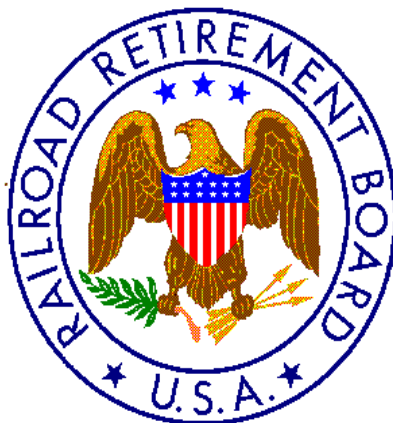


**OFFICE OF INSPECTOR GENERAL**

**Audit Report**

**Audit of the Railroad Retirement Board's  
Internal Controls over Widow(er) Annuities**

**Report No. 13-09  
July 31, 2013**



**RAILROAD RETIREMENT BOARD**

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## EXECUTIVE SUMMARY

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The Office of Inspector General (OIG) for the Railroad Retirement Board (RRB) conducted an audit of internal controls over widow(er) annuities. The audit objective was to determine if internal controls were adequate to ensure the accuracy of benefit payments awarded to widow(er)s.

### Findings

Internal controls are not sufficient to ensure that widow(er) annuities are accurate. Our review of a statistical sample of 105 widow(er) annuity awards identified 5 sample cases that contained a payment error for the actual rate or for the period paid. Based on our projection, we estimate the monetary impact of unidentified improper payments to be approximately \$2.6 million.

Documentation to support eligibility for widow(er) annuities is not always maintained in the RRB's imaging system. We were unable to verify the widow(er) annuity entitlement in 65 of 105 sample cases because the RRB did not always retain documentary evidence supporting proofs necessary to determine eligibility for a widow(er) annuity. Instead, the RRB relied on dates transcribed from the proofs and entered into the APPLE system. Proof information transcribed into an electronic record by a single individual without secondary review is not sufficient documentation to verify eligibility to a widow(er) annuity. Based on our projection, there could be a total of 4,465 cases without all of the supporting documentation.

The proper management official is not being held accountable for the agency's management control activities as related to the survivor application proof process. Although these control activities are now performed by Field Service, they are currently included in the Office of Programs' assessable unit which was appropriate when Field Service was part of the Office of Programs. Field Service became a separate bureau in May 2012 when the Board Members approved a change in the agency's organizational structure related to its nationwide network of 53 field offices.

### Key Recommendations

We recommend that agency management:

- take action for the error cases cited above to correct the annuity beginning dates, payment amounts, and to establish overpayments and/or issue accruals when necessary;
- improve internal controls;
- determine if there are similar error cases and take all corrective action;
- provide additional training;
- revise procedures to require the retention of scanned copies of needed proofs in the RRB's claim folder system;

- obtain and retain the copies of proofs to verify the eligibility of the widow(er) annuities for the 65 error cases and determine if verification of eligibility should be expanded to the universe of widow(er) annuities processed using proof data transcribed in the APPLE system; and
- establish a separate assessable unit for Field Service's control activities related to the survivor widow(er) annuity application and proof process to ensure that the proper management official is accountable for these control responsibilities.

## **Management Responses**

The Office of Programs agreed to take corrective actions for the error cases involving annuity beginning dates, payment amounts, and to establish overpayments and/or issue accruals when necessary. The Office of Programs stated that they will conduct refresher training and periodically perform data comparisons to address the identified internal control weaknesses. The Office of Programs stated that they have already run a query but did not find any additional cases where the annuity beginning date is prior to the employee's date of death.

The Office of Programs and Field Service disagreed with the recommendations pertaining to revising procedures requiring the retention of scanned copies of proofs. They stated that the current method of transcription has been in place for many years and has proven to be sufficient and reliable. The Office of Programs and Field Service also disagreed with the recommendations pertaining to obtaining and retaining copies of proofs for the 65 error cases and did not agree with our recommendation to determine if the verification of eligibility should be expanded to the universe of widow(er) annuities processed using proof data transcribed in the APPLE system. The Office of Programs and Field Service also stated that they believed that the 65 cases should not have been characterized as errors because they were handled according to procedure.

The Management Control Review Committee did not concur with our recommendation to establish a separate assessable unit for Field Service's control activities related to the survivor widow(er) annuity application and proof process. They stated that the responsible official for Survivor Benefits-Initial assessable unit should continue to document and test the controls at this time.

The full text of agency management's response is included in this report as Appendix IV and Appendix V.

