

Review of Accounts Receivable Established Under the Railroad Unemployment Insurance Act, Report No. 04-06, July 29, 2004

INTRODUCTION

This report presents the results of the Office of Inspector General's (OIG) review of accounts receivable established under the Railroad Unemployment Insurance Act (RUIA) at the Railroad Retirement Board (RRB).

Background

The RRB is an independent agency in the executive branch of the Federal government. The RRB administers the RUIA which provides unemployment and sickness insurance to workers in the rail industry. During fiscal year (FY) 2003, the RRB paid \$94.1 million to the 15,000 individuals qualifying for unemployment benefits and the 23,000 individuals qualifying for sickness benefits under the RUIA.

The RRB also administers the health and welfare provisions of the Railroad Retirement Act (RRA) which provide retirement-survivor benefits for eligible railroad employees, their spouses, widows and other survivors. During FY 2003, approximately 666,000 annuitants received benefits totaling \$8.9 billion under the RRA.

Program debt typically arises when a change in an annuitant's personal or employment status occurs. In many cases, notice of an event that will affect the benefit payment amount is received after-the-fact. If the corrected rate is lower than the amount actually paid in the past, the beneficiary will have been overpaid. The agency then recognizes a debt in its financial records and takes action to collect the overpayment. In FY 2003, the RRB established new receivables due from the public totaling \$90 million of which approximately \$39 million (43%) was owed to the RUIA program.

The major causes of overpayments in the RUIA program are settlement of injury claims against railroad employers and concurrent entitlement to retirement or disability benefits under the RRA. Settlement of injury claims against a railroad employer may include retroactive compensation for periods during which the railroad worker had previously received sickness insurance benefits under the RUIA. Since workers may not receive payments under the RUIA for any days in which they have received compensation from a railroad, an overpayment results.

Similarly, the RUIA prohibits payment of benefits under the RUIA and the RRA for the the same periods. RRA benefits may be paid retroactively for up to one year prior to the date an application is filed. When a railroad worker becomes entitled to RRA benefits, the RRB reviews the worker's RUIA benefit history and assesses an overpayment for any RUIA benefits paid concurrently with the retroactively awarded RRA annuity.

The Bureau of Fiscal Operations has overall responsibility for the RRB's accounting operations. Within the Bureau of Fiscal Operations, the Debt Recovery Division (DRD)

monitors the collection status of pending debt, pursues delinquent debtors, and determines whether requests for waiver of collection will be granted. The Office of Programs has overall responsibility for benefit adjudication under the RRA and RUIA including identification of overpayments and the establishment of related debts.

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 including the cause, amount, collections, outstanding balance, and final disposition. Although the Bureau of Fiscal Operations has administrative responsibility for the PAR system, the majority of transactions recorded in the PAR system are initiated by the Office of Programs.

The RRB's strategic plan includes "ensure that trust fund assets are projected, collected, recorded and reported appropriately" as a strategic objective in meeting the larger goal of serving as responsible stewards. The quality of the debt recognition and collection process directly impacts this area of management performance.

Objective, Scope and Methodology

The objective of this review was to assess the adequacy of the processes for establishing and managing RUIA debts and related transactions.

In order to accomplish our objective, we:

- reviewed prior audits;
- analyzed debt established during FY 2002 by cause of overpayment and timeliness of recognition and collection processing;
- updated our statistical analysis using FY 2003 data;
- used statistical sampling to assess the completeness and accuracy of the audit trail, and the timeliness of recovery processing;
- used non-statistical sampling to assess the audit trail and processing timeliness of payment returns when payment exceeds debts outstanding;
- analyzed general ledger unapplied cash balances;
- tested the accuracy of selected accounting entries; and
- inquired about controls related to enforcement of the RRB's liens against pending injury settlements.

A detailed discussion of our sampling methodology and results is presented in Appendix I.

Our work was performed in accordance with generally accepted government auditing standards as applicable to the audit objectives. Fieldwork was conducted at RRB headquarters during May through August 2003 and February through May 2004.

