OFFICE OF INSPECTOR GENERAL

Audit Report

Audit of the Railroad Retirement Board's Fiscal Year 2012 Compliance with the Improper Payments Elimination and Recovery Act of 2010

Report No. 13-05
March 15, 2013

RAILROAD RETIREMENT BOARD

TABLE OF CONTENTS

INTRODUCTION

RESULTS OF AUDIT

APPENDIX

INTRODUCTION

This report presents the results of the Office of Inspector General's (OIG) audit of the Railroad Retirement Board's (RRB) fiscal year (FY) 2012 compliance with the Improper Payments Elimination and Recovery Act of 2010 (IPERA) which amended the Improper Payment Information Act of 2002 (IPIA).[1,2]

Background

The RRB is an independent agency in the executive branch of the Federal government. The RRB administers retirement/survivor and unemployment/sickness insurance benefit programs for railroad workers and their families under the Railroad Retirement Act (RRA) and the Railroad Unemployment Insurance Act (RUIA). The RRB paid $11.4 billion in retirement and survivor benefits to 573,000 beneficiaries during FY 2012. The RRB also paid $76 million in unemployment and sickness insurance benefits to 27,000 beneficiaries.

IPERA, which is meant to achieve the President's goal of reducing wasteful, improper payments, was enacted in July 2010. As stated in IPERA, an improper payment is any payment that should not have been made or that was made in an incorrect amount (including overpayments and underpayments) under statutory, contractual, administrative, or other legally applicable requirements. An improper payment includes any payment to an ineligible recipient, any payment for an ineligible good or service, any duplicate payment, any payment for a good or service not received (except for such payments where authorized by law), and any payment that does not account for credit for applicable discounts. A significant improper payment is defined as gross annual improper payments in a program exceeding both 2.5 percent of program outlays and $10 million of all program or activity payments made during the fiscal year reported or $100 million regardless of the improper payment percentage of total program outlays.

Within the RRB, the Office of Programs reports prior year improper payment data in the annual Performance and Accountability Report (PAR). For FY 2011, the RRB reported $10.9 billion in outlays of which $65.6 million (0.59%) represents improper payments for the RRA program. The RRB also reported $129 million in outlays of which $9.3 million (7.2%) represents improper payments for the RUIA program.

---

[1] Public Law 111-204
[2] Public Law 107-300

The Office of Management and Budget (OMB) issued government-wide guidance on the implementation of IPERA. The guidance requires each agency's Inspector General to review agency improper payment reporting in the agency's annual PAR or Annual Financial Report (AFR) and accompanying materials to determine whether the agency complied with the requirements as described in the list below:

- published a PAR or AFR for the most recent fiscal year and posted that report and any accompanying materials required by OMB on the agency website;
- conducted a program specific risk assessment for each program or activity that conforms with Section 3321 of Title 31 U.S.C. (if required);
- published improper payment estimates for all programs and activities identified as susceptible to significant improper payments under its risk assessment (if required);
- published programmatic corrective action plans in the PAR or AFR (if required);
- published, and has met, annual reduction targets for each program assessed to be at risk and measured for improper payments;
- reported a gross improper payment rate of less than 10 percent for each program and activity for which an improper payment estimate was obtained and published in the PAR or AFR; and
- reported information on its efforts to recapture improper payments.

If an agency does not meet one or more of these requirements, it is not compliant. The OMB guidance also states that the agency's Inspector General should evaluate the accuracy and completeness of agency reporting and performance in reducing and recapturing improper payments. OIGs are to complete their review and determination within 120 days of issuance of the PAR.

Audit Objectives

The audit objectives were to:

1. determine whether the RRB was in compliance with the requirements of IPERA;
2. evaluate the accuracy and completeness of the RRB's reporting; and
3. evaluate the RRB's performance in reducing improper payments.

Scope

Improper payment data reported in the RRB's FY 2012 PAR.

