OFFICE OF INSPECTOR GENERAL

Audit Report

Audit of the Railroad Retirement Board's Fiscal Year 2013 Compliance with the Improper Payments Elimination and Recovery Act of 2010

Report No. 14-05
March 28, 2014

RAILROAD RETIREMENT BOARD

EXECUTIVE SUMMARY

The Office of Inspector General (OIG) for the Railroad Retirement Board (RRB) conducted an audit of the RRB's fiscal year (FY) 2013 compliance with the Improper Payments Elimination and Recovery Act of 2010 (IPERA) which amended the Improper Payment Information Act of 2002.

Findings

Our audit determined that:

1. the RRB complied with the applicable IPERA reporting requirements; however, the risk assessment process needs improvement;
2. the RRB's IPERA reporting was complete and we found no inaccuracies; and
3. the RRB reduced improper payments for the Railroad Retirement Act (RRA) and Railroad Unemployment Insurance Act benefit payment programs.

Key Recommendation

We recommended that agency management identify all programs they administer (including Railroad Medicare) during the risk assessment process for improper payments.

Other Matters – Future Improper Payment Estimates

The OIG's ongoing investigations related to the occupational disability program could result in higher future improper payment estimates for the RRA benefit payment program.

We found that the agency did not include improper annuities which were paid to Long Island Rail Road occupational disability annuitants in its improper payment estimates for this reporting period because the amount of overpayments had not been established. As investigations were not concluded, this did not affect the agency's compliance with IPERA for FY 2013. Since the OIG considers these fraudulent annuities to be improper payments, the agency needs to consider them in future improper payment estimates for the RRA benefit payment program.

The RRB's future improper payment estimates will also be impacted if the agency's risk assessment concludes that the Railroad Medicare Program is susceptible to significant improper payments.

Management's Response

Agency management concurred with our recommendation. They stated that they will include a discussion about the Medicare program in the risk assessment section of the FY 2014 Performance and Accountability Report. The full text of agency management's response is included in this report as Appendix II.

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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) fiscal year (FY) 2013 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). During FY 2013, the RRB paid $11.7 billion in retirement and survivor benefits to 568,000 beneficiaries and $84.5 million in unemployment and sickness insurance benefits to 27,000 beneficiaries.

On July 22, 2010, the President signed IPERA into law. The Office of Management and Budget (OMB) subsequently issued government-wide guidance (the guidance) on the implementation of IPERA.[3] The guidance defines an improper payment as 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.

The guidance also outlines what improper payments are considered significant. A significant improper payment is defined as gross annual improper payments in a program exceeding (1) both 2.5% of program outlays and $10 million of all program or activity payments made during the fiscal year reported or (2) $100 million (regardless of the improper payment percentage of total program outlays). OMB determined that, beginning with FY 2013 reporting, a 1.5% improper payment rate should apply. However, since the RRB uses prior year data for its improper payment reporting, the 1.5% rate will not apply until FY 2013 improper payment data is reported in the FY 2014 Performance and Accountability Report (PAR).

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[1] Public Law 111-204.
[2] Public Law 107-300.
[3] OMB Memorandum M-11-16, *Issuance of Revised Parts I and II to Appendix C of OMB Circular A-12*3, April 14, 2011.

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 public website;
- conducted a program specific risk assessment for each program or activity that conforms with Section 3321 of Title 31 United States Code (U.S.C.) (if required); [4]
- 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% for each program and activity for which an improper payment estimate was 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 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. The agency's Inspector General is to complete its review and determination within 120 days of issuance of the PAR.

OMB Circular A-11, *Preparation, Submission, and Execution of the Budget*, Section 57 identified Federal programs for which agencies had to submit erroneous payment information. The RRB's RRA and RUIA benefit payment programs were identified in OMB Circular A-11.

Within the RRB, the Office of Programs reports prior year improper payment data in the current year's PAR. For FY 2012, the RRB reported $11.3 billion in outlays of which $61.8 million (0.54%) represents improper payments for the RRA program. The RRB also reported $119.2 million in outlays of which $4.6 million (3.9%) represents improper payments for the RUIA program.

