

OFFICE OF INSPECTOR GENERAL

Audit Report

**Audit of Railroad Retirement Act Benefit
Overpayments and Internal Controls**

**Report No. 11-07
June 29, 2011**



RAILROAD RETIREMENT BOARD

EXECUTIVE SUMMARY

The Railroad Retirement Board (RRB), Office of Inspector General (OIG) reviewed Railroad Retirement Act benefit overpayments (RRA overpayments) and internal controls. The objectives of the audit were to assess the sufficiency of internal controls as related to the main causes of RRA overpayments and identify opportunities to improve the effectiveness of controls over the debt recognition process.

The OIG conducted this audit at the RRB's headquarters in Chicago, Illinois from November 2010 through May 2011.

Findings

The OIG identified the following weaknesses:

- RRA overpayments are not always processed timely.
- Completeness of records among agency systems is not always verified.
- Separation of duties is not always enforced for RRA overpayment transactions.
- Control logs and assurance reports were not always retained.
- Training attendance records were not always maintained.
- Management control documentation is not consistent with standards.
- Second authorizations for RRA overpayments exceeding \$10,000 are not taking place.
- Duplicate RRA overpayments were not detected.
- Authorization can be omitted for Retirement Online Calculation (ROC) RRA overpayments.

Recommendations

To improve internal controls and their effectiveness, we recommended agency management:

- Establish and implement time standards for RRA benefit overpayments and strengthen internal controls to ensure their identification and timely processing.
- Develop and implement controls to ensure the completeness of RRA overpayment data as it is transferred between systems.

- Modify the Overpayment Recovery Correspondence System privileges to ensure proper separation of duties.
- Implement controls to ensure that the accounts receivable system control logs and assurance reports are maintained for inspection.
- Ensure that proof of training attendance is documented and maintained.
- Work with Management Control Review Committee to revise management control documentation to be consistent with Government Accountability Office standards for internal control.
- Strengthen the internal controls over the review and approval process for RRA overpayments greater than \$10,000 to ensure that approvals comply with agency procedures for authorizations.
- Remind examiners of proper procedures for handling existing RRA overpayments notices and strengthen internal controls to ensure that duplicate overpayments are not created.
- Update the edits in the ROC program to ensure that authorization is obtained when required.

Management Responses

The Office of Programs disagreed with the findings and recommendations regarding the timeliness of RRA overpayment processing and separation of duties. However, they agreed to take corrective action on seven of the ten recommendations directed to them. The Bureau of Fiscal Operations agreed to take corrective action on all four recommendations directed to them. The full text of the Office of Programs response is included in this report as Appendix IV and the Bureau of Fiscal Operations response is included in Appendix V.

TABLE OF CONTENTS

EXECUTIVE SUMMARY

INTRODUCTION

Background	1
Audit Objectives	2
Scope	3
Methodology	3

RESULTS OF AUDIT

Timeliness of RRA Overpayment Processing	5
Recommendations	6
Management's Response	6
RRB-OIG's Comments on Management's Response	6
Completeness of RRA Overpayments	7
Recommendations	8
Management's Response	8
Separation of Duties	8
Recommendation	9
Management's Response	9
RRB-OIG's Comments on Management's Response	9
Retention of Control Logs and Assurance Reports	9
Recommendation	10
Management's Response	10
Maintenance of Attendance Records for Training	10
Recommendations	11
Management's Response	11
Documentation for Control Procedures	12
Recommendations	13
Management's Response	13
Second Authorization Procedures	13
Recommendation	14
Management's Response	14

Duplicate RRA Overpayments	14
Recommendations	15
Management's Response	15
ROC Authorization Edits	15
Recommendation	16
Management's Response	16

APPENDICES

Appendix I Statistical Sampling Methodology and Results.....	17
Appendix II Non-Statistical Sampling Methodology and Results - Approvals Greater Than \$10,000	20
Appendix III Non-Statistical Sampling Methodology and Results - Duplicate RRA Overpayments.....	21
Appendix IV Management's Response - Office of Programs	23
Appendix V Management's Response - Bureau of Fiscal Operations	27

INTRODUCTION

This report presents the results of the Office of Inspector General's (OIG) audit of Railroad Retirement Act benefit overpayments (RRA overpayments) and internal controls.

Background

The Railroad Retirement Board (RRB) is an independent agency in the executive branch of the Federal government. The RRB administers the health and welfare provisions of the RRA which provide retirement and survivor benefits for eligible railroad employees, their spouses, widows and other survivors. During fiscal year (FY) 2010 approximately 582,000 annuitants received benefits totaling \$10.8 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, an overpayment is created. When this occurs, the agency recognizes a program debt in its financial records and takes action to collect the overpayment. For FY 2010, new program debt totaled \$53.9 million.

The main causes of RRA overpayments are events that take place after benefits have been awarded that may affect eligibility or necessitate recomputation of the benefit payment amount. These overpayments result from annuitant status changes, such as death, divorce, remarriage or full-time student's standing. Also included are not reporting earnings in excess of current exempt amount, or last pre-retirement non-railroad employment issues. Concurrent entitlement to Social Security benefits, workers' compensation or other retirement benefits may also impact eligibility and/or benefit levels.