Methodology

To accomplish the audit objective, we:

- identified criteria from IPERA, as well as OMB's government-wide guidance for IPERA;
- determined if IPERA reporting in the RRB's FY 2012 PAR followed the format as provided by OMB Circular A-136, *Financial Reporting Requirements*;
- reviewed the improper payments portion of the RRB's FY 2012 PAR and related postings to determine whether the RRB has met all of the stated requirements;
- determined the accuracy and completeness of RRB reporting;
- evaluated the RRB's performance in reducing and recapturing improper payments;
- interviewed RRB staff; and
- reviewed RRB documentation.

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 objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

We conducted our fieldwork at RRB headquarters in Chicago, Illinois from November 2012 through February 2013.

RESULTS OF AUDIT

Our audit determined that:

1. the RRB complied with the applicable IPERA reporting requirements;
2. the evaluation of the accuracy and completeness of the RRB's improper payment data could not be assessed due to the lack of supporting documentation. Specifically we were unable to validate $49.2 million of the $65.6 million in improper payments reported for the RRA program and $8.1 million of the $9.3 million reported for the RUIA program. We also found that the RRB reports its outlay amounts on an inconsistent basis for the RRA and RUIA programs which could impact the improper payment reporting threshold; and
3. the RRB's performance in the reduction of RUIA improper payments has not been effective as it has risen to $9.3 million and is approaching the $10 million threshold.

The details of the audit findings and recommendations for corrective action follow. The full text of management's response is presented as Appendix I in this report.

Accuracy and Completeness of Improper Payment Data

Lack of Supporting Documentation

The Office of Programs does not request or maintain the necessary supporting documentation for improper payment reporting. Detailed support to validate the most significant portions of improper payment reporting components for the RRA and RUIA programs were not obtained by the Office of Programs. In addition, support to validate the estimated RUIA benefit payment disbursements for FY 2012 was not obtained.

According to the GAO Standards of Internal Control for the Federal Government, internal controls and all transactions and other significant events need to be clearly documented, and the documentation should be readily available for examination. The documentation should appear in management directives, administrative policies, or operating manuals and may be in paper or electronic form. All documentation and records should be properly managed and maintained.

Supporting documentation for RRA and RUIA improper payments was not detailed by individual debtors and debt amounts. The Office of Programs obtained a summary report of the existing improper payments from the agency's accounts receivable system and they stated that this report was sufficient for their purposes. Supporting documentation for RUIA benefit payment disbursements was not sufficient. The Office of Programs received an e-mail that provided the total amounts of the RUIA benefit payment disbursements and they explained that they did not see the need to obtain supporting documentation because the amounts were provided by the agency's Bureau of Actuary, which is a trusted source.

Of the $65.6 million improper payments reported for the RRA program and $9.3 million reported for the RUIA program, the OIG could not validate $49.2 million and $8.1 million, respectively.

In addition, based on the documentation provided, there appeared to be an $8 million difference in the FY 2012 total estimated outlays for the RUIA program that the Office of Programs could not explain because they had no support. It was later determined that this was not an error, however, an error of any magnitude would not be detected by the Office of Programs due to the lack of supporting documentation, and could impact improper payment reporting.

<u>Recommendations</u>

The Office of Programs should obtain and maintain:

1. individual debtor records that support the total improper payment amounts for the RRA and RUIA programs; and

2. documentation to support the estimated outlay amounts for the RRA and RUIA programs from the Bureau of Actuary.

<u>Management's Response</u>

In response to Recommendation 1, the Office of Programs stated that they requested that the Bureau of Fiscal Operations (BFO) submit a service request (form G-436a) to the Bureau of Information Services to create a report/file of new receivables that reconciles with the Treasury Report on Receivables and Debt Collection Activities (TROR). The Office of Programs has requested that BFO continue to run an Easytrieve listing of new receivables concurrently with the TROR report at the end of each fiscal year until such service request is completed.