[4] Improper Payments Elimination and Recovery Act of 2010.

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 IPERA reporting; and
3. evaluate the RRB's performance in reducing improper payments.

Scope

The scope of this audit was the improper payment information reported in the RRB's FY 2013 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 2013 PAR followed the format as provided by OMB Circular A-136, *Financial Reporting Requirements*;
- reviewed the improper payments portion of the RRB's FY 2013 PAR and related postings to determine whether the RRB has met all of the stated requirements;
- drew a statistical sample from data provided by the Office of Programs and reviewed detailed overpayment amounts to determine whether the amounts used to calculate the most significant portion of RRA and RUIA improper payments is supported by information in agency systems (See Appendix I for sampling methodology and results.);
- evaluated the RRB's performance in reducing and recapturing improper payments;
- interviewed RRB staff; and
- reviewed RRB documentation.

We assessed the reliability of the details of overpayments on the report provided by the Office of Programs. In order to assess the reliability, we: (1) electronically tested the data for completeness and accuracy in RRB systems, and (2) interviewed knowledgeable agency officials about the data. We determined that the data were sufficiently reliable for the purposes of this report.

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 January through March 2014.

RESULTS OF AUDIT

Our audit of RRB's FY 2013 compliance with IPERA determined that:

1. the RRB complied with the applicable IPERA reporting requirements; however, the risk assessment process needs improvement;
2. the RRB's IPERA reporting was complete and we found no inaccuracies; and
3. the RRB reduced improper payments for the RRA and RUIA benefit payment programs.

The requirements that the OIG evaluated, as well as the details of the audit and our finding and recommendation for corrective action, follow. The full text of management's response is presented as Appendix II in this report.

Publication of a Performance and Accountability Report

The RRB met the requirement for the publication of a PAR.

The first OMB requirement is to publish a PAR for the most recent fiscal year and to post that report and any accompanying information on the agency's website.

This requirement includes:

1. following the format as provided in OMB Circular A-136 and including a summary of their progress in completing these requirements in the Management Discussion and Analysis (MD&A) section of their PAR; and
2. including the detailed portion of the reporting results as an appendix to the PAR.

The RRB published a PAR that followed the format required by OMB. The PAR was also available on the RRB's website.[5] A summary of IPIA initiatives to improve the accuracy of benefit payments was provided in the MD&A section of the PAR. The detailed portion of improper payment reporting information was reported under "Other Accompanying Information" in the PAR.

[5] www.rrb.gov.

Program Specific Risk Assessment

Utilizing OMB's guidance in Circular A-11, the RRB met the requirement for program specific risk assessments. However, the risk assessment process for improper payments could be improved by addressing the aspects of the Medicare program administered by the RRB.

The second OMB requirement is to conduct a program specific risk assessment for each program or activity that conforms to Section 3321 of Title 31 U.S.C.

This law requires that:

1. the agency shall review all programs and activities they administer, the year after IPERA's enactment, which was FY 2011, to identify those that may be susceptible to significant improper payments;
2. the agency shall review programs deemed not risk susceptible at least once every three years thereafter; and
3. if a program experiences significant change in legislation and/or significant increase in its funding level, agencies are required to reassess the program's risk susceptibility during the next annual cycle, even if it is less than three years from the last assessment.

In FY 2011, the agency performed a review of all programs that OMB had identified as being susceptible to risk. Because they performed that review for the programs specifically listed for the RRB by the OMB guidance, and because three years had not passed since that first review, the RRB was in compliance with requirement number 2.

RRB did not experience any significant change in legislation and/or a significant increase in funding levels during the last fiscal year; therefore, no reassessment of risk was required, and the agency was in compliance with requirement number 3.

