unpaid for those periods.⁵ In most cases, there is never an outstanding balance to collect.

An account receivable recognizes a claim to cash or other assets; however, the retroactive adjustment that occurs when Social Security benefits are certified to the RRB for payment fully reimburses the RRB's trust funds. No claim to cash from the public exists. The RRB is effectively recognizing as debt, transactions that were designed to prevent debt.

Some Overpayments Due To Concurrent Social Security Entitlement May Be Avoidable

Occasionally, Social Security benefits that should be certified to the RRB for payment are erroneously certified by the Social Security Administration directly to Treasury for payment. Such cases, referred to as "LAF Code C" cases, may result in an overpayment of RRA benefits because of delays in making the appropriate reduction to the recipient's RRA benefit. The RRB recognized 294 debts, valued at approximately \$1.2 million, due to LAF Code C Social Security benefits during FY 2002.

The average time between the effective date of the Social Security benefits and the accounting date of the RRB's benefit adjustment was 8 months. While some overpayments may have been due to retroactive entitlement, we observed situations in which the overpayment appeared to be the result of delays in RRB handling. For example, in 33 (11%) of the cases, the Social Security effective date preceded the beginning date of the RRA annuity. In some cases, information about the Social Security entitlement should have been available at the time that the RRA annuity was initially awarded. Based on the information reviewed, the RRB could have reduced some overpayments by expediting the handling of the Social Security adjustment and/or obtaining the Social Security entitlement information prior to payment.

PREH System Does Not Always Report Complete Social Security Information

The lack of complete information about Social Security entitlement impeded the analysis of the RRA program's improper payment experience.

We examined 294 cases in which the Social Security Administration is paying benefits directly to the annuitant. We noted that the PREH screen that reports certain identifying information about Social Security beneficiaries and benefits did not consistently provide complete information about payments and entitlement.

⁵The designation "LAF Code E" refers to the coding used in Social Security's master benefit record. "LAF Code E" benefits are paid by the Railroad Retirement Board. "LAF Code C" benefits are paid by the Social Security Administration.

In 64 (22%) cases, the beneficiary's Social Security information and/or LAF Code was not available on PREH. Since the Social Security benefit in these cases exceeds the RRA benefit, the RRA annuity had been terminated. In some cases, all fields were blank.

In the absence of complete PREH information, auditors reviewed paper claim folders or documents stored in the RRA document imaging system.

Recommendations

The Office of Programs should:

3. review examples identified during this evaluation to determine whether the circumstances indicate a need for changed procedure or controls that could reduce overpayments due to concurrent entitlement to Social Security benefits; and
4. assess the need for changes to procedures or controls to ensure that the PREH system reports complete data.

Management in the Bureau of Fiscal Operations rejected a previous OIG recommendation that the agency end the practice of recognizing a debt and related account receivable for overpayments resulting from the retroactive downward adjustment of RRA annuities when recovery is simultaneously achieved by withholding from accrued Social Security benefits.⁶ Accordingly, we will make no recommendation in this matter at the present time.

Management's Response

The Office of Programs has agreed to review the overpayments questioned by the audit to determine whether they indicate a need for changed procedure or controls. They will also evaluate the need to change procedures or controls to ensure that the PREH system reports complete data on SSA LAF Code C payments.

⁶OIG Management Information Report, "RRA Program Debt Recognition and Collection Experience," Report # 01-09, July 26, 2001.

OIG'S ESTIMATION METHODOLOGY

We estimated the RRB known improper payment experience using data drawn from the agency's accounting and benefit payment systems. The estimated \$127 million is comprised of \$85 million in underpayments and \$42 million in overpayments. The OIG's methodology in computing the threshold amount for determining significant improper payments and assessing the RRA programs known experience with such payments follows.

Computation of the Threshold Amount

Based on the OMB guidance, we estimated the RRB's threshold for measuring significant improper payments pursuant to the Improper Payments Act at \$217 million.

• RRA Benefit Disbursements	\$ 8,679 Million
• RRA Benefits Withheld to Recover RUIA Debt	14 Million
• RRA Benefits withheld to Recover RRA Debt	6 Million
	=====
Total RRA Program Payments	\$ 8,699 Million
Improper Payment Threshold (2.5%)	\$ 217 Million

The data used in the above estimate was drawn from the RRB's general ledger and the PAR system.

Estimation of Known Underpayment Experience

We estimated the RRA programs maximum actual underpayments at \$85 million based on amounts disbursed outside of the regular monthly check issue. We used the total amount of benefit disbursements recorded in the general ledger and subtracted the total amount disbursed during the regular check issue operation.

Total RRA Program Payments	\$ 8,699 Million
Less	
Total Recurring RRA Payments from Master Benefit File	\$ 8,534 Million
Accrued RRA Benefits Associated with Initial Awards	80 Million
	=====
Out-of-Period Payments	\$ 85 Million

The reduction for payments associated with initial awards is not comprehensive. It is an estimate based on selected readily identifiable transactions in the PREH one-pay-only screen.