The Program Accounts Receivable system is a mainframe computer application that supports the agency's debt recovery operations. The Debt Recovery Division in the Bureau of Fiscal Operations has administrative responsibility for the accounts receivable system.

The majority of the processing of RRA overpayments is performed by the Retirement Benefit Division (RBD) and Survivor Benefits Division (SBD) within the Office of Programs - Operations. The RBD is responsible for processing changes in railroad retirement annuities and social security benefits for railroad retirement workers and their spouses. The SBD performs similar functions for all widow(er), disabled and surviving dependent children and grandchildren, and surviving parents.

Overpayment activities include adjusting monthly annuity payments based on mechanical referrals and program integrity projects, calculating and releasing overpayment letters, establishing the overpayment in the accounts receivable system and initiating recovery of the overpayment.

The Office of Programs uses various systems to facilitate the tracking and adjudication of cases. The Universal System Tracking and Reporting (USTAR) program is a Web-Based Program that tracks work referrals from receipt until completion. It is used by the supervisory staff to monitor work to ensure that it is assigned and processed in a timely manner. Examiners use the program to monitor the work assigned to them. USTAR also provides for verification that authorization was performed by an individual qualified to authorize when such authorization is required. Various reports can be generated for pending and completed work. The overpayment recovery correspondence system (ORCS) is D-Base personal computer program used to generate overpayment letters as well as to record transactions in the agency's accounts receivable system.

Internal control is an integral component of an organization's management that provides reasonable assurance concerning the effectiveness and efficiency of operations, reliability of financial reporting, and compliance with applicable laws and regulations. Pursuant to the provisions of the Federal Managers' Financial Integrity Act of 1982, the Government Accountability Office (GAO) has issued "Standards for Internal Control in the Federal Government." These standards provide the overall framework for establishing and maintaining internal control and for identifying and addressing major performance and management challenges and areas at greatest risk of fraud, waste, abuse, and mismanagement.

The RRB's strategic plan includes "ensuring the integrity of benefit programs" that is, the correct amount of benefits is being paid to the right people as the second strategic objective in meeting the larger goal of serving as responsible stewards for our customers' trust funds and agency resources. This review directly addresses that key area of performance.

Audit Objectives

The audit objectives were to:

- assess the sufficiency of internal controls as related to the main causes of RRA overpayments; and
- identify opportunities to improve the effectiveness of controls over the debt recognition process.

Scope

The audit scope was RRA overpayments established in the accounts receivable system in FY 2010 and the related internal controls for the main causes of RRA overpayments.

Methodology

To accomplish the audit objectives, we:

- identified the main causes of the receivables established in the accounts receivable system;
- identified criteria from the GAO “Standards for Internal Control in the Federal Government”, and governing laws and regulations for RRA overpayments;
- reviewed prior OIG audit findings;
- reviewed applicable policies and procedures, including operating procedures;
- obtained a download of RRA debts established in FY 2010 and analyzed them to identify the main causes of overpayment;
- selected a statistical sample of RRA overpayments to test controls (see Appendix I);
- selected two non-statistical samples of RRA overpayments to test controls (see Appendix II and Appendix III);
- identified and assessed internal controls;
- conducted a walkthrough of the processing of a benefit overpayment; and
- interviewed agency management and staff.

We tested the data reliability of our statistical sample by comparing data from the download, which was the source of our sample, to corresponding data in the Accounts Receivable Header Table from the accounts receivable system. We determined the download data was sufficiently reliable for the purposes of this audit.

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

We conducted our fieldwork at the RRB's headquarters in Chicago, Illinois from November 2010 through May 2011.

RESULTS OF AUDIT

Our audit found that the internal controls over RRA overpayments were either not sufficient or not operating as designed in the following areas:

- timeliness of RRA overpayment processing;
- completeness of RRA overpayments;
- separation of duties;
- retention of control logs and assurance reports;
- maintenance of attendance records for training; and
- documentation for control procedures.

In addition, we identified opportunities to improve the effectiveness of controls over the debt recognition process in the following areas:

- second authorization procedures;
- duplicate RRA overpayments; and
- ROC overpayment edits.

The details of our findings and recommendations for corrective action follow. The full texts of management's responses are included in this report as Appendix IV – Office of Programs and Appendix V – Bureau of Fiscal Operations.

Timeliness of RRA Overpayment Processing

RRA overpayment cases are not always processed timely. Our review of 105 overpayment cases included 11 cases that were not processed within the 3 month criteria developed by the OIG for audit purposes. These RRA overpayments, totaling \$13,183, were processed between 3 months and 19 months.

We determined that three months was a reasonable timeframe to process RRA overpayments because the agency's financial statements are prepared on a quarterly basis and this would provide a more accurate measure of accounts receivable. The measurement of timeliness was gauged from the time the cases were first entered into USTAR until they were recorded in the accounts receivable system.

The Office of Programs' internal goal of processing workload categories, which can include RRA overpayments, is 95% within 150 days. Specific timeliness standards have not been established for processing RRA overpayments.