RESULTS OF REVIEW

Our review disclosed that current procedures do not ensure a complete, accurate audit trail or timely processing of debt recoveries. We have also questioned the ability of existing controls to ensure:

- consistent accounting for debt recovery transactions;
- timely and accurate handling of payments received in excess of debt outstanding; and
- full, timely recognition of debts resulting from injury settlements.

We have recommended that the Office of Programs implement changes to accelerate the processing of unapplied cash; reduce errors, improve timeliness and strengthen the audit trail for refunds of amounts received or withheld in excess of debt outstanding; and reinstitute reviews of the status of agency liens against pending injury settlements. The Office of Programs has agreed to determine the feasibility of making changes to systems and procedures and to perform periodic reviews of liens outstanding.

We have recommended that the Bureau of Fiscal operations take action to improve the timeliness and accuracy of PAR system records. However, implementation of our recommendations for improved timeliness as well as the use of accurate dates and debtor names are contingent upon the cooperation of the Office of Programs because the data originates in that organization. In their response, the Office of Programs expressed their willingness to work with the Bureau of Fiscal Operations but also expressed some reservations stating that “it is not clear that this agency will have the sufficient resources to develop integrated automated systems that could address the inherent weaknesses you point out.”

The OIG believes that the Office of Programs has misunderstood the situation. We have not pointed out “inherent weaknesses” nor would implementation of our recommendations require development of integrated automated systems. Implementation of our recommendations would require only that the Office of Programs: (1) modify the data currently passed to the PAR system to include an additional date; (2) pass the data more frequently; and (3) establish all debt records in a manner that properly identifies the debtor.

In their response, the Office of Programs has cited their priority for projects that improve customer service and overall stewardship. Our recommendations address Office of Programs’ procedures that undermine the usefulness of one of the RRB’s financial management subsystems. Financial management is the responsibility of the Bureau of Fiscal Operations and that organization will experience the adverse impacts of non-implementation of these recommendations.

The details of our findings and recommendations for corrective action follow. The full text of the Office of Programs’ and the Bureau of Fiscal Operations’ responses are presented in the appendices to this report.

Cash Recoveries Are Not Posted Timely

The RRB has not ensured timely posting of RUIA program debt recoveries to the related accounts receivable when a cash recovery is received prior to establishment of a debt record on the PAR system. During FY 2003, approximately \$10 million was held as unapplied cash for more than 14 days pending processing against a PAR system receivable, an increase from the approximately \$8 million in FY 2002.

Transactions should be recorded promptly. In 1998, pursuant to an OIG audit recommendation, the Office of Programs and the Bureau of Fiscal Operations mutually agreed to a timeliness standard of 60 days for clearing unapplied cash.¹ During both FY 2002 and FY 2003 the Office of Programs generally met that standard. However, the OIG does not believe the 60-day standard is adequate to ensure timely recording of cash receipts because unapplied cash balances tend to be relatively large: less than half of amounts initially credited to unapplied cash are matched to an account receivable during the month of deposit.

During the 12 month period April 2003 through March 2004, the average month-end balance of RUIA unapplied cash was slightly more than half of an average month's total receipts. During the first six months of FY 2004, RUIA month-end unapplied cash averaged approximately 68% of the total receipts. A summary of RUIA cash receipts and unapplied cash balances is presented in Appendix II.

The RRB uses a bank lockbox to receive and process cash remittances. Through an automated process, cash receipts are matched to the related account receivable in the PAR system. Unmatched items are recorded as unapplied cash and referred to the Office of Programs for review.

The PAR system, which supports debt recovery activity, and the Railroad Unemployment Claims System, which supports RUIA benefit adjudication, share information with each other and with the automated system that sets RUIA employer contribution rates.² The current configuration of systems and procedures for establishing RUIA debts and processing cash receipts was predicated on the expectation that:

- railroad employers would give the RRB notice of the final settlement of an injury claim before remitting funds to the agency; and
- such notice would provide sufficient lead time for the agency to establish an account receivable before a remittance is received.

¹ The agreement provided for the clearing of 90% of cases within 60 days and the remaining 10% within 90 days.

