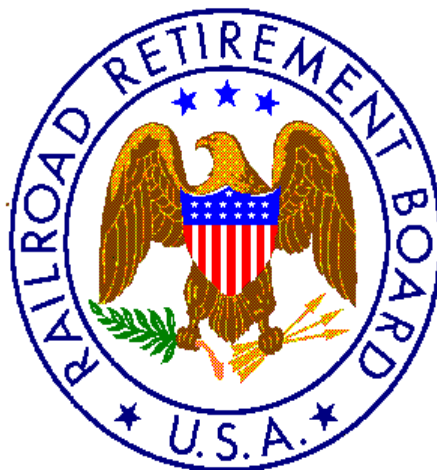


OFFICE OF INSPECTOR GENERAL

Audit Report

**Audit of the Railroad Retirement Board's Management Control
Review Process for Railroad Medicare Contract Oversight**

**Report No. 13-07
June 24, 2013**



RAILROAD RETIREMENT BOARD

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INTRODUCTION

This report presents the results of the Office of Inspector General's (OIG) audit of the Railroad Retirement Board's (RRB) Management Control Review (MCR) process for Railroad Medicare contract oversight.

Background

The RRB is an independent agency in the executive branch of the Federal government. The RRB administers the retirement/survivor and unemployment/sickness insurance benefit programs for railroad workers and their families under the Railroad Retirement Act and the Railroad Unemployment Insurance Act. These programs provide income protection during old age and in the event of disability, death or temporary unemployment and sickness.

Railroad Medicare

In May 1966, the Social Security Administration (SSA) delegated authority to the RRB for administering certain provisions of the Medicare program for Qualified Railroad Retirement Beneficiaries (QRRBs). These provisions included enrollment, premium collection, and selection of a carrier to process Medicare Part B claims. The enactment of Public Law 92-603 in October 1972 amended the Social Security Act and granted the RRB jurisdiction over all QRRB's that were receiving benefits from both the RRB and the SSA. At the end of FY 2012, approximately 481,000 railroad retirement beneficiaries were enrolled in Medicare Part A, of whom approximately 463,000 enrolled in Part B of the program.

The RRB's Office of Programs is responsible for oversight of the Railroad Medicare program. The RRB has assigned a Contracting Officer's Representative (COR) to the Railroad Medicare contract with Palmetto GBA, LLC.

As part of the RRB-OIG's oversight responsibilities under the Inspector General Act of 1978, as amended, the OIG conducts audits and investigations of alleged fraud, waste, and abuse in the Railroad Medicare program.

Palmetto GBA, LLC

Since April 2000, the RRB has contracted with a nationwide contractor Palmetto GBA, LLC (Palmetto) to process the Medicare Part B claims for QRRBs. As of September 28, 2012, Palmetto was awarded contract responsibilities as the Railroad Specialty Medicare Administrative Contractor. The RRB's contract with Palmetto states that, "[t]he contractor shall perform all carrier functions for individuals enrolled in Part B of the Railroad Medicare program throughout the United States." These carrier functions include medical review and benefit integrity. As a Specialty Medicare Administrative Contractor with responsibility for nationwide Railroad Medicare claims,

Palmetto has not been assigned to a Zoned Program Integrity Contractor; and therefore, is potentially subject to increased risk of improper payments when compared with a regional Medicare Administrative Contractor.

Management Control Review Process

OMB Circular A-123, Management Accountability and Control, states that management controls are the organization, policies, and procedures used to reasonably ensure that:

- programs achieve their intended results,
- resources are used consistent with agency mission,
- programs and resources are protected from waste, fraud, and mismanagement,
- laws and regulations are followed, and
- reliable and timely information is obtained, maintained, reported and used for decision making.

Circular A-123 further states that these policies require agencies and individual Federal managers to take systematic and proactive measures to develop and implement appropriate, cost-effective management controls for results-oriented management; assess the adequacy of management controls in their operations; identify needed improvements; take corresponding corrective actions; and report annually on management controls.

The RRB has developed policy and guidance for establishing, reviewing, and improving the RRB's mission-critical internal control processes. The RRB's MCR process has been designed to assure that the integrity of the programs and resources entrusted to it are protected by effective management controls. The MCR process also functions to provide reasonable assurance that the mission of the RRB is accomplished without waste, fraud, or mismanagement.

Audit Objective

The objective of the audit was to determine if the RRB's MCR process adequately addresses the RRB's responsibilities for Railroad Medicare contract oversight.

Scope

Our audit scope focused on the RRB's Railroad Medicare contract oversight responsibilities as addressed by the MCR process in effect for the period from January 2012 through December 2012.

Methodology

To accomplish our objectives, we:

- reviewed laws and regulations and federal guidance addressing contract oversight, and the COR's responsibilities;
- reviewed the RRB's Railroad Medicare contract with Palmetto and its statement of work;
- reviewed RRB policies and procedures addressing the COR's responsibilities;
- reviewed the RRB's Management Control Guide, and MCR process documentation;
- conducted interviews with Palmetto and RRB officials; and
- identified key internal controls over contract oversight and assessed the effectiveness of the controls.