In response to Recommendation 2, the Office of Programs stated that beginning with the FY 2013 improper payments report, they will ask the Bureau of Actuary to provide them with supporting documentation for both the RRA and RUIA data elements that the Office of Programs requests for their analysis.

Inconsistent Basis for Outlays

The RRB reports its outlay amounts on an inconsistent basis for the two programs that are susceptible to improper payments. The outlay amount for the RRA program is reported on a net basis, whereas the RUIA program is reported on a gross basis. For the RUIA program, there was a $28 million difference between the gross versus net amounts.

OMB guidance requires that agencies report the outlay as the basis in determining whether the agency has exceeded the 2.5 percent threshold for improper payments.

The Office of Programs follows separate procedures for the RRA and RUIA programs when recording outlay amounts on the PAR. They explained that the two programs are different and therefore the use of a different basis is warranted.

The use of an inconsistent basis in the outlay amounts has a direct impact on the accuracy of improper payment reporting and directly impacts the threshold in which additional reporting requirements take effect.

Recommendation

3. The Office of Programs should standardize their procedures for the RRA and RUIA programs to ensure consistency of improper payment data reported on the PAR.

Management's Response

The Office of Programs stated that beginning with the FY 2013 improper payments report they will resume using gross RRA outlays to provide consistency with the RUIA calculations.

Performance in Reducing Improper Payments

The RRB's performance in the reduction of improper payments has not been effective for the RUIA program as improper payment amounts have risen by $7.2 million since it was last reported in FY 2007.

Federal agencies shall take all necessary steps to ensure the accuracy and integrity of Federal payments. Generally speaking, program integrity activities fall into three categories: prevention, detection and recovery.

Improper payment reporting for the RUIA program had not been reported since FY 2007, as the RRB had been granted relief from reporting by OMB for a three year period. The Office of Programs explained that the rise in improper payment amounts is expected to be temporary due to legislative changes for the extension of unemployment benefits and the increased usage of unemployment benefits. They went on to explain that some of the improper payments can be attributed to the delay in learning when the beneficiaries receiving unemployment benefits had begun to work outside of the railroad industry. Additionally they explained that this could be eliminated if the RRB had access to a national database for new hires but the legal authority and administrative costs are prohibitive.

The Office of Programs also explained that the program integrity effort for this program is already at a high level and as a result there is little room for improvement. Therefore, no new initiatives have been planned.

Although the RUIA program does not currently have "significant improper payments" as defined in IPERA, it could meet the necessary requirements if improper payments continue to rise. To be considered "significant improper payments", improper payment amounts must exceed $10 million and exceed 2.5 percent of the annual outlays. The RUIA program already exceeds the 2.5 percent threshold and currently has $9.3 million in improper payments, which is close to the minimum monetary threshold. If these improper payments continue to rise, it could meet the $10 million threshold. Having "significant improper payments" would subject the RRB to additional reporting requirements as defined in IPERA.

Recommendation

4. The Office of Programs should identify and implement additional initiatives to reduce improper payments for the RUIA program.

Management's Response

The Office of Programs stated that in order to demonstrate their commitment to reducing improper payments, they will convene an inter-bureau project team to identify any potential system or procedure changes or training strategies which may help to reduce RUIA improper payments.

UNITED STATES GOVERNMENT

MEMORANDUM

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

March 14, 2013

TO : Diana Kruel
Assistant Inspector General for Audit

FROM : Janet M. Hallman Janet M. Hallman
Director of Program Evaluation and Management Services

THROUGH: Martha M. Barringer Martha M. Barringer
Director of Programs

SUBJECT: Draft Report – Railroad Retirement Board's Fiscal Year 2012 Compliance with the Improper Payments and Elimination and Recovery Act of 2010

Office of Programs Comments on the Report

We are pleased that this audit recognizes that the agency is in compliance with all of the various IPERA requirements. This is the second year the OIG has conducted this IPERA audit and has reported that we have achieved compliance on both occasions. Programs takes its responsibility to prevent, identify, recover and accurately report improper payments very seriously.