² The RUIA program is funded by employer contributions. The contribution rate paid by individual railroad employers is determined by past experience on an employer-by-employer basis. Benefit recoveries reduce program costs and are therefore considered in the periodic re-computation of contribution rates.

During the settlement process, railroad employers contact the Office of Programs to determine the estimated amount of benefits that must be repaid to the RUIA program as a result of injury settlements. The actual amount cannot be determined until the settlement and its terms, including the settlement date, are finalized and reported to the RRB; that amount is withheld from the final settlement and remitted directly to the agency.

The Office of Programs has explained that railroad employers have found it expedient to remit payment without giving the agency prior notice of final settlement. As a result, less than half of the remittances related to the settlement of injury claims can be matched to an account receivable during the initial processing of lockbox receipts. The unapplied remittances must be processed manually. Because of the need to rely on manual handling, the timeliness of processing depends on the availability of staff resources to handle the workload.

Our sample review of 45 debts included eight cases in which cash was received before an account receivable had been established. The timeframes for creating an account receivable on the PAR system and recording the recovery ranged from 15 to 58 days.

We performed additional analysis to identify the number, magnitude and extent of delays associated with prior receipt of a cash recovery. The following table shows the high percentage of such recoveries that pend for over 14 calendar days before being posted to an account receivable. The length of delay increased between FY 2002 and FY 2003 with a higher percentage pending for over 30 days during FY 2003.

Cash Received Before Receivable Established		
	FY 2002	FY 2003
Number of Accounts	2,410	2,439
Total Dollar Value	\$10.7 Million	\$11.1 Million
Processing Time		
Over 14 Days	77%	89%
Over 30 Days	29%	41%
Over 60 Days	5%	5%

Under the current configuration of systems and procedures, RUIA cash receipts require more manual processing than we would expect with an automated bank lockbox operation and unapplied cash balances are very high. In addition, delays in processing cash against receivables also delay the related credits to the RUIA experience rating system.³

³ Each railroad employer's contribution rate is computed annually as of June 30. The computation considers both benefits paid and benefits recovered. Recoveries must be processed by June 30 of each year to be considered in the annual computation. As of June 30, 2003, the RRB's general ledger reported approximately \$1.3 million in RUIA program cash receipts that had not been credited to an account receivable.

Recommendation

We recommend that the Office of Programs:

1. implement system and/or procedural enhancements that will increase the percentage of cash receipts credited to RUIA accounts receivable through automated lockbox processing and accelerate the processing of unapplied cash.

Management's Response

The Office of Programs has agreed to determine if any enhancements are feasible and to develop a plan to implement them. They also noted that they recognized that improvements in this area would benefit both the rail industry - in the area of experience rating, and RRB administration.

In their response, the Bureau of Fiscal Operations agreed that implementation of this recommendation would be beneficial.

Batch Processing of Some Recoveries is Delayed

RUIA debt recoveries from accrued RRA benefits are delayed by the timing of the batch processing operations used to record them in the PAR system. In order to ensure that account receivable records provide a useful, accurate basis for debt recovery decisions, collections should be recorded timely to reduce the amount of outstanding debt and properly reflect amounts still subject to collection.

During FY 2003, the RRB recovered approximately \$13 million in RUIA debt from RRA benefit accruals. Recoveries from accrued RRA benefits are batch processed into the PAR system during the month after the benefits are withheld. All accounting entries are also delayed, including those related to benefit expense. This method overstates the amount of debt outstanding at the end of each accounting period and increases the risk of duplicate recovery during the period between withholding and recording.

In 15 of the 45 sample cases, recoveries by withholding of RRA benefits were credited to the related PAR system account receivable within 20 to 51 days from the date benefits were actually withheld. The length of time between recovery and recording is due to the practice of recording an entire month's recoveries at the same time during the following accounting month via automated batch processing. Although frequently recorded in the PAR system during the first week of the following month, in several cases these recoveries were sometimes recorded as late as the 17th, 18th or 21st of the following month.