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.

This is the second audit report issued as part of our audit of Railroad Medicare ambulance charges. The first report summarized the control weaknesses identified in Palmetto's medical prepayment reviews, medical review strategy, and provider education efforts.¹ This report discusses the RRB's MCR process weaknesses impacting contract oversight of the Railroad Medicare program. This audit addresses the RRB's strategic goal to serve as responsible stewards for its customers' trust funds and agency resources.

We conducted our fieldwork for both audit reports at the RRB's headquarters in Chicago, Illinois from January 2012 to December 2012.

¹ *Audit of Railroad Medicare Ambulance Charges*, Report No. 13-06, March 29, 2013.

RESULTS OF AUDIT

Our review determined that Railroad Medicare contract oversight risks have not been adequately addressed in the RRB's MCR process. The details of our audit finding and a recommendation for corrective action follow.

Railroad Medicare Contract Oversight Risks are not Addressed in the RRB's Management Control Review Process

The RRB's current MCR process does not include the RRB's responsibilities for oversight of the Railroad Medicare contract with Palmetto. While Railroad Medicare has been identified by the RRB as a mission-critical agency program, with annual processed claims exceeding 9.4 million and payments of approximately \$849 million for Part B medical services, the Office of Programs has not conducted an MCR risk assessment or established risk-based control objectives and techniques specific to its contract oversight responsibilities.

The Government Accountability Office's Standards for Internal Control in the Federal Government requires that internal control should provide for an assessment of the risks the agency faces from both external and internal sources.

The RRB's Management Control Guide states that RRB program and administrative activities must incorporate internal controls that ensure:

- accountability for accomplishment of the mission and related controls is established, monitored on an ongoing basis, and tested periodically, and appropriate levels of management are informed and have the ability to act timely to prevent or correct weaknesses and initiate improvements.

The Guide further states that an assessable unit should be defined by its mission, the policies and procedures governing it, and its process flow. The assessable unit should perform or support one or more significant missions such as benefit payments, overpayment recoveries, program and trust fund integrity, or tax and contribution collections. Control techniques are employed for the assessable unit to combat specific risks and provide reasonable assurance that the control objectives are achieved.

The Office of Programs has partially addressed Railroad Medicare in the agency's MCR process by establishing assessable units for monitoring the agency's Railroad Medicare and contract procurement functions where the work is performed directly by the agency and is not under contract. However, the Office of Programs has not included the Railroad Medicare contract oversight function in these assessable units and has not been requested to address contract oversight controls in the MCR process.

Based on the Centers for Medicare & Medicaid Services' FY 2012 improper payment rates, the OIG estimates Railroad Medicare Part B improper payments to be more than \$84 million, annually.² As Railroad Medicare contract oversight is not subject to the RRB's MCR process, the risks of program fraud, waste, and abuse cannot be fully mitigated by management controls. As a result, material weaknesses or significant deficiencies in the Railroad Medicare program may go undetected, increasing the risk of improper payments. The inclusion of contract oversight in the RRB's MCR process will help to ensure the fulfillment of the RRB's program responsibilities, which include monitoring the integrity and effectiveness of the Railroad Medicare program.

Recommendation

1. We recommend that the Office of Programs include Railroad Medicare contract oversight in the RRB's Management Control Review process to ensure that management controls effectively monitor carrier performance and mitigate the risks of program fraud, waste, and abuse.

Management's Response

The Office of Programs concurred with this recommendation. The Office of Programs intends to work with the RRB's Management Control Review Committee to develop, test and implement sufficient controls of the Medicare contract to effectively monitor carrier performance and mitigate the risks of program fraud, waste and abuse. The full text of management's response is provided in Appendix I of this report.

² Source: Centers for Medicare and Medicaid Services' Fact Sheet, Fiscal Year 2012 Improper Payment Rates For CMS Programs, November 21, 2012 (Railroad Medicare improper payments were estimated by applying the improper payment rate for the Physician/Lab/Ambulance claim type. As a result, claim types not processed by Palmetto were excluded from the calculation).



MEMORANDUM

JUN 12 2013

TO: Diana Kruei
Assistant Inspector General for Audits

FROM: Micheal Pawlak *Micheal Pawlak*
Director of Unemployment and Programs Support Division

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

SUBJECT: **Draft Report** – Audit of Railroad Retirement Board’s (RRB) Management Control Review Process for Railroad Medicare Contract Oversight

Recommendation #1 We recommend that the Office of Programs include Railroad Medicare contract oversight in the RRB’s Management Control Review process to ensure that management controls effectively monitor carrier performance and mitigate the risks of program fraud, waste and abuse.

OP Response #1 We concur. We intend to work with the RRB’s Management Control Review Committee to develop, test and implement sufficient controls of the Medicare contract to effectively monitor carrier performance and mitigate the risks of program fraud, waste and abuse. We anticipate the process to be completed by October 2014.