## **RRB-OIG's Comments on Management's Responses**

In regard to the recommendations that the Office of Programs and Field Service disagreed with, we do not agree with management's statement that transcribing the proof data is sufficient and reliable. We maintain that proofs should be obtained and retained for all error cases identified and for the universe of widow(er) annuities processed that only used transcribed proof data. Proof retention would provide clearly

documented evidence to ensure that these annuitants are eligible and as a means to detect potential fraud. Proof retention is needed to address the agency's goal of serving as responsible stewards for customer trust funds and agency resources and to ensure that the correct amount of benefits are paid to the right people. While management disagrees that the 65 cases should be cited as errors, we were unable to verify eligibility for the 65 annuitants and as such, these cases have been cited as errors.

In regard to the recommendation that the Management Control Review Committee did not concur with, we maintain that the responsible official for Survivor Benefits is too far removed from Field Service's organizational structure to be knowledgeable about and kept informed of internal control issues related to the survivor application proof process conducted in the 53 Field Offices.

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## INTRODUCTION

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This report presents the results of the Office of Inspector General's (OIG) audit of the Railroad Retirement Board's internal controls over widow(er) annuities.

### Background

The Railroad Retirement Board (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 (RRA) and the Railroad Unemployment Insurance Act (RUIA). In fiscal year (FY) 2011, the RRB paid over \$2 billion to 128,100 widow(er)s. In addition, the RRB awarded 6,100 aged widow(er) annuities with an average monthly annuity of \$1,789.

The RRB's Field Service is responsible for developing the widow(er) application which includes securing the necessary proofs (documentary evidence including employee's death, marriage, and widow's date of birth) to determine entitlement. Field Service uses the Application Express System (APPLE) for their responsibilities in the process. APPLE is an online computer system that automates the processing of applications for railroad retirement and survivor benefits. After the application processing is completed by Field Service, the payment processing portion of the benefit is initiated. APPLE is used to adjudicate the benefit payment without manual intervention whenever possible. When Field Service staff determines that manual intervention is needed or APPLE cannot process the benefit payment, the case is referred to the Office of Programs.

Office of Programs claims examiners are responsible for manually processing some widow(er) annuities to ensure the timeliness and accuracy of the payment. Manual processing actions include making jurisdiction determinations for payment of widow(er) annuities and, when necessary, transferring jurisdiction to the Social Security Administration when it is determined that the RRB does not have jurisdiction. Claims examiners are also responsible for other processing actions which include determining the correct beginning date and annuity rate for widow(er) annuities. The Office of Programs uses the Survivor Payments System (SURPASS) to process widow(er)s annuities. SURPASS is an on-line adjudication program used for calculating and paying survivor recurring and one-payment only awards.

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." 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. The guidance provides 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 created the Management Control Review Committee to establish and oversee a process to identify and eliminate management control weaknesses. That committee ensures the accuracy and completeness of reports on management controls and material weaknesses, and also ensures the adequacy of corrective action plans.

The RRB's strategic plan includes an objective to ensure the accuracy and integrity of benefit programs. To meet the larger goal of serving as responsible stewards for our customers' trust funds and agency resources, the correct amount of benefits are to be paid to the right people. This review directly addresses that key area of performance.

### **Audit Objective**

The audit objective was to determine if internal controls were adequate to ensure the accuracy of benefit payments awarded to widow(er)s.

### **Scope**

The audit scope was limited to widow(er) benefit awards processed during FY 2011.

### **Methodology**

To accomplish the audit objective, we:

- identified criteria from GAO's "Standards for Internal Control in the Federal Government" and agency procedures;
- reviewed applicable laws and regulations;
- reviewed agency documentation;
- identified, tested and assessed internal controls;
- selected a statistical sample of widow(er) annuitants and tested the internal controls over benefit payment accuracy; and
- interviewed agency management and staff.

To assess the reliability of the survivor data provided in the master benefit file download, we:

- compared data elements in the survivor master benefit file (MBF) to the corresponding data in the applicable Payment Rate Entitlement History (PREH) screens;
- interviewed OIG information technology staff about potential inconsistencies between the MBF download and the PREH screens;
- reviewed the survivor MBF data dictionary; and
- resolved potential discrepancies between the survivor MBF download and the PREH screens with RRB personnel.

We determined that the downloaded 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 2011 through May 2012 and January 2013 through April 2013.



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## RESULTS OF AUDIT

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Our audit determined that internal controls over widow(er) annuities were not operating, effective, or adequate to ensure the accuracy of widow(er) annuities. Our statistical sample of 105 cases identified 5 cases with inaccurate widow(er) annuities. Based on our projection, we estimate the monetary impact of unidentified improper payments to be approximately \$2.6 million. Our audit also found that the agency did not always retain documentation to support widow(er) eligibility for railroad benefits in 65 cases. Based on our projection, there could be a total of 4,465 cases without all of the supporting documentation. In addition, we found that the Director of Field Service has not been held accountable for survivor application proof process controls.