Recommendation

We recommend that the Bureau of Fiscal Operations:

2. record benefits withheld from RRA annuities in the PAR system earlier and/or more frequently during the accounting cycle.

Management's Response

The Bureau of Fiscal Operations agrees that amounts withheld from RRA annuities to pay debts should be posted in the PAR system earlier and more frequently and will request that the Office of Programs process amounts withheld from RRA annuity payments to pay debt at more frequent intervals.

Because the data concerning benefit withholding originates in the Office of Programs, implementation of this recommendation is contingent upon the cooperation of that organization. The Office of Programs has expressed concerns about the feasibility of implementing this recommendation. The full text of the Office of Programs' response is presented in Appendix III.

Audit Trail is Not Complete and Accurate

The RRB does not create an accurate and complete audit trail for RUIA program debt. The establishment of an accurate record to support a review of transaction processing is fundamental to good internal control. In 29 of the 45 sample cases, the PAR record did not agree with the supporting documentation because of the use of batch processing dates and a generic vendor code. In two cases, evidence supporting release of a debt recovery letter could not be located.

The RRB has established policies and procedures that create inaccuracies in the audit trail for RUIA program debt. As a result, the automated records detailing RUIA debt recognition and recovery activity do not agree with the supporting documentation and cannot be relied upon as a basis for establishing the status of collections or assessing agency performance.

Batch Processing Dates Substituted for Transaction Dates

We identified 20 cases as audit exceptions because the overpayment recovery had been recorded with the date that the recovery had been batch processed into the PAR system rather than the earlier date on which recovery actually took place.

As previously discussed, the RRB uses batch processing dates to record recovery of RUIA overpayments from RRA benefits. In these cases, recoveries may not actually be credited to an account receivable until several weeks after the benefits have been withheld. However, the PAR system record appears to have been updated promptly in

all cases because the receivable record shows the same date for both the date of deposit and the date the recovery was credited to the account.

Generic Debtor Codes Substituted for Standard System Identifiers

We identified nine of 45 sample cases as audit exceptions because the debt had been recorded using a generic debtor code and name that referred the user to the Office of Programs for further information.⁴

The Office of Programs implemented the use of generic debtor codes to prevent the release of billing letters in injury settlement cases when a cash recovery had been received prior to establishment of a debt on the PAR system. In this type of case, release of a billing letter is not required. The Office of Programs believed that the use of a generic debtor code to redirect the automated correspondence would be more effective than requiring claims examiners to enter coding to suppress automated debt recovery letters.

As a result of the use of generic debtor codes, the PAR system record does not reveal the claim number of the annuitant or the remitter of funds. In order to determine the benefit record on which the debt was assessed, auditors had to request the documentation supporting cash receipts, which referenced claim numbers. In addition, the PAR system records indicate that billing letters were released on schedule when, in fact, no one had been billed.

Missing Documentation

The sample also included two cases for which the related billing letters could not be located for review. Absent supporting documentation, we could not verify that the notices had ever been released. The agency no longer maintains paper claim files for the RUIA program but, these documents should have been available for review in the agency's imaging system.

Although the PAR system includes a field for release of a debt recovery letter, we could not rely on that indicator because the field may erroneously indicate that a debt recovery letter was released (see the preceding discussion of generic debtors).

⁴ We did not question the use of a generic debtor code to record withholding from RRA annuities. When benefits are withheld from an RRA annuity to recover an RUIA overpayment, the beneficiary claim number is embedded in the PAR system cash receipt number which clearly identifies the parties to the transaction.

Recommendations

We recommend that Bureau of Fiscal Operations:

3. request programming changes to record the date benefits are withheld as the deposit date in the PAR systems; and
4. end the practice of using generic debtors when establishing debts in the PAR system.

Management's Response

The Bureau of Fiscal Operations agrees that the date an amount is deducted from a benefit payment should be posted to the PAR system and that generic account numbers should not be used to establish debts as is currently the practice in some cases. They have agreed to request that the Office of Programs include the date benefits are withheld in the data provided for batch processing. They will also request that the Office of Programs eliminate generic account numbers.