Transactions should be promptly recorded to maintain their relevance and value to management in controlling operations and making decisions. This applies to the entire process or life cycle of a transaction or event from the initiation and authorization through its final classification in summary records.¹

Given the government-wide emphasis on improper payments as provided in the Improper Payments Eliminations and Recovery Act of 2010, increased scrutiny should be given to processing RRA overpayments in a timely manner. Delays in processing RRA overpayments impact the agency's financial statements and could also impact the collectability of the overpayment. We found that internal controls are not reliable for processing cases on a timely basis (see Appendix I).

Recommendations:

We recommend that the Office of Programs:

1. establish and implement reasonable time standards for the processing of RRA overpayment cases; and
2. strengthen internal controls to ensure that RRA overpayment cases are identified and processed timely.

Management's Response

The Office of Programs disagrees with the finding and recommendations. The Office of Programs stated that they have timeliness standards for handling their workloads and that overpayment processing is timely based on objective criteria. They also stated that, in general, the outcome of referral handling (overpayment, underpayment, record correction) cannot be determined until the referral has been worked by an examiner. The Office of Programs also stated that they do not agree with changing the timeliness standards for over 120,000 cases in order to achieve a small incremental gain in timeliness for the minority (5%) of referrals that will ultimately be associated with an overpayment.

RRB-OIG's Comments on Management's Response

We disagree with the Office of Programs' statement that overpayment processing is timely based on objective criteria. Public law mandates that agencies establish and maintain sufficient internal controls, including an appropriate control environment, that effectively prevent improper payments from being made; and promptly detect and recover improper payments that are made.² Office of Programs current criteria of 150 days does not adhere to this mandate.

¹ "Standards for Internal Control in the Federal Government," GAO/AIMD 00-21.3.1 (11/99) page 15.

² "Improper Payments Elimination and Recovery Act of 2010", Public Law 111-204

We also disagree with the Office of Programs' statement that the outcome of referral handing cases cannot be determined until the referral has been worked by an examiner. The OIG found that certain types of referrals can be identified as overpayments based on prior experience. For example, we found that referrals for social security benefit rate increases and earnings exceeding exempt amounts often result in overpayments. Once the overpayment cases have been identified, there is no reason a timeliness standard cannot be applied. While the percentage of referrals that will ultimately be associated with an overpayment could currently be 5%, as indicated by the Office of Programs' response, the percentage can vary. As such, we continue to emphasize the need for timely processing of RRA overpayment cases.

Completeness of RRA Overpayments

The completeness of records that flow among agency systems is not always verified. Currently, there is no validation, on a routine basis, of the completeness of the transactions that pass from ORCS and USTAR to the accounts receivable system.

For example, we found one case where the overpayment was identified in USTAR, but not recorded in the accounts receivable system until 19 months later.

Application controls are designed to help ensure completeness, accuracy, authorization, and validity of all transactions during application processing.

Control should be installed at an application's interfaces with other systems to ensure that all inputs are received and are valid and outputs are correct and properly distributed.³

The completeness of RRA overpayments is not currently verified because the agency has not recognized the differences that can result from inconsistencies among these various systems.

Overpayment transactions that are not passed to and recorded in the accounts receivable system affect accounts receivable and ultimately, the agency's financial statements.

³ "Standards for Internal Control in the Federal Government," GAO/AIMD 00-21.3.1 (11/99) page 17.

Recommendations:

We recommend that the Office of Programs:

3. develop and implement controls to ensure the completeness of RRA overpayment data as it is transferred (mechanically or manually) between systems.

Management's Response

In response to recommendation 3, the Office of Programs stated that the risk of omission for manual USTAR-controlled referrals has been adequately addressed through workload supervision and is very limited. However, they agree it may be possible to do more to ensure the recording of overpayments originating in the manual USTAR-controlled workloads is complete and will undertake to identify additional control activities. They have agreed to work with the Bureau of Fiscal Operations to strengthen controls over completeness of data passed mechanically from ORCS to the accounts receivable system.

We recommend that the Bureau of Fiscal Operations:

4. develop and implement controls to ensure the completeness of RRA overpayment data as it is transferred (mechanically or manually) between systems.

Management's Response

In response to recommendation 4, the Bureau of Fiscal Operations stated that its Debt Recovery Division has generated a service request to the Bureau of Information Systems to develop a daily report that matches data uploaded by ORCS to data received by the PAR system.

Separation of Duties

The Office of Programs has not established adequate controls to ensure separation of duties for preparers and authorizers of accounts receivable transactions. We found an instance of an individual having the authority to control all key aspects of an accounts receivable transaction (see Appendix I).

Key duties and responsibilities need to be divided or segregated among different people to reduce the risk of error or fraud. This should include separating the responsibilities for authorizing transactions, processing and recording them, reviewing the transactions, and handling any related assets. No one individual should control all key aspects of a transaction or event.⁴

⁴ "Standards for Internal Control in the Federal Government," GAO/AIMD 00-21.3.1 (11/99) page 14.