Regarding requirement number 1, the RRB's RRA and RUIA benefit payment programs were identified in Section 57 of OMB Circular A-11, which outlined Federal programs for which each agency had to submit erroneous payment information. The RRB's FY 2013 PAR addressed the RRA and RUIA benefit payment programs: therefore, based on OMB's guidance, we found the agency to be in compliance with requirement number 1.

Estimated improper payments totaled $61.8 million for the RRA benefit program for FY 2012, with an improper payment percentage of 0.54% based on total outlays of $11,347.3 million. Because the RRB's improper payment percentage is below the 2.5% threshold, the RRA benefit payment program is not considered susceptible to significant improper payments.

The RRB's FY 2013 PAR also included statements related to the risk assessment of the RUIA benefit payment program. Estimated improper payments totaled $4.6 million for FY 2012, with an improper payment percentage of 3.9% based on total outlays of $119.2 million. The RUIA program is not considered susceptible to significant improper payments because it does not meet the $10 million requirement that is part of the significant improper payment definition.

Because RRA and RUIA programs were specifically identified by OMB's guidance, the RRB's sections on improper payments in the FY 2013 PAR addressed the risk assessments of the RRA and RUIA benefit payment programs only. However, we found that the agency's risk assessment process for improper payments does not address the Railroad Medicare program, which is administered by the RRB through an outside carrier.

In the agency's 2012 - 2018 Strategic Plan, RRB stated that the agency administers various provisions of the Medicare program, including the selection of a carrier to process Medicare Part B claims for railroad annuitants. This strategic plan reported that for FY 2010, the carrier paid more than $869 million to providers and beneficiaries for Part B services in Railroad Medicare.

Railroad Medicare was not addressed in the risk assessment for IPERA because OMB had not specifically directed the RRB to report on the Medicare program in Circular A-11. In addition, the agency stated that they only need to provide a general discussion of their improper payment analysis and not a specific enumeration of each aspect of their improper payment analysis.

The risk assessment should support a periodic review of all programs and activities administered by the agency, including Railroad Medicare. If this risk assessment is not performed on all programs, then improper payments may be made that are not detected or reported.

<u>Recommendation</u>

1. We recommend that the Office of Programs identify all programs they administer during the risk assessment process for improper payments.

<u>Management's Response</u>

The Office of Programs concurred with recommendation 1. They stated that they will include a discussion about the Medicare program in the risk assessment section of the fiscal year 2014 Performance and Accountability Report.

Improper Payment Estimates

The RRB met the requirement for improper payment estimates.

The third OMB requirement is to publish improper payment estimates for all programs and activities identified as susceptible to significant improper payments under its risk assessment (if required).

For programs that estimate an improper payment amount exceeding $10 million, agencies shall include the following in their annual PAR:

1. gross estimate of the annual amount of improper payments (total amount of overpayments plus underpayments) made in the program and the methodology used to arrive at that estimate; and
2. net estimate (net total of both overpayments and underpayments). This amount is not required to be reported and cannot be substituted for the gross estimate in number 1 above.

For programs that estimate an improper payment amount less than $10 million, agencies may include the same information as items 1 and 2 of the requirements in the preceding paragraphs.

The RRB reported the gross amount of annual improper payment estimates for the RRA program which totaled $63.1 million for FY 2013. They also provided the methodology for this balance.

The RRB reported the gross amount of annual improper payment estimates for the RUIA program which totaled $4.3 million for FY 2013. They also provided the methodology for this balance.

Programmatic Corrective Action Plans

The RRB met the requirement for programmatic corrective action plans.

The fourth OMB requirement is to publish a programmatic corrective action plan in the PAR (if required) and include the following:

1. causes of improper payments;
2. actions planned or taken to correct those causes;
3. planned or actual completion date of those actions; and
4. results of actions taken to address those causes.

The RRB identified the root causes for improper payments and included a summary of the corrective actions it has undertaken to correct them. Planned and actual completion dates were provided for the corrective actions. The agency reported the results of actions taken to address the causes of improper payments.

Annual Reduction Targets

The RRB did not publish annual reduction targets in its FY 2013 PAR because the requirement was not applicable to the agency for the current year.