Because the data concerning benefit withholding originates in the Office of Programs and the Office of Programs is responsible for establishing new program accounts receivables on the PAR system, implementation of both of these recommendations is contingent upon the cooperation of that organization. The Office of Programs has expressed concerns about the feasibility of implementing these recommendations. The full text of the Office of Programs' response is presented in Appendix III.

Accuracy of Accounting Entries Is Not Ensured

Management should establish and maintain controls to ensure accurate recording of transactions and events. Errors in recording debt recoveries may occur and not be corrected because controls are not adequate to identify errors in manually entered cash receipts recorded in the PAR system.

The PAR system entries for debt recoveries include coding that identifies the type of recovery. For example, the system distinguishes between cash and benefit withholding. Other PAR system entries determine the accounting treatment of recoveries which will vary according to the source of funds. The codes that identify the type of recovery are not linked to the codes that determine the accounting entry.

We performed a limited analysis of cash receipts processed into the PAR system during October 1, 2000 through January 23, 2004 (approximately 40 months). We compared the codes that identified the type of recovery (cash or withholding of RRA annuities) with the accounting entries that had been established for that transaction. We questioned cases in which the accounting codes were inconsistent with the type of recovery. For example, we questioned recoveries by benefit withholding that had been processed using accounting codes applicable only to cash remittances.

We questioned the recording accuracy of 676 transactions totaling \$722,268. The totals of questioned transactions by fiscal year are shown below.

QUESTIONED TRANSACTIONS		
YEAR	NUMBER	AMOUNT
FY 2001	223	\$189,611
FY 2002	141	91,327
FY 2003	254	394,395
FY 2004 (115 DAYS)	58	46,935
	=====	=====
	676	\$722,268

Recommendation

We recommend that the Bureau of Fiscal Operations:

5. develop a control to prevent and/or detect data entry errors in manually recorded transactions.

Management's Response

The Bureau of Fiscal Operations agrees that a control to prevent or detect inconsistencies in manually recorded transactions should be implemented and will request programming changes to the PAR system accordingly.

Over-Reimbursement Handling Could Be Improved

RUIA over-reimbursements are processed with a combination of manual and non-integrated automated systems that increase the risk of delays and undetected errors. Refunds of amounts remitted in excess of debt outstanding should be issued promptly to the correct payee. The Office of Programs has not established controls to ensure the timeliness and accuracy of transaction processing in this complex environment. As a result, delays and errors occur.

Over-reimbursements are processed with a combination of manual handling and, in most cases, at least two non-integrated automated systems. The PAR system tracks the refunds of over-reimbursements; however, actual disbursement of a refund is only accomplished when an entry is made to a payment system, independent of the PAR system.

In addition, the PAR system record for over-reimbursements does not identify the remitter of funds or the party to whom the payment is being refunded. The PAR system records only the cash receipt number assigned by the automated system and the amount. In order to determine the original remitter of funds (presumed to be the party to whom a refund should be issued), auditors were required to review paper documentation supporting the PAR system cash receipt record. Without a review of the paper documentation, the disbursement of funds could not be confirmed because the refund is entered separately into the disbursement system using identifiers related to the individual receiving the funds without reference to the cash receipt number.⁵

Delays

An analysis of RUIA over-reimbursements recorded on the PAR system during 10/02/00 through 01/23/04 is summarized below.

	TOTAL NUMBER	VALUE	NUMBER OVER 60 DAYS	
FY 2002	774	\$ 929,220	186	24%
FY 2003	764	\$ 849,552	81	11%
FY 2004 through 1/23/04	190	\$ 427,517	65	34%
	=====	=====	===	
TOTAL	1,728	\$2,206,289	332	19%

Errors

We identified five errors consistent with a process that relies on multiple non-integrated systems and manual handling. We reviewed 35 over-reimbursements in detail and identified the following exceptions:

- In three interrelated cases, the remittances of two individuals who had paid their debts in full were misapplied. As a result, their PAR system records showed erroneous uncollected balances. A third person received too much credit against his outstanding receivable, as well as a cash refund. The misapplied amounts totaled \$6,450.
- The PAR system reported a single over-reimbursement in the amount of \$17,376 which was refunded twice to the same person.