Some claims examiners have ORCS privileges allowing them to record accounts receivable transactions that do not require authorization by a second individual. When adequate separation of duties is not enforced, opportunities for error and fraud are enhanced, such as accounts receivable balances being incorrectly established and/or improperly altered.

Recommendation:

We recommend that the Office of Programs:

5. modify ORCS privileges to ensure proper separation of duties.

Management's Response

The Office of Programs disagrees. The Office of Programs stated that the current configuration of privileges adequately separates key duties to reduce risk to an acceptable level. They also stated that a single employee did not control all key aspects of the questioned transaction because a second employee was involved in the adjudicative activity that led up to recording the receivable.

RRB-OIG's Comments on Management's Response

The OIG disagrees with the Office of Programs statement that the current configuration of privileges adequately separates key duties to reduce risk to an acceptable level. Although fraud was not detected for the cited case, ORCS privileges provide an opportunity for fraud to be perpetrated in the recording of a receivable because an examiner has the ability to establish an overpayment and record recovery after adjudication has taken place, without the review or approval of a separate individual. In a different scenario, a partial recovery could be improperly increased to eliminate a debt. Fraud is perpetrated by individuals who have the opportunity, financial incentive and rationalization to do so. The risk of fraud increases when management does not implement the necessary controls.

Retention of Control Logs and Assurance Reports

Accounts receivable system control logs and assurance reports that are used to ensure the accuracy of debts established in the accounts receivable system were not always available for examination. We found six instances where such control logs and assurance reports were not maintained.

Internal control 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.

RRB officials advised us that some older reports were discarded as newer reports were generated. The performance of the control to document and detect discrepancies affecting the accuracy of accounts receivable data cannot be validated without documented evidence.

Recommendation:

We recommend that the Bureau of Fiscal Operations:

6. implement controls to ensure that the accounts receivable system control logs and assurance reports are maintained for inspection.

Management's Response

The Bureau of Fiscal Operations stated that they requested advice from the Bureau of Information Services regarding the retention period for control logs and assurance reports. The Bureau of Information Services researched the National Archives and Records Administration's General Records Schedules and advised that there were no exact matches for control logs and assurance reports, but suggested that the three year retention period for all other accounting administrative files in Schedule 6, item 5(b), would be appropriate. The Bureau of Fiscal Operations stated that they will immediately begin retaining control logs and assurance reports for a three year period.

Maintenance of Attendance Records for Training

Training attendance records were not always maintained. Processing overpayment cases can be a complex process, so agency employees are provided training on a periodic basis on a variety of subjects. We found that the Office of Programs did not always document such attendance. The Debt Recovery Division did not document employee attendance at the training sessions conducted during our period of review.

Internal control and all transactions and other significant events need to be clearly documented, and the documentation should be readily available for examination. In addition, all documentation and records should be properly managed and maintained.⁵

The Office of Programs' controls are not always working effectively. The Bureau of Fiscal Operations does not have a control in place to document attendance for examiner training.

Without documented attendance, management has no basis to determine which employees have received the required training. This could impact their ability to adjudicate cases accurately.

Recommendations:

We recommend that the Office of Programs:

7. strengthen controls to ensure that proof of attendance is documented and that documentation is maintained.

Management's Response

In response to recommendation 7, the Office of Programs agrees with the finding and recommendation.

We recommend that the Bureau of Fiscal Operations:

8. develop and implement controls to ensure that proof of attendance is documented and that documentation is maintained.

Management's Response

In response to recommendation 8, the Bureau of Fiscal Operations stated that they will develop a centralized uniform control log to document all training throughout the bureau. The Bureau of Fiscal Operations also stated that each division will be required to pass training information to the BFO administrative assistant when training is complete for recordkeeping and tracking purposes.

⁵ "Standards for Internal Control in the Federal Government," GAO/AIMD 00-21.3.1 (11/99) pages 13 and 15.

Documentation for Control Procedures

Management control documentation prepared by the Office of Programs and the Debt Recovery Division does not provide agency management with a reasonable standard of internal controls that are consistent with the GAO “Standards of Internal Controls for the Federal Government” for some areas.

The Office of Programs prepares management control documentation for the following assessable units that incorporate overpayment case processing: Retirement Post Adjudication Claims Processing and Survivor Benefits - Post. The Debt Recovery Division prepares management control documentation for the Debt Recovery assessable unit.

Internal control activities help ensure that management’s directives are carried out. The control activities should be effective and efficient in accomplishing the agency’s control objectives. Control activities occur at all levels and functions of the entity.

They include a wide range of diverse activities such as approvals, authorizations, verifications, reconciliations, performance reviews, maintenance of security, and the creation and maintenance of related records which provide evidence of execution of these activities as well as appropriate documentation.⁶

RRB managers are accountable for the operations in their units. They perform periodic management control reviews, make the first level determination of whether a material weakness exists, prepare and implement corrective plans and report on these activities. The Management Control Review Committee is responsible for overseeing a process to identify and eliminate management control weaknesses. The committee is also responsible for ensuring the accuracy and completeness of reports on management controls.