Recommendation 1: The Office of Programs should obtain and maintain individual debtor records that support the total improper payments amount for the RRA and RUIA programs.

Programs obtains summary, year-end debt information from TROR *(Treasury Report on Receivables and Debt Collection Activities)* which is provided by BFO (Bureau of Fiscal Operations) to the Department of Treasury. Programs considers TROR to be a reliable source of data for the improper payment analysis.

The auditors indicated they planned to do a case sampling of receivables established in FY 2011 and requested a list of these receivables. Because BFO only maintains summary records for TROR reporting, staff created an Easytrieve listing of RRA and RUIA debts established in FY 2011 on November 12, 2012. The total amount due on these lists did not fully reconcile with the amount of new receivables reported on TROR because of changes to receivables since that time. It should be noted, however, that these lists were accurate within 0.39% for RRA and 0.10% for RUIA. The auditors requested that a reconciled listing be provided for future reviews. As FY 2012 has already closed, BFO provided us with an Easytrieve listing of FY 2012 new receivables as of March 13, 2013, that differs from TROR reported new receivables by 0.11% for RRA and 0.07% for RUIA. This listing will be provided to the OIG for their IPERA audit of the FY 2013 improper payments report. We requested that BFO submit a service request (from G-436a) to the Bureau of Information Services to create a report/file of new receivables that reconciles with TROR. We have requested that BFO continue to run an Easytrieve listing of new receivables concurrently with the TROR report at the end of each fiscal year until such service request is completed. This will provide us with the closest possible representation of the data contained in the TROR report.

<u>Recommendation 2:</u> The Office of Programs should obtain and maintain documentation to support the estimated outlay amounts for the RRA and RUIA programs from the Bureau of Actuary.

In response to recommendation 2, beginning with the FY 2013 improper payments report we will ask the Actuary to provide us with supporting documentation for both the RRA and RUIA data elements we request for our analysis. While Programs may be able to detect typos, formatting or presentation errors, we do not have the knowledge or expertise to determine if the data provided in the supporting documentation is accurate; we will still consider the Actuary to be a trusted source in our process.

<u>Recommendation 3:</u> The Office of Programs should standardize procedures for the RRA and RUIA programs to ensure consistency of improper payment data reported on the PAR.

The audit takes issue with the fact that we use gross RUIA outlays and net RRA outlays for determining the improper payment percentage.

We devised our improper payments methodology to use the standardized practice of using *gross* outlays for both the RRA and RUIA program in 2003 after discussions with agency managers, the Chief Actuary, the General Counsel and the OIG. Each year your office works with BFO to reconcile dollar amounts as part of the Financial Statement Audit. In 2011, Programs agreed to start using *net* RRA outlays for improper payment reporting to assist in this reconciliation. BFO notified your office of this agreement in an August 2011 email.

In response to recommendation 3, beginning with the FY 2013 improper payments report we will resume using gross RRA outlays to provide consistency with the RUIA calculations.

<u>Recommendation 4:</u> The Office of Programs should identify and implement additional initiatives to reduce improper payments for the RUIA program.

During FY 2002 through 2007, the RUIA program had consistently experienced improper payments in the range of 2.0 to 2.6%. Because of this low error rate in the RUIA program and because we demonstrated that we have a robust program integrity process in place with little more that could be done to lower the rate, OMB granted the agency improper payments reporting relief until FY 12.

During the FY 12 improper payments analysis, Programs determined that the RUIA improper payment rate increased to 7.2% due the impact of several situational factors relating to the severe downturn in the economy. Programs' analysis (shared with the OIG) concluded that, over time, we expect a return to the previous low levels. We have also reviewed current data which supports this analysis and find no evidence that there is an established ongoing rising trend of RUIA improper payments.

In response to recommendation 4, in order to demonstrate our commitment to reducing improper payments, Programs will convene an inter-bureau project team to identify any potential system or procedure changes or training strategies which may help to reduce RUIA improper payments.