OIG'S ESTIMATION METHODOLOGY

Estimation of Known Overpayments

We estimated the RRA programs known overpayments at \$42 million based on accounts receivable recorded in the PAR system for FY 2002. We used the total of all RRA receivables recorded and subtracted transactions that are not associated with erroneous benefit payment.

RRA Receivables Recognized During FY 2002	\$ 54 Million	
Less Transactions that do not indicate improper payments:		
• transactions recorded as a result of routine adjustments to the RRA annuity for concurrent entitlement to Social Security Benefits when no recovery action is required, and	7 Million	
• changes in annuity beginning dates due to RRSIA legislation.	5 Million	
	=====	
Estimated Actual Overpayments	\$ 42 Million	
Receivables by		
• Death of An RRA Annuitant	\$ 33 Million	77%
• SSA Benefit Payments/Adjustments	2 Million	5%
• Earnings in Excess of RRA limitation	3 Million	7%
• Changes to Annuity Beginning Dates	1 Million	2%
• Miscellaneous Other Causes	3 Million	9%
	=====	
	\$ 42 Million	100%

Social Security Benefits Paid by the RRB

The RRB records an account receivable for any retroactive annuity adjustment resulting from concurrent entitlement to Social Security benefits, even when the RRB is immediately and fully reimbursed by withholding of accrued Social Security benefits. Congress has authorized the Social Security Administration to certify the Social Security benefits of Railroad Retirement annuitants to the RRB so that a single combined payment can be issued. In these cases, termed "LAF Code E" Social Security cases, the retroactive payment of Social Security benefits becomes a paper transaction, in which the full overpayment amount is withheld from the Social Security benefits that have accrued unpaid for those periods.

RRSIA Legislation

The Railroad Retirement and Survivors Improvement Act of 2001 (RRSIA) made it advantageous for certain recently retired railroad employees to withdraw their previous application and re-file for benefits under the provisions of new law. Previously paid benefits were accounted for as overpayments due to "erroneous annuity beginning date." The related receivable was subject to recovery from any benefits payable when benefits were subsequently awarded under the new application.

UNITED STATES GOVERNMENT

FORM G-115f (1-92)

MEMORANDUM

RAILROAD RETIREMENT BOARD

SEP 16 2003



TO: Henrietta Shaw
Assistant Inspector General, Audit

FROM: Catherine A. Leyser *Catherine A. Leyser*
Director of Assessment and Training

THROUGH: Dorothy Isherwood *D. Isherwood*
Director of Programs

SUBJECT: Draft Report- Evaluation of the Sufficiency of Existing Data to Estimate the Impact of Improper Payments on the RRA Benefit Program.

Response to the Draft Report

**General
comments**

We have read the draft report and concur with the findings and recommendations. We wish to express our appreciation of your staff's efforts in the timely release of this report. It was very helpful to us in our efforts in performing the estimation of improper payments in the RRA program as required by the *Improper Payments Information Act of 2002*.

Recommendation

1

Office of Programs should determine the need for system enhancements or alternate sources of data to support the annual determination of the RRA program's susceptibility to improper payments required by the Improper Payments Information Act of 2002.

OP response

We agree. We are already developing our methodology for determination and will provide a description of this methodology to your office by 01/31/04.

Continued on next page

Response to the Draft Report, Continued

Recommendation
2 *The Office of Programs should continue to pursue implementation of the Payment Intercept process to reduce the number of payments released after death.*

OP response We agree. We have already met with Michael Colarusso, Regional Director of Treasury's Philadelphia Financial Center (PFC), and members of his staff in April 2003. Among the action items are EFT Payment Intercepts and Check Holds. We expect to implement the process in fiscal year 2004. The implementation date is dependent upon program changes that must be made by Treasury's Philadelphia Financial Center.

Recommendation
3 *Office of Programs should review examples identified during this evaluation to determine whether the circumstances indicate a need for changed procedure or controls that could reduce overpayments due to concurrent entitlement to Social Security benefits.*

OP response We agree. We will complete this review by 12/31/03. By 4/30/04, we will provide an evaluation for the need of changed procedures or controls that could reduce overpayments due to concurrent entitlement to Social Security benefits.

Recommendation
4 *Office of Programs should assess the need for changes to procedures or controls to ensure that the PREH system reports complete data.*

OP response We agree. We will complete this review by 12/31/03. By 4/30/04, we will provide an evaluation for the need to change either procedures or controls to ensure that the PREH system reports complete data on the SSA LAF code C payments.

Copies Director of Operations
Director of Policy and Systems
Supervisory Statistical Officer IRM-DMG
Chief, Program Evaluation, Ret/Sur/Tax/Medicare