Our review disclosed that the objectives and control techniques in the documentation prepared by the Office of Programs and Debt Recovery Division focus more on agency operations and less on internal controls. Their control techniques do not address other key internal control areas such as segregation of duties, controls over information processing, reconciliations and managing human capital.

The risk of error or fraud increases without the development and implementation of comprehensive internal controls. Agency management could place too much reliance on the incorrect control objective and the incomplete control techniques. In addition, control deficiencies could go undetected if the applicable activities are not documented and tested.

⁶ “Standards for Internal Control in the Federal Government,” GAO/AIMD 00-21.3.1 (11/99) pages 11 and 12.

Recommendations:

We recommend that the Office of Programs:

9. work with the management control review committee to revise management control documentation to be consistent with GAO guidance for internal controls.

Management's Response

In response to recommendation 9, the Office of Programs stated that in view of the current audit finding, they will request the advice and assistance of the Management Control Review Committee in determining how to address OIG's concerns about overpayment-related management control documentation during the next regularly scheduled management control review of the affected assessable units.

We recommend that the Bureau of Fiscal Operations:

10. work with the management control review committee to revise management control documentation to be consistent with GAO guidance for internal controls.

Management's Response

In response to recommendation 10, the Bureau of Fiscal Operations stated that although they believe the internal controls in the Debt Recovery Division are comprehensive, they agree such controls may not be included in their control documentation. The Bureau of Fiscal Operations stated that the Debt Recovery Division will review its control documentation and work with the Management Control Review Committee to ensure that controls for segregation of duties, information processing, reconciliations and managing human capital are included in its control documentation and tested for effectiveness.

Second Authorization Procedures

The controls used to identify RRA overpayment cases for the second authorization are not effective. During our review of RRA overpayments that exceeded \$10,000, we found that second authorization is not taking place as required by agency procedure. Examiners did not obtain second authorization as required for 12 out of 14 manually processed sample cases in which the RRA overpayments totaled \$487,709 (see Appendix II).

Agency procedure requires second authorization for RRA overpayments that exceed the \$10,000 threshold. The Office of Programs uses USTAR which allows examiners the ability to notate the need for first and second authorization.

Examiners do not always follow procedures for second authorization.

The absence of second authorization for large RRA overpayments could result in the establishment of incorrect payments as well as inaccurate details being provided to the annuitant via the ORCS letter.

Recommendation:

We recommend that the Office of Programs:

11. strengthen the internal controls over the review and approval process for RRA overpayments greater than \$10,000 to ensure that approvals comply with agency procedures.

Management's Response

The Office of Programs stated that although this control applies to less than 2% of debt, they think it is an important control and agree to re-examine the design and implementation of this control, including documentation of the control activity, to determine how it can be improved.

Duplicate RRA Overpayments

Internal controls are insufficient to prevent and detect duplicate RRA overpayments in the accounts receivable system. During our review of 17 potential duplicate RRA overpayments, we identified 5 duplicate receivables totaling \$3,078 (see Appendix III).

The proper application of internal controls is the principal means of assuring that only valid transactions to exchange, transfer, use, or commit resources and other events are initiated or entered into.

ORCS displays existing receivable records for the specified annuitant so that the claims examiner can determine whether a new overpayment record should be created. This control could prevent the creation of duplicate RRA overpayments. We found that this control was not always used in the proper manner.

Duplicate RRA overpayments established in the accounts receivable system will overstate accounts receivable records, thereby impacting the agency's financial statements.

Recommendations:

We recommend that the Office of Programs:

12. remind examiners of the proper procedures for handling existing RRA overpayment notices, and
13. strengthen internal controls to ensure that duplicate RRA overpayments are not created.

Management's Response

In response to recommendation 12, the Office of Programs agrees that a reminder concerning the use of ORCS screens will benefit the process and they plan to issue such a reminder.

While the Office of Programs stated they do not agree that controls are insufficient in response to recommendation 13, they will review existing controls to identify opportunities to improve prevention and/or timeliness of detection.

ROC Authorization Edits

Controls are not sufficient to ensure that authorization is always provided when required. The Retirement Online Calculation (ROC) is an online mainframe system used for calculating, awarding and adjusting retirement annuities. This system is also used to process RRA overpayments. The ROC system allows an examiner the opportunity to decline a first authorization even though it may be required.

Transactions and other significant events should be authorized and executed only by persons acting within the scope of their authority. This is the principle means of assuring that only valid transactions to exchange, transfer, use or commit resources and other events are initiated or entered into. Authorizations should be clearly communicated to managers and employees.⁷

The ROC program does not have an edit to prevent an examiner from completing a case and stating that it does not need authorization from another individual. This deficiency can result in potential cases not being authorized and errors going undetected.

⁷ "Standards for Internal Control in the Federal Government," GAO/AIMD 00-21.3.1 (11/99) page 14.

Recommendation:

We recommend that the Office of Programs:

14. update the edits in the ROC program to ensure that authorization is obtained when required.

Management's Response

The Office of Programs agrees with this recommendation.