⁵The exception to this rule is the transfers of benefits withheld from RRA annuities. When benefits are withheld from an RRA annuity to recover an RUIA overpayment, the beneficiary claim number is embedded in the PAR system cash receipt number, thus providing an audit trail.

- An account receivable remained uncollected while a related cash receipt for \$12,310 had been recorded as refunded to the remitter. This appears to be a case in which the cash receipt was incorrectly applied but the refund was never actually disbursed.

Recommendation

We recommend that the Office of Programs:

6. review the systems and procedures used to refund over-reimbursements and determine what improvements can be made to reduce errors, improve timeliness and strengthen the audit trail for these transactions.

Management's Response

The Office of Programs has agreed to investigate what improvements can be made and determine their feasibility given current staffing levels.

Control to Detect Unreported Injury Settlements Not Effective

The Office of Programs has not contacted railroad employers to inquire about the status of injury claims associated with outstanding lien notices for approximately four years. Problems related to changes in personnel have been cited as reasons for the low priority given to this control activity. As a result, the RRB has missed an opportunity to recover program expenses.

The RUIA provides for recovery of sickness/unemployment benefits from the proceeds of injury settlements paid for the same period. When a railroad worker files a claim for benefits under the RUIA and indicates that the claim is the result of an on-the-job injury, the Office of Programs releases a notice of lien to the railroad employer and marks the claimant's automated benefit record accordingly. When the RRB receives payment in connection with settlement of claims-for-injury against a railroad employer, the indicator that identifies the pending lien is updated. As of April 2004, there were approximately 6,400 such liens that had been pending for more than three years.

Under existing procedure, a listing of outstanding liens more than three years old should be sent to each railroad employer at least every 2 years. The railroads would then be asked to review the listing and report any liens pertaining to unreported injury settlements so that the agency can pursue its claim for repayment. However, Office of Programs has stated that the listings were last distributed in 2000, although no documentation was available for review. The agency collected new debts totaling \$560,000 when this control procedure was performed in 1998.

Prior to settlement of an injury claim in which the RRB has served notice of lien, the railroad, or its attorney, contacts the agency to determine the amount of the agency's

lien under the most recent settlement scenario. The litigation process may include multiple requests for an actual lien amount (based on different settlement scenarios) before the case is settled. The Office of Programs does not monitor the status of cases for which they have computed a lien amount.

Recommendation

We recommend that the Office of Programs:

7. perform the biennial review of outstanding liens according to agreed-upon procedure; and/or monitor the status of cases for which final lien amounts have been computed.

Management's Response

The Office of Programs agrees that the biennial reviews should be performed and have already initiated the review for the years since 2000. They will not begin monitoring the status of cases for which final lien amounts have been computed.

SAMPLE METHODOLOGY AND RESULTS

We used statistical sampling to assess the effectiveness of controls over the completeness and accuracy of the audit trail and the processing timeliness of recoveries.

Audit Objective

The objective of our tests was to assess the adequacy of internal control by assessing the:

- completeness of the audit trail,
- accuracy of the audit trail, and
- timeliness of recovery processing.

Scope

We selected the sample from the population of 14,025 RUIA program debts for which a cash receipt was received during FY 2002 and applied to a debt established between October 1, 2001 and February 28, 2003.

Review Methodology

We used statistical acceptance sampling using a 90% confidence and 5% tolerable error which directed a 45 case sample. The threshold for acceptance was zero errors. Zero errors would permit the auditors to infer, with 90% confidence, that controls were adequate to ensure that, in 95% of accounts:

- an accurate, complete audit trail had been established; and
- recoveries had been posted timely.

Completeness

We tested for completeness of the audit trail by reviewing for the existence of documentation to support the debt calculation, notice of lien, notice to the debtor, and recovery action.

Accuracy

We tested for accuracy of the audit trail by comparing supporting documentation with the related PAR system record to determine whether the appropriate PAR record existed and agreed with the support.