Internal controls could be strengthened in the following areas:

- improving internal controls to ensure the accuracy of widow(er) annuities;
- maintaining proofs to verify entitlement; and
- ensuring that the proper management officials are held accountable for management control responsibilities performed by their staff and that the agency's documentation for management controls reflects such accountability.

The details of our findings and recommendations for corrective action follow. The full text of management responses is presented as Appendix IV and Appendix V in this report.

### **Inaccurate Widow(er) Annuities**

Internal controls are not sufficient to ensure that widow(er) annuities are accurate. Our review of a statistical sample of 105 widow(er) annuity awards identified 5 sample cases that contained a payment error for the actual rate or for the period paid. The five cases are classified as follows:

- two cases with incorrect annuity beginning dates;
- two cases with incorrect use of the employee's military service; and
- one case with a manual input error that was not detected.

Control activities are an integral part of an entity's planning, implementing, reviewing, and accountability for stewardship of government resources and achieving effective results. Control activities occur at all levels and functions of the entity including activities such as approvals and authorizations which help provide evidence that all transactions are completely and accurately recorded. Agency procedures require that authorizers determine the correctness, accuracy and completeness of the adjudicative actions taken by the claims examiner.

These errors were caused by an inadequate review and approval process and insufficient examiner action taken in the handling of system generated referrals. To date, the RRB has corrected three of the five error cases which had resulted in improper payments. Projecting the improper payments from these cases to the population could result in an estimated \$2.6 million in improper payments (see Appendices I through III for more details).

The details of the error cases that we identified are described as follows.

### Incorrect Annuity Beginning Dates

- Incorrect Date of Death

In one case, the employee's notice of death had been erroneously entered into the RRB's APPLE system as February 19, 2011, when the actual date of death was April 19, 2011. The incorrect date of death that was entered resulted in an incorrect beginning date for the widow's annuity. The beginning date of a widow(er) annuity cannot occur before the month and the year of an employee's death.

Dates of death are recorded in two separate screens in the APPLE system. One screen captures the notification of death which initiates the processing of the widow annuity. A different APPLE screen captures the transcribed date of death from a proof reviewed by Field Service staff. After the widow's annuity was processed with the incorrect beginning date, Field Service entered the correct date of death and contacted the Office of Programs on May 4, 2011 to report the correct date of death. However, no action was taken to correct the widow's annuity beginning date or to calculate and collect the resulting overpayment.

The APPLE system generated a referral indicating the dates of death did not agree. The Office of Programs assigned the referral for examiner review, but the necessary corrective action was not taken. As a result, the widow was overpaid by two months.

- Incorrect Beginning Date for Widow's Annuity

In another case, per a court's ruling maintained in the RRB's records, the widow was no longer recognized as the legal guardian for the deceased employee's disabled adult child as of October 29, 2010. As a result, the widow was no longer entitled to receive a benefit based on having the disabled adult child in her care. Therefore, her annuity should have been converted to an aged widow annuity as of October 1, 2010. Instead, the RRB converted her annuity as of December 1, 2010.

Under the RRA, a mother's entitlement to an annuity based on having the deceased employee's child in care, ends on the last day of the month preceding the month in which the child is no longer in care.<sup>1</sup> As a result, the widow was overpaid for the months of October and November 2010.

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<sup>1</sup> 45 United States Code § 231d(c)(6)(C)

### Incorrect Use of the Employee's Military Service

We identified two cases with payment errors caused by an incorrect use of the deceased employee's military service in the widow annuity calculation. The way military service was used for the employee is how it should be used for the widow's annuity calculation. In one case military service was not used consistently in the calculation of the widow's annuity. In the other case, a second period of military service was not considered in the calculation of the widow's annuity. These errors were the result of examiner and authorizer mishandling.

The RRA provides service months and compensation credit toward the Tier II component of retirement benefits for employees who leave railroad work and perform active duty military service in the same year or in the next calendar year.<sup>2</sup> A credited month of military service is considered to be the same as though the employee performed regular railroad work that month. For widow(er) annuities, military service must be used in the Tier II computation in the same way that it was included in the employee annuity.

These errors resulted in incorrect payments. Other errors of this type may exist in the population of widow(er) annuities.

### Manual Input Error

In another case, a manual entry for the Tier II component entered by the claims examiner into SURPASS was incorrect. This error went undetected during the authorization process.