SAMPLING METHODOLOGY AND RESULTS STATISTICAL SAMPLING

This appendix presents the methodology and results of our statistical sampling test of internal controls over the processing and recording RRA overpayments.

Sample Objective

Our sampling objective is to determine:

- whether internal controls as related to the main causes of RRA overpayments are operating and effective, and
- if internal controls provide for the accurate and timely processing of RRA overpayments.

Scope

We selected the sample from a population of 28,773 account receivable records totaling \$51,238,709 for the period from October 1, 2009 through September 30, 2010 which were downloaded from the accounts receivable system. All such units in the universe were subject to selection.

Review Methodology

We used Attribute Sampling – One Step Acceptance using a 90% confidence level and 5% critical error rate which directed a 105 case sample. The threshold for acceptance was two errors. Two errors would permit the auditors to infer, with a 90% confidence level, that controls were adequate to ensure accurate and timely processing in 95% of RRA benefit overpayment cases.

Accuracy

We tested for accuracy by comparing our independent calculations of the overpayment period and amount to the corresponding agency documentation.

Timeliness

We tested timeliness by calculating the time elapsed from the date the RRA overpayments were first entered into USTAR until the date they were recorded in the accounts receivable system. RRA overpayments recorded in the accounts receivable system within 90 days from the date first entered into USTAR were considered timely.

SAMPLING METHODOLOGY AND RESULTS
STATISTICAL SAMPLING

Other Tests of Internal Controls

We also tested the overall internal controls which consisted of determining whether: 1) the required approvals were provided, 2) the principle of separation of duties was followed, and 3) the supporting documentation was adequate.

Results of Review

We tested the 105 randomly selected RRA overpayments for the following attributes related to internal controls over RRA overpayments.

Internal Controls	Tested	Non- Exceptions	Exceptions
<u>Test attributes</u>			
• Required approvals have been provided	105	105	0
• Overpayment amount is correct	105	105	0
• Overpayment was processed in a timely manner	105	94	11
• Overpayment approved by an individual other than preparer	105	104	1
• Documentation for overpayment is adequate	105	105	0
Total Exceptions			12

Audit Conclusion

Our evaluation of 105 cases identified 11 timeliness exceptions (10.48%), which exceeded the sample acceptance threshold. As a result, we cannot conclude that internal controls related to the main causes of RRA overpayments (receivables) are operating and effective for the timely processing of such RRA overpayments. No exceptions were identified for overpayment accuracy, required approval and adequate documentation.

Our evaluation also identified an exception for separation of duties, which did not exceed the sample acceptance threshold. While the sample results fell within the parameters of being acceptable, the noted exception circumvents separation of duties as individuals have the authority to control all key aspects of an accounts receivable transaction.

SAMPLING METHODOLOGY AND RESULTS
STATISTICAL SAMPLING

Because of the number of exceptions, and the nature of the weaknesses underlying the delays, we did not expand testing to determine whether a larger sample would yield a different result.

**SAMPLING METHODOLOGY AND RESULTS
NON-STATISTICAL SAMPLING
APPROVALS GREATER THAN \$10,000**

This appendix presents the methodology and results of our non-statistical sampling test related to the approvals of RRA overpayments exceeding \$10,000.

Sample Objective

The objective of our non-statistical sampling test was to assess whether internal controls for the approval process of overpayment cases exceeding \$10,000 are operating and effective.

Scope

We selected the sample from a population of 502 account receivable records exceeding \$10,000 and totaling \$11,216,343 for the period from October 1, 2009 through September 30, 2010 which were downloaded from the accounts receivable system. All such units in the universe were subject to selection.

Review Methodology

We tested 14 benefit overpayment accounts receivable records that exceeded \$10,000. We used judgmental sampling to select these accounts receivable records.

Sample Results

We tested the 14 RRA overpayments for the following attributes.

Test attributes for approvals	Tested	Non- Exceptions	Exceptions
Appropriate approvals were provided for RRA overpayments that exceeded \$10,000.	14	2	12
Total Exceptions			12

Audit Conclusion

Our non-statistical sampling test of RRA overpayments that exceeded \$10,000 identified 12 of 14 accounts receivable records where second authorization was not provided. As a result, we conclude that operating controls related to approvals greater than \$10,000 are not operating and effective.

SAMPLING METHODOLOGY AND RESULTS
NON-STATISTICAL SAMPLING
DUPLICATE RRA OVERPAYMENTS

This appendix presents the methodology and results of our non-statistical sampling test over potential duplicate RRA overpayments.

Sample Objective

The objective of our non-statistical sampling test was to determine the validity of the establishment of two RRA overpayment records for the same payee for the same amount.

Scope

We selected the sample from a population of 28,773 account receivable records totaling \$51,238,709 for the period from October 1, 2009 through September 30, 2010 which were downloaded from the accounts receivable system. All such units in the universe were subject to selection.

Review Methodology

We tested 17 potential duplicates from overpayment records with the same claim number, annuitant and overpayment amount. Other potential duplicates could have occurred in universe, but remaining overpayment records were not tested as part of our sample. We used judgmental sampling to select potential duplicate benefit overpayment transactions.