SAMPLE METHODOLOGY AND RESULTS

Timeliness

We tested for timeliness by comparing milestone dates to determine the time elapsed from the date of cash deposit (or benefit withholding) to the date the recovery was posted to the appropriate account receivable in the PAR system. Recoveries processed to the related account receivable within 14 days from the date deposited or withheld were considered timely.

Results of Review

Our evaluation of 45 randomly selected accounts receivable identified exceptions as follows:

Incomplete Audit Trail:	2
Inaccurate PAR Record:	29
Recovery Applied to Account Receivable 15 days or more after deposit:	23
PAR System Cash Receipt Created 5 days or more after deposit	22

Audit Conclusion

In all three categories, completeness, accuracy and timeliness, exceptions exceeded the sample acceptance threshold. As a result, we cannot conclude that controls are adequate to ensure a complete, accurate audit trail or the timely processing of debt recoveries into the PAR system in at least 95% of the cases.

Because of the large number of exceptions, and the systemic nature of the weaknesses underlying the inaccuracies and delays, we did not expand testing to determine whether a larger sample would yield more favorable results.

CASH RECEIPTS AND UNAPPLIED CASH BALANCES

A summary of the total cash receipts credited to the RUIA unapplied cash account in the RRB's general ledger is presented in the chart below. The chart also compares total receipts with the amount of unapplied cash in the account at the end of each month.

Fiscal Year	CASH RECEIPTS	END-OF-MONTH UNAPPLIED CASH BALANCE	UNAPPLIED CASH AS PERCENTAGE OF CASH RECEIPTS
Fiscal Year 2003			
APR	\$ 2,618,040.78	\$ 732,094.57	28%
MAY	2,296,724.23	871,424.71	38%
JUN	2,855,609.74	1,349,917.20	47%
JUL	2,085,645.53	421,166.98	20%
AUG	2,019,778.33	952,076.62	47%
SEPT	2,023,736.62	1,191,668.70	59%
Fiscal Year 2004			
OCT	\$ 2,164,200.56	\$ 1,493,462.51	69%
NOV	1,766,112.97	1,246,070.26	71%
DEC	2,221,764.13	1,616,028.45	73%
JAN	2,091,845.14	1,573,282.11	75%
FEB	1,192,687.13	1,451,301.74	122%
MAR	2,708,049.27	828,674.02	31%
	=====	=====	
TOTAL	\$26,044,194.43		
MONTHLY AVERAGE	\$2,170,349.54	\$ 1,143,930.66	53%
APRIL 2003 THROUGH SEPTEMBER 2003			
TOTAL	\$13,899,535.23		
MONTHLY AVERAGE	\$ 2,316,589.21	\$ 919,724.80	40%
OCTOBER 2003 THROUGH MARCH 2004			
TOTAL	\$12,144,659.20		
MONTHLY AVERAGE	\$ 2,024,109.87	\$1,368,136.52	68%

UNITED STATES GOVERNMENT
MEMORANDUM

FORM G-115f (1-92)

RAILROAD RETIREMENT BOARD

JUL 27 2004



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 – Review of Accounts Receivable Established Under the RUIA –
 Your request of July 12, 2004

Recommendation We recommend that the Office of Programs:
 1

implement system and/or procedural enhancements that will increase the percentage of cash receipts credited to RUIA accounts receivable through automated lockbox processing and accelerate the processing of unapplied cash.

OP Response We will determine if any enhancements are feasible at this time.

Note that with regard to the timeliness of posting unapplied cash, as you point out, we are making the goals we set out for ourselves. However, we do recognize that improvements would benefit both the rail industry – in the area of experience rating so that employers receive proper credits more timely, and RRB administration, since the current process often requires double work. We have already initiated some process improvements, and will look at additional ones that would help us in this area.

We will develop a plan for those improvements we deem feasible by February 28, 2005.

**General
Comments on
Recommendations
2-4**

While these recommendations are not directed to the Office of Programs, they could require substantial changes in our operations and systems if they were adopted. We will explore with BFO to determine if there are changes feasible in our existing non-integrated environment to improve the adaptive measures that have grown up over the years. However, it is not clear that this agency will have the sufficient resources to develop integrated automated systems that could address the inherent weaknesses you point out.