The basis for the Tier II portion of the widow(er) annuity should match the supporting documentation. As a result, the widow's Tier II was underpaid.

### Recommendations:

We recommend that the Office of Programs:

1. take action for the error cases cited above to correct the annuity beginning dates, payment amounts, and to establish overpayments and/or issue accruals when necessary;
2. improve internal controls over examiner actions taken to address date of death referrals generated from the APPLE system;

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<sup>2</sup> Regular railroad retirement annuities are calculated under a two-tier formula. The first tier is based on railroad retirement credits and any social security credits an employee acquired. The second tier is based on railroad retirement credits only, and may be compared to the retirement benefits paid over and above social security benefits to workers in other industries.

3. determine if there are other cases where the widow(er) annuity beginning date is prior to the employee's date of death and take all corrective action;
4. provide additional training on the correct use of military service for the calculation of widow(er) annuities;
5. improve internal controls to detect discrepancies between the service months recorded in the survivor's payment record and the employee's payment record to ensure that the widow(er) annuity is computed correctly; and
6. improve internal controls to ensure the effectiveness of the review and approval process.

### Management's Response

The Office of Programs concurred with Recommendation 1 and stated that they are in the process of finalizing the case corrections.

In regard to Recommendation 2, the Office of Programs stated that they will conduct refresher training for survivor claims examiners on the proper handling of date of death referrals produced by the APPLE system.

The Office of Programs concurred with Recommendation 3 and stated that they have run a query against the widow(er) universe which did not identify any additional cases where the widow(er) annuity beginning date is prior to the employee's date of death.

The Office of Programs concurred with Recommendation 4 and stated that they will conduct refresher training for survivor claims examiners on the correct use of military service for the calculation of widow(er) annuities.

For Recommendation 5, the Office of Programs stated that they have periodically performed the recommended comparison in the past as staffing allowed and will do so again.

In regard to Recommendation 6, the Office of Programs stated that they will conduct refresher training to ensure the effectiveness of the review and approval process for all survivor examiners who review and approve claims.

## **Required Proofs are Not Adequately Retained**

Documentation to support eligibility for widow(er) annuities is not always maintained in the RRB's imaging system. We were unable to verify the widow(er) annuity entitlement in 65 of 105 sample cases because the RRB did not always retain documentary evidence supporting proofs necessary to determine eligibility for a widow(er) annuity. Instead, the RRB relied on dates transcribed from the proofs and entered into the APPLE system. Proof information transcribed into an electronic record by a single individual without secondary review is not sufficient documentation to verify eligibility to a widow(er) annuity.

In 40 of the 105 sample cases, the RRB scanned and retained the proof documents or had retained sufficient proof evidence in physical claim files.

The specific type of proofs required to verify a widow(er) annuity depends on the type of application being filed and the status of the person filing. Certain proofs are always required by the RRB to establish eligibility to widow(er) annuities. These include proof of the death of the railroad employee, proof of the age of the employee and the widow(er) applicant, and proof of marriage to the railroad employee. Other proofs are also sometimes required for a widow(er) annuity including proof of divorce, proof of remarriage, proof of the railroad employee's military service, and proof of a child's relationship to the railroad employee.

Office of Management and Budget Circular A-123, Management's Responsibility for Internal Control, requires that, "[d]ocumentation for internal control, all transactions, and other significant events is readily available for examination."

RRB procedures do not require scanning of proofs into the RRB's imaging system. Specifically, the procedures state for original documents (proofs), "[c]reate an on-line transcript (APPLE) of the evidence, and return it as soon as possible to the person who presented it." Due to this option, we found inconsistencies in the field offices' practices in the maintenance of the proofs. There is also no requirement for the system or RRB claims examiners to re-verify entitlement evidence for widow(er) annuitants previously entitled to RRB benefits.

The RRB's internal controls over required proofs are weakened when proofs are transcribed to the APPLE system without retaining copies of the original proof documents, as errors can occur during data entry. In addition, failure to maintain copies of the original proof documents reduces audit trails, increases fraud risk, and potentially compromises the integrity of RRB trust funds.

When projecting the 65 cases cited in this finding to the sample population of 7,212 widow(er) benefit awards processed in FY 2011, there could potentially be 4,465 cases without all of the necessary supporting documentary evidence (see Appendix I for more details).