Sample Results

We tested the 17 judgmentally selected potential duplicate RRA overpayments for the following attributes.

Test attributes for duplicate RRA overpayments	Tested	Non- Exceptions	Exceptions
Supporting documentation confirmed the validity of the duplicate RRA overpayment.	17	12	5
Total Exceptions			5

SAMPLING METHODOLOGY AND RESULTS
NON-STATISTICAL SAMPLING
DUPLICATE RRA OVERPAYMENTS

Audit Conclusion

Our non-statistical sampling test identified 5 of 17 accounts receivable records where duplicate RRA overpayments were established for the same overpayment amount, claim number and annuitant. As a result, we conclude that operating controls related to the establishment of duplicate RRA overpayments are not operating and effective.



UNITED STATES
GOVERNMENT
MEMORANDUM

FORM G-115f (1-92)
RAILROAD RETIREMENT BOARD
June 16, 2011

TO: Diana Kruei
Assistant Inspector General for Audit

FROM: Ronal Russo *Ronal Russo*
Director of Policy and Systems

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

SUBJECT: Draft Report – Audit of Railroad Retirement Act Benefit Overpayments and Internal Controls

**Recommendation
1 and 2**

We recommend that the Office of Programs establish and implement reasonable time standards for the processing of RRA overpayment cases and strengthen internal controls to ensure that RRA overpayment cases are identified and processed timely.

**Office of
Programs
Response**

We disagree with the finding and recommendations. The Office of Programs does have timeliness standards for handling its workloads and overpayment processing is timely based on objective criteria.

In their testing, 90% of OIG sample items were processed within the three-month timeframe established by the auditors for use during their evaluation. In addition, our data confirms the OIG sample finding that about 90% of debts are processed into the accounts receivable within 90 days and also indicates that the average processing time for all overpayments is not more than 30 days.

The 12 overpayments cited for delayed processing were cases referred for manual handling through the USTAR system. In general, the outcome of referral handling (overpayment, underpayment, record correction) cannot be determined until the referral has been worked by an examiner. Less than 5 % of the more than 120,000 units of work controlled by USTAR during FY 2010 ultimately resulted in identification of an overpayment.

We do not agree with changing the timeliness standards for over 120,000 cases in order to achieve a small incremental gain in timeliness for the minority (5%) of referrals that will ultimately be associated with an overpayment.

**Draft Report – Audit of Railroad Retirement Act Benefit
Overpayments and Internal Controls, *continued***

Recommendation 3 We recommend that the Office of Programs develop and implement controls to ensure the completeness of RRA overpayment data as it is transferred (mechanically or manually) between systems.

**Office of
Programs
Response**

With respect to the manual USTAR-controlled referrals, we believe that the risk of omission has been adequately addressed through workload supervision: the case cited by the auditors was identified and recorded through routine processes prior to the audit. We would also like to note that the risk of omission is very limited. Less than 5% of USTAR-managed referrals ultimately disclose an overpayment and only 18% of all overpayments are processed manually into the accounts receivable system.

However, we do agree that it may be possible to do more to ensure that PAR recording of overpayments originating in the manual USTAR-controlled workloads is complete and we will undertake to identify additional control activities. We also agree to work with BFO to identify ways to strengthen controls over completeness of data passed mechanically from ORCS to the accounts receivable system.

We will plan to complete our action on both issues by March 31, 2012.

Recommendation 4 *Directed to the Bureau of Fiscal Operations.*

Recommendation 5 We recommend that the Office of Programs modify ORCS privileges to ensure proper separation of duties.

**Office of
Programs
Response**

We disagree. The current configuration of privileges adequately separates key duties to reduce risk to an acceptable level. Separation of duties does not require that every data-entry action be approved by a second employee. The privileges cited by the audit impact no more than 5% of transactions, based on the OIG's acceptance sample result (1 questioned case out 105 debts reviewed). A single employee did not control all key aspects of the questioned transaction because a second employee was involved in the adjudicative activity that led up to recording of the receivable.

Recommendation 6 *Directed to the Bureau of Fiscal Operations.*

**Draft Report – Audit of Railroad Retirement Act Benefit
Overpayments and Internal Controls, *continued***

Recommendation 7 We recommend that the Office of Programs strengthen controls to ensure that proof of attendance is documented and that documentation is maintained.

Office of Programs Response We agree with the finding and recommendation. We believe that the missing documentation was due to records lost when the employee responsible for survivor training retired. We will take corrective action by September 30, 2011.

Recommendation 8 *Directed to the Bureau of Fiscal Operations.*

Recommendation 9 We recommend that the Office of Programs work with the management control review committee to revise management control documentation to be consistent with GAO guidance for internal controls.

Office of Programs Response The Office of Programs' Management Control Reviews were accepted by the Management Control Review Committee (MCRC) which also develops the requirements for that process. In view of the current audit finding, we will request the advice and assistance of the MCRC in determining how to address the OIG's concerns about overpayment-related management control documentation during the next regularly scheduled management control review of the affected assessable units. We will request the MCRC's assistance by October 31, 2011.