While the processes we currently have in place, (regarding providing the actual date of recovery from RRA benefits, the use of generic codes, and the timing of posting recoveries from benefit offsets) may not be ideal or user friendly by being contained within a single system, it is generally possible to determine an audit trail of our actions. It is difficult for us to envision that improving them would deserve higher priority than projects already identified which would allow us to maintain service levels, much less improve our overall customer service and stewardship.

**Recommendation
6** We recommend that the Office of Programs:

review the systems and procedures used to refund over-reimbursements and determine what improvements can be made to reduce errors, improve timeliness and strengthen the audit trail for these transactions.

OP Response We will investigate what improvements can be made, and determine their feasibility given current staffing levels. We will develop a plan for those improvements by February 28, 2005.

**Recommendation
7** We recommend that the Office of Programs:

perform the biennial review of outstanding liens according to agreed-upon procedure; and/or monitor the status of cases for which final lien amounts have been computed.

OP Response We agree that we should perform the biennial reviews but will not be monitoring the status of cases for which final lien amounts have been computed. We have already initiated the review for the years since 2000. The summary report will be issued by December 31, 2004.

cc: Chief Financial Officer
Debt Recovery Manager
Director of Operations
Chief of Sickness and Unemployment
Director of Policy and Systems
Chief of Program Evaluation (UI/SI/DIS/FLD)



UNITED STATES GOVERNMENT
MEMORANDUM

APPENDIX IV
FORM G-115f (1-92)
RAILROAD RETIREMENT BOARD

July 21, 2004

TO : Henrietta B. Shaw
Assistant Inspector General, Audit

FROM : Kenneth P. Boehne
Chief Financial Officer

SUBJECT: Draft Report—Review of Accounts Receivable Established Under the RUIA

Thank you for the opportunity to review and comment on the above draft audit report dated July 12, 2004. Our comments on the four recommendations directed to the Bureau of Fiscal Operations (BFO) are as follows.

Recommendation 2: We agree that amounts withheld from Railroad Retirement Act (RRA) annuities to pay debts should be posted in the Program Accounts Receivable (PAR) system earlier and more frequently. Although BFO posts benefits withheld from RRA annuities to RRA or Railroad Unemployment Insurance Act (RUIA) debts upon receipt from the Office of Programs (OP), they are only received once a month through a batch process. BFO will request, by September 30, 2004, that OP process amounts withheld from RRA annuity payments to pay debt at more frequent intervals.

Recommendation 3: We agree that the date an amount is deducted from a benefit payment should be posted to the PAR system. The batch that OP provides BFO does not contain this date. BFO will request, by September 30, 2004, that OP include the date benefits are withheld in the batch it provides to BFO in order that the date benefits are withheld may be posted as the deposit date in the PAR system.

Recommendation 4: We agree that OP should not use a generic account number when establishing a debt after a Section 12(o) or 2(f) settlement payment is received from a railroad. Any debt with the generic account number that exists after posting the recovery amount is considered an apparent error and is reviewed by OP. Although this is an effective method to identify erroneous debts, the railroad remitter cannot easily be identified. BFO believes the same effect can be accomplished by changing or adding a digit to the remitting railroad's account number. BFO will request, by September 30,

2004, that OP eliminate generic account numbers and instead consider adding a suffix to the remitting railroad's account number.

Recommendation 5: We agree that a control to prevent or detect inconsistencies in manually recorded transactions should be implemented. We will submit, by September 30, 2004, a service request to the Bureau of Information Services to establish a table of accounting codes and acceptable action out codes to be used to edit and reject any accounting codes that do not have an acceptable action out code.

Finally, we agree with recommendation 1 which was made to OP. Specifically, it would be beneficial (a) to increase the percentage of cash receipts credited to RUIA accounts receivable through automated lockbox processing and (b) to accelerate the processing of unapplied cash.

cc: Chief of Accounting, Treasury, and Financial Systems
Debt Recovery Manager