## Recommendations:

We recommend that the Office of Programs and Field Service:

7. revise procedures to require the retention of scanned copies of needed proofs in the RRB's claim folder system;
8. revise procedures to require the review of proofs for widow(er) annuity applicants who had previously received an RRB annuity;
9. obtain and retain the copies of proofs to verify the eligibility of the widow(er) annuities for the 65 error cases cited above; and
10. use the results from Recommendation 9 to determine if verification of eligibility should be expanded to the universe of widow(er) annuities processed using proof data transcribed in the APPLE system.

## Management's Response

The Office of Programs and Field Service disagreed with Recommendations 7 through 10. For Recommendation 7, the Office of Programs and Field Service stated that the current method of proof transcription has been in place for many years and has proven to be sufficient and reliable. For Recommendations 8, 9 and 10, the Office of Programs and Field Service stated that there is no valid business reason to require widow(er)s who have previously qualified for spouse benefits to resubmit the same proofs. The Office of Programs and Field Service also stated that they believed that the 65 cases should not have been characterized as errors because they were handled according to procedure.

## RRB-OIG's Comments on Management's Response

In regard to Recommendation 7, we disagree with management's response that the current method of proof transcription has been proven to be sufficient and reliable. Without a comparison of the transcribed data to the original or scanned proofs, accuracy of the proof data cannot be determined. Revised procedures to require retention of scanned copies are needed to prevent potential fraud for the protection of agency trust funds.

In regard to Recommendation 8, management's response regarding the resubmission of proofs only addresses spouses who were previously entitled annuitants. Other previously entitled annuitants include young widows, whose entitlement could have been terminated prior to entitlement to aged widow benefits. We maintain that the resubmission of proofs not previously retained serves to protect agency trust funds.

In regard to Recommendation 9, we maintain that the proofs should be obtained and retained for the 65 cases to provide clearly documented evidence to ensure that these annuitants are eligible and as a means to detect potential fraud. While the Office of Programs and Field Service disagree that the 65 cases should be cited as errors because agency procedure is being followed, we determined that agency procedure is not sufficient. We were unable to verify eligibility for the 65 annuitants and as such, these cases have been cited as errors.

In regard to Recommendation 10, we maintain that proof data should also be obtained and retained for other annuitants to ensure their eligibility to widow(er) annuities. This is needed to address the agency's goal of serving as responsible stewards for customer trust funds and agency resources and to ensure that the correct amounts of benefits are paid to the right people.

### **Recognition of the Proper Management Official for Management Control Activities**

The proper management official is not being held accountable for the agency's management control activities as related to the survivor application proof process. Although these control activities are now performed by Field Service, they are currently included in the Office of Programs' assessable unit which was appropriate when Field Service was part of the Office of Programs. Field Service became a separate bureau in May 2012 when the Board Members approved a change in the agency's organizational structure related to its nationwide network of 53 field offices. The Field Service component now reports directly to the Board Members.

The RRB's Management Control Guide states that an assessable unit should perform or support one or more significant missions such as benefit payments, overpayment recoveries, program and trust fund integrity, and contribution collections. Assessable units encompass all agency activities that can impact the agency's mission.

Assessable units should be defined only if:

- the potential for material weakness exists within it; or
- it can precipitate a material weakness in which it interacts; and
- the material weakness can be defined in terms of mission accomplishment, waste, fraud, abuse, misrepresentation of financial condition, or loss of public confidence.

Responsible officials are managers who are accountable for the operations of an assessable unit. They perform annual certifications and periodic management control reviews of their assessable units; make the first level determination of whether a material weakness exists; prepare and implement corrective action plans as needed; and report on each of these activities.

The Executive Committee, in conjunction with the Management Control Review Committee, provides the Board Members with reasonable assurance that effective management controls are in place and assist managers in achieving RRB management control objectives.

The Management Control Review Committee has not recognized the need for a separate assessable unit and a change in the responsible management official since these organizational changes were made.

A material weakness could go undetected because these control activities are not being certified by the proper management official. The current responsible official in the Office of Programs may not have the appropriate involvement with and oversight for these activities since they are no longer responsible for Field Service.

#### Recommendation:

We recommend that the Management Control Review Committee:

11. establish a separate assessable unit for Field Service's control activities related to the survivor widow(er) annuity application and proof process to ensure that the proper management official is accountable for these control responsibilities.

#### Management's Response

The Management Control Review Committee did not concur with Recommendation 11. They stated that both Office of Programs and Field Service directors, who are members of the Executive Committee, identify and ensure correction of systematic weaknesses relating to their respective functions. They also stated that the responsible official for the Survivor Benefits –Initial assessable unit should continue to document and test controls at this time.