Recommendation 10 *Directed to the Bureau of Fiscal Operations.*

Recommendation 11 We recommend that the Office of Programs strengthen the internal controls over the review and approval process for RRA overpayments greater than \$10,000 to ensure that approvals comply with agency procedures.

Office of Programs Response We agree that the second authorization of debts over \$10,000 was not sufficiently documented to permit auditor testing and, for that reason, its effectiveness could not be adequately demonstrated. Although it applies to less than 2% of debt, we think it is an important control and agree to re-examine the design and implementation of this control, including documentation of the control activity, to determine how it can be improved. We will complete the review and improvement process by March 31, 2012.

**Draft Report – Audit of Railroad Retirement Act Benefit
Overpayments and Internal Controls, *continued***

Recommendation 12 We recommend that the Office of Programs remind examiners of the proper procedures for handling existing RRA overpayment notices.

Office of Programs Response We agree that a reminder concerning the use of ORCS screens will benefit the process and we will issue such a reminder by July 17, 2011.

Recommendation 13 We recommend that the Office of Programs strengthen internal controls to ensure that duplicate RRA overpayments are not created.

Office of Programs Response We will review existing controls to identify opportunities to improve prevention and/or the timeliness of detection. However, we do not agree that controls are insufficient. Effective internal control reduces risk but may not eliminate it entirely: OIG analysis of the audit universe of 28,773 debts identified only 5 duplicate debts. We will complete this process by December 31, 2011.

Recommendation 14 We recommend that the Office of Programs update the edits in the ROC program to ensure that authorization is obtained when required.

Office of Programs Response We agree. The Office of Programs will request the necessary programming changes by September 30, 2011.

cc: Director of Operations
Director of Program Evaluation and Management Services
Chief Information Officer
Chief Financial Officer
Director of Debt Recovery
Management Control Review Committee



UNITED STATES GOVERNMENT

MEMORANDUM

FORM G-1151 (1-92)

RAILROAD RETIREMENT BOARD

TO : Diana Krueel
Assistant Inspector General for Audit

FROM : George V. Govan *George V. Govan*
Chief Financial Officer

DATE : June 13, 2011

SUBJECT: Draft Audit of Railroad Retirement Act Benefit Overpayments
and Internal Controls

This is in response to your request for comments on the above Draft Audit Report. We believe that accounts receivable is an integral part of the Railroad Retirement Board's benefit payment system and agree that the internal controls regarding the establishment of debt can be strengthened. Following are my comments on recommendations addressed to the Bureau of Fiscal Operations (BFO).

Recommendation Number 4 recommends that BFO develop and implement controls to ensure the completeness of RRA overpayment data as it is transferred between systems. Railroad Retirement Account (RRA) overpayments are detected and calculated by the Office of Programs (OP). OP enters new debts and adjustments to existing debts in the Overpayment Recovery Correspondence System (ORCS) to generate a bill and to upload data into the Program Accounts Receivable (PAR) system. BFO's Debt Recovery Division (DRD) has generated a service request to the Bureau of Information Systems (BIS) to develop a daily report that matches data uploaded by ORCS to data received by the PAR system. We believe that this report will be available within 90 days from the date of this memo.

Recommendation Number 6 recommends that BFO implement controls to ensure that the accounts receivable system control logs and assurance reports are maintained for inspection. We requested that the BIS-Division of Information Management (IM) advise BFO of the retention period for control logs and assurance reports. BIS-IM researched the National Archives and Records Administration's General Records Schedules and advised that there were no exact matches for control logs and assurance reports, but suggested that the three year retention period for all other accounting administrative files, prescribed in Schedule 6, item 5(b), would be appropriate. As a result, BFO will immediately begin retaining control logs and assurance reports for a three year period. BFO considers this recommendation implemented.

Recommendation Number 8 recommends that BFO develop and implement controls to ensure that proof of attendance for training is documented and that documentation is maintained. BFO does have some controls to document training; however, they are maintained separately in various formats in each of our divisions. BFO will develop a centralized, uniform control log to document all training throughout the bureau. Each division will be required to pass training information to the BFO administrative assistant when training is complete for recordkeeping and tracking purposes. We believe that this process can be developed and implemented within 90 days from the date of this memo.

The report section entitled "Documentation for Control Procedures" discusses the Federal Government's internal control standards and notes that the review of this area disclosed that DRD's documented control techniques focus on operations but do not address key areas such as segregation of duties, controls over information processing, reconciliations and managing human capital. As a result, Recommendation Number 10 recommends that BFO work with the Management Control Review Committee (MCRC) to revise management control documentation to be consistent with GAO guidance for internal controls. Although we believe that our internal controls in DRD are comprehensive, we agree that they may not be included in DRD's control documentation. DRD will review its control documentation and work with the MCRC to ensure that controls for segregation of duties, information processing, reconciliations, and managing human capital are included in its control documentation and tested for effectiveness. We believe that this review and revisions to DRD's control documentation may take up to 180 days to complete from the date of this memo.

If there is any additional information you need, please advise me.

cc: Debt Recovery Manager