The fifth OMB requirement provides that agencies shall set reduction targets for future improper payment levels and a timeline within which the targets will be reached. Reduction targets must be approved by the Director of OMB.

Because the programs for RRA and RUIA benefit payment programs do not meet OMB's criteria for significant improper payments, no annual reduction targets are required to be published; therefore, the agency published no annual reduction targets in its PAR.

Gross Improper Payment Rate

The RRB met the requirement for the gross improper payment rate.

The sixth OMB requirement is to report a gross improper payment rate of less than 10% for each program or activity for which an improper payment estimate was obtained and published in the PAR.

The RRB reported an FY 2012 improper payment rate of 0.54% for the RRA benefit payment program, which is less than the 10% rate. For the RUIA benefit payment program the RRB reported an improper payment rate of 3.9% for FY 2012, which is less than the 10% rate.

Recapture Improper Payments

The RRB met the requirement for the recapture of improper payments.

The seventh OMB requirement is to report information on its efforts to recapture improper payments. The requirement provides that, for all programs and activities that estimate an improper payment rate that exceeds $10 million, agencies shall include the following in their annual PAR:

1. a discussion on the amount of actual improper payments the agency expects to recover;
2. a discussion on the process the agency will use to recover those improper payments;
3. a statement whether the agency has the internal controls, human resources, and information systems and other infrastructure it needs in order to reduce improper payments to the level the RRB has targeted; and
4. if the agency does not have the items listed in number 3 above, it should provide a description of the resources it has requested in its most recent budget submission to Congress to establish and maintain them.

The requirement also provides that, for all programs and activities that estimate an improper payment rate that exceeds $10 million, agencies shall:

5. include a description of the steps (including timeline) the agency has taken to ensure that all responsible parties are held accountable for reducing and recovering improper payments;
6. ensure that responsible parties are held accountable through annual performance appraisal criteria for:
    a. meeting applicable improper payment targets;
    b. establishing and maintaining sufficient internal controls, including a control environment that prevents and promptly detects, and recovers improper payments; and
7. include a description of any statutory or regulatory barriers which may limit the agency's corrective actions in reducing improper payments.

In FY 2012, the RRB identified $42.6 million in overpayments and $40.9 million in recoveries, which includes debts established prior to FY 2012, for RRA. In FY 2012, the RRB identified $28.9 million in overpayments and $29.3 million in recoveries, which includes debts established prior to FY 2012, for RUIA. They also provided their methods for recovering improper payments.

The RRB provides a statement that internal controls are effective and, although there is limited staff, human capital has met the challenge of minimizing improper payments. Information system initiatives to minimize improper payments are identified along with their status and implementation progress. Future information systems initiatives to improve the accuracy of benefit payments are also identified.

Agency managers have links to their performance plans for meeting the RRB's strategic goals:

- providing excellent customer service by paying benefits accurately and timely; and
- serving as responsible stewards for our customers' trust funds and agency resources.

There are no statutory or regulatory barriers limiting the RRB's corrective actions in reducing improper payments.

Payment Recapture Audit Programs

The RRB met this requirement by providing the necessary notification for not having a payment recapture audit program.

The eighth OMB requirement is to report annually, in accordance with OMB Circular A-136, on their payment recapture audit program in their PAR. If an agency determines that it would be unable to conduct a cost-effective payment recapture audit program for certain programs and activities that expend more than $1 million, then it must notify OMB and the agency's Inspector General of this decision and include any analysis used to reach this decision.

A payment recapture audit program is an agency's overall plan for risk analysis and the performance of payment recapture audits and recovery activities. For agencies that have programs that expend more than $1 million in a fiscal year, a payment recapture audit program is a required element of their internal controls over payments, if conducting such audits is cost-effective.

The agency reports that it is not feasible or cost-effective to implement a formal payment recapture audit program. In FY 2011, the agency submitted an analysis to OMB and the Inspector General justifying the reasons a payment recapture audit program was not implemented. The analysis included a description of ongoing activities and new initiatives for improving payment accuracy and reducing erroneous payments, and their continuing recovery efforts.