#### RRB-OIG Comments on Management's Response

We disagree with management's decision that the responsible official for Survivor Benefits should continue to document and test the control activities related to the survivor application proof process. OMB Circular A-123, *Management's Responsibility for Internal Controls*, states that the assessment of internal control can be performed from a variety of information sources including management knowledge gained from the daily operation of agency programs and systems. It also states that the chain of command should be followed when internal control deficiencies are discovered and reported. We maintain that the responsible official for Survivor Benefits is too far removed from Field Service's organizational structure to be knowledgeable about and kept informed of internal control issues related to the survivor application proof process conducted in the 53 Field Offices. We reiterate that a material weakness could go undetected under this internal control reporting structure.



## SAMPLING METHODOLOGY AND RESULTS STATISTICAL SAMPLING

This appendix represents the methodology and results of our statistical sampling test of internal controls for widow(er) annuities.

### **Sample Objective**

Our sampling objective was to determine:

1. whether internal controls as related to widow(er) annuities were operating and effective; and
2. if internal controls provided for the accurate processing of widow(er) annuities.

### **Scope**

We selected the sample from a population of 7,212 survivor records for the period October 1, 2010 through September 30, 2011 from the master benefit file.

### **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 the accuracy of widow(er) annuity rates.

### **Accuracy**

We verified whether the eligibility requirements were met, including verification that the required proofs were obtained and maintained, and that other necessary requirements were met. We tested for accuracy by determining if the annuity amount paid was correct by comparing the annuity payment information generated from SURPASS to supporting documentation maintained by the RRB for each case.

SAMPLING METHODOLOGY AND RESULTS  
STATISTICAL SAMPLING

### Results of Review

We used a statistical sample of 105 widow(er) cases for the following attributes related to internal controls for widow(er) annuities.

Attributes Identified for Internal Control Testing	Tested	Non-Exceptions	Exceptions	Potential Exceptions Projected to Sample Population
<u>Proper Proofs</u> The proper proofs were maintained	105	40	65	4,465
<u>Sufficient Railroad Service Months</u> Sufficient railroad service months for the deceased employee	105	105	0	0
<u>Paid the Correct Amount</u> Adequate review and approval	105	101	4	
Dates in APPLE agree with dates in SURPASS <sup>3</sup>	105	104	1	
Grand Total			5	343
<u>Proper Segregation of Duties When Applicable</u> Award was processed mechanically, or prepared and approved by two separate individuals with the applicable access privileges for these functions.	105	105	0	0
<u>Proper Documentation to Support the Annuity Rate</u> Support for annuity rate maintained	105	105	0	0
Total Exceptions			70	

<sup>3</sup> This test did not verify the accuracy of the dates entered as the RRB only retained all of the proofs in 40 of the 105 sample cases.

SAMPLING METHODOLOGY AND RESULTS  
STATISTICAL SAMPLING

**Audit Conclusion**

Our evaluation of the 105 case statistical sample identified 70 exceptions, which exceeds the sample acceptance threshold. Of the 70 exceptions, 65 pertained to whether the eligibility requirements were met, and 5 pertained to the payment entitlement or payment amount. Therefore, we cannot conclude that internal controls are operating and effective and that they are adequate to ensure accurate widow(er) annuities.

When projecting the five payment error cases to the population of 7,212 widow(er) annuitants there could potentially be 343 widow(er) cases with payment errors.

STATUS OF INACCURATE WIDOW(ER) ANNUITY CASES IDENTIFIED DURING  
THE AUDIT

The following table shows the status of inaccurate widow(er) annuity cases that the OIG identified during the audit.

<b>Type of Error</b>	<b>Status</b>	<b>Financial Impact<sup>4</sup></b>
Incorrect Annuity Beginning Date – Incorrect Date of Death Case	Pending Correction Referral for Handling Established	Unknown
Incorrect Annuity Beginning Date – Widow's Annuity Case	Pending Correction No Referral for Handling Established	Unknown
Incorrect Use of Employee Military Service – Not Used Consistently	Corrected	Widow was overpaid \$1,147.74 for the period September 2010 through May 2013.
Incorrect Use of Employee Military Service – All Periods Not Included	Corrected	Widow was underpaid \$458.12 for the period April 2011 through May 2013.
Manual Input Error Case	Corrected	Widow was underpaid \$4,921.20 for the period September 2009 through May 2013.

<sup>4</sup> The financial impact is unknown in two cases because the agency is in the process of reviewing these errors.

## ESTIMATED FINANCIAL IMPACT OF INACCURATE WIDOW(ER) ANNUITY CASES

The table below shows the estimated financial impact of the inaccurate widow(er) annuity cases that have been corrected to date and the financial projection for these cases. The population was 7,212 cases with an error rate of .95% (1/105) for each type of error. When projected to the population, there would be 69 cases of each type of error in the population (.95% x 7,212).

The life expectancy for widows at age 65 is 18.7 years (224.4 months) per actuarial statistics.<sup>5</sup> These errors were discovered by the OIG audit. The total estimated financial impact provided below assumes that the errors would not have been detected throughout the duration of the annuity.

<b>Payment Error Category</b>	<b>Monthly Financial Impact</b>	<b>Financial Impact Over 18.7 Years</b>	<b>Projected Number of Error Cases</b>	<b>Financial Impact of Estimated Error Cases<sup>6</sup></b>
Incorrect Use of Military Service – Not Used Consistently; Total Improper Payment of \$1,147.74	\$ 35.87	\$ 8,048.53	69	\$ 552,818.81
Incorrect Use of Military Service – All Periods Not Included; Total Improper Payment of \$458.12	\$ 18.32	\$ 4,112.09	69	\$ 282,441.50
Manual Input Error Case; Total Improper Payment of \$4,921.20	\$111.85	\$25,098.12	69	\$1,723,882.30
<b>Total Estimated Financial Impact</b>				<b>\$2,559,142.61</b>

We estimate the monetary impact to be approximately \$2.6 million for the known improper payment amounts.

<sup>5</sup> U.S. Railroad Retirement Board, Bureau of the Actuary, *Actuarial Notes - Longevity of Railroad Retirement Beneficiaries*, No. 1-12 (November 2012).

<sup>6</sup> Calculations may not be exact due to rounding.



UNITED STATES  
GOVERNMENT  
**MEMORANDUM**

FORM G-115f (1-92)  
RAILROAD RETIREMENT BOARD  
July 18, 2013

TO: Diana Kruef  
Assistant Inspector General for Audit

FROM: Ronald Russo  
Director of Policy and Systems  
Through: Martha Barringer  
Director of Programs

Daniel Fadden  
Director of Field Service

SUBJECT: Draft Report – Audit of the Railroad Retirement Board’s Internal Controls  
over Widow(er) Annuities

Thank you for the opportunity to comment on this report. We are pleased to see that the case accuracy rate identified by the audit was slightly better than 95% and that the related payment accuracy can be projected at near 99% for annuities awarded in FY 2011.

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**Recommendation**  
1 We recommend that the Office of Programs take action for the error cases cited above to correct the annuity beginning dates, payment amounts, and to establish overpayments and/or issue accruals when necessary.

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**Office of Programs Response** We concur. We are in the process of finalizing the case corrections which we expect to be complete by September 30, 2013.

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**Recommendation**  
2 We recommend that the Office of Programs improve internal controls over examiner actions taken to address date of death referrals generated from the APPLE system.

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**Office of Programs Response** Office of Programs will conduct refresher training for survivor claims examiners on the proper handling of date of death referrals produced by the APPLE system. We will conduct the training by March 31, 2014.

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**Recommendation 3** We recommend that the Office of Programs determine if there are other cases where the widow(er) annuity beginning date is prior to the employee's date of death and take all corrective action

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**Office of Programs Response** We concur. We have run a query against the widow(er) universe and did not identify any additional cases with this type of error.

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**Recommendation 4** We recommend that the Office of Programs provide additional training on the correct use of military service for the calculation of widow(er) annuities.

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**Office of Programs Response** We concur. Office of Programs will conduct refresher training for survivor claims examiners on the correct use of military service for the calculation of widow(er) annuities. We will conduct the training by March 31, 2014.

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**Recommendation 5** We recommend that the Office of Programs improve internal controls to detect discrepancies between the service months recorded in the survivor's payment record and the employee's payment record to ensure that the widow(er)'s annuity is computed correctly.

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**Office of Programs Response** The Office of Programs has periodically performed the recommended comparison in the past as staffing allowed and will do so again by September 30, 2013.

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**Recommendation 6** We recommend that the Office of Programs improve internal controls to ensure the effectiveness of the review and approval process.

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**Office of Programs Response** Office of Programs will conduct refresher training to ensure the effectiveness of the review and approval process for all survivor examiner who review and approve claims by March 31, 2014.

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**Recommendation 7** We recommend that the Office of Programs and Field Service revise procedures to require the retention of scanned copies of needed proofs in the RRB's claim folder system.

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**Office of Programs Response** We disagree. The current method of proof transcription has been in place for many years and has proven to be sufficient and reliable. No errors are associated with the current procedure. The current method is consistent with agency and government-wide efforts to reduce holdings of personally identifiable information.