Evaluation of Completeness and Accuracy

The RRB's reporting of improper payment balances in the FY 2013 PAR was complete. All data we reviewed contained the necessary components. Our review of the RRB's FY 2013 improper payment reporting found no inaccuracies. All data we reviewed was adequately supported in agency-provided documentation.

OMB guidance provides that the agency's Inspector General evaluate the completeness and accuracy of agency reporting.

Evaluation of Performance

The RRB reduced improper payments for the RRA and RUIA benefit payment programs.

OMB guidance provides that the agency's Inspector General evaluate the agency's efforts to reduce and recapture improper payments.

According to agency data, while RRA outlays have increased approximately 15.6% over the past six years, improper payments have decreased, with a cumulative 33.3% decrease from FY 2007 to FY2012. The improper payment rate has never exceeded the 2.5% threshold established by IPERA.

Recovery of overpayments for RRA has met the OMB standard of at least 85% by FY 2013.

RUIA outlays decreased by 0.75% from FY 2011 to FY 2012. Improper payments decreased by 0.51% from FY 2011 to FY 2012. The improper payment rate exceeds the threshold established by IPERA, but because the improper payments are less than $10 million, the threshold does not apply.

Recovery of overpayments for RUIA has met the OMB standard of at least 85% by FY 2013.

The agency has improved its performance over the past six years in reducing overpayments and has been consistent with meeting the OMB prescribed recovery rate.

The agency has focused its efforts on the RRA program where the majority of improper payments originate. The RRB identified verification and local administration as the major root causes of errors within this program. The RRB has consistently focused its efforts on monitoring and reducing improper payments.

Other Matters – Future Improper Payment Estimates

The OIG's ongoing investigations related to the occupational disability program could result in higher future improper payment estimates for the RRA benefit payment program.

We found that the agency did not include improper annuities which were paid to Long Island Rail Road occupational disability annuitants in its improper payment estimates for this reporting period because the amount of overpayments had not been established. As investigations were not concluded, this did not affect the agency's compliance with IPERA for FY 2013. Since the OIG considers these fraudulent annuities to be improper payments, the agency needs to consider them in future improper payment estimates for the RRA benefit payment program.

The RRB's future improper payment estimates will also be impacted if the agency's risk assessment concludes that the Railroad Medicare Program is susceptible to significant improper payments.

STATISTICAL SAMPLING METHODOLOGY AND RESULTS

This appendix represents the methodology and results of our statistical sampling test of data in agency systems that document the RRA and RUIA overpayment estimates.

Test Objective and Scope

Our test objective was to determine whether the amounts used to calculate the most significant portion of RRA and RUIA improper payments was supported by information in agency systems. The scope consisted of overpayments established under the RRA and the RUIA programs in the RRB's system during FY 2012.

Review Methodology

We used attribute sampling – one step acceptance using a 90% confidence level and 5% tolerable error rate which directed a 45 case sample. The threshold for acceptance was zero errors. Zero errors would permit the auditors to infer, with a 90% confidence level, that the overpayment data agreed with the underlying support in agency systems.

For each sample case, we compared the overpayment to supporting documentation. We defined an error as an overpayment amount that could not be supported by evidence in agency systems.

Results of Review

We identified no errors in our sample.

Audit Conclusion

Based on our evaluation, we can infer, with a 90% confidence level, that the overpayment data is adequately supported by evidence in agency systems.

UNITED STATES GOVERNMENT

MEMORANDUM

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

March 26, 2014

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 2013 Compliance with the Improper Payments and Elimination and Recovery Act of 2010

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

Recommendation 1: ***The Office of Programs should identify all programs they administer during the risk assessment process for improper payments.***

We concur. We will include a discussion about the Medicare program in the risk assessment section of the fiscal year 2014 Performance and Accountability Report. Target implementation date: July 31, 2014.