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**Recommendation 8** We recommend that the Office of Programs and Field Service revise procedures to require the review of proofs for applicants for widow(er) annuities who had previously received an RRB annuity.

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**Office of Programs Response** We disagree. There is no valid business reason to require widow(er)s who have previously qualified for spouse benefits to re-submit the same proofs. This creates an unnecessary burden on the public.

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**Recommendation 9** We recommend that the Office of Programs and Field Service obtain and retain the missing proofs to verify the eligibility of the widow(er)'s annuities for the 65 error cases cited above.

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**Office of Programs Response** We disagree. See our response to Recommendation #8 above. In addition, we believe that the 65 cases should not have been characterized as "errors" because they were handled according to procedure.

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**Recommendation 10** We recommend that the Office of Programs and Field Service use the results of from Recommendation #9 to determine if the verification of eligibility should be expanded to the universe of widow(er) annuities using proof data transcribed in the APPLE system.

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**Office of Programs Response** We disagree. See our response to Recommendation #9 above.



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**Recommendation 11** We recommend that the Management Control Review Committee establish a separate assessable unit for Field Service's control activities related to the survivor widow(er)'s annuity application and proof process to ensure that the proper management official is accountable for these control responsibilities.

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**Office of Programs Response** *Directed to the Management Control Review Committee.*

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Finally, although recommendation #11 is directed to the Management Control Review Committee, it directly impacts the Office of Programs ability to evaluate its performance. The Office of Programs is responsible for the quality of the benefit adjudication outcomes and, for that reason, we believe that there should continue to be a single assessable unit with the responsible official in the Office of Programs' Survivor Benefit Division.

cc: Director of Survivor Benefits  
Director of Program Evaluation and Management Services  
Management Control Review Committee

UNITED STATES  
GOVERNMENT*MEMORANDUM*

July 25, 2013

**TO:** Diana Kruel  
Assistant Inspector General for Audit

**FROM:** Management Control Review Committee

**SUBJECT:** Draft Report – Audit of the Railroad Retirement Board’s Internal Controls over Widower(er) Annuities

Thank you for the opportunity to comment on this report. Our comment on the recommendation number 11 is as follows:

**We recommend that the Management Control Review Committee establish a separate assessable unit for Field Service’s control activities related to the survivor widow(er)’s annuity application and proof process to ensure that the proper management official is accountable for these control responsibilities.**

We do not concur with recommendation 11. The Board Members delegated the Office of Programs (OP) and Field Service (FS) to address all administrative matters regarding the division of the two organizations into separate Bureaus. In addition, both the OP and FS directors, who are members of the Executive Committee, identify and ensure correction of systematic weaknesses relating to their respective functions.

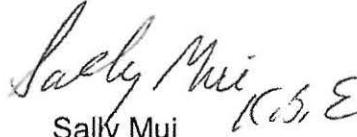
The OPs’ Survivor Benefit Division (SBD) is responsible for processing initial survivor benefits timely and accurately. We believe that the responsible official (RO) for Survivor Benefits – Initial assessable unit (AU) in the SBD should continue to document and test the controls at this time. Also, the RO should work with Field Service to review and confirm the interactive controls related to the survivor widow(er)’s annuity application and proof process. As part of this review, the Responsible Official for the Survivor Benefits – Initial AU should perform a management control review in fiscal year 2014 to update and document the responsibilities (including the Field Service portion) in its chart of controls, test the controls and report its results. An evaluation by the MCRC will be completed at that time.

**Draft Report – Audit of the Railroad Retirement Board's  
Internal Controls over Widower(er) Annuities, *continued***

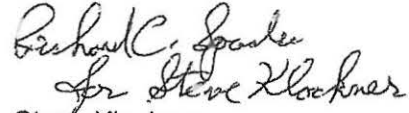
Appendix V



John M. Walter  
Chair  
Chief of Accounting,  
Budget and Financial  
Management Division



Sally Mui  
Alternate Chair  
Executive Assistant to  
Director of Administration



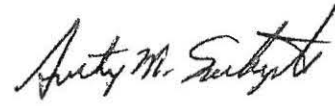
Steve Klockner  
Program Integrity & Evaluation  
Specialist



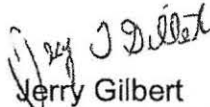
Eric T. Wooden  
General Attorney



Valerie Allen  
Director of Survivor Benefits



Anthony Santangelo  
Toll-Free Administrator



Jerry Gilbert  
Chief Security Officer

cc: George V. Govan, Chief Financial Officer  
Martha M. Barringer, Director of Programs  
Daniel Fadden, Director of Field Service  
Management Control Review Committee