



# AUDIT REPORT

MANAGEMENT INFORMATION REPORT

FINANCIAL INTERCHANGE:  
STATUS OF PRIOR RECOMMENDATIONS FOR CHANGE

Report No. 99-16  
September 28, 1999

OFFICE OF INSPECTOR GENERAL  
RAILROAD RETIREMENT BOARD

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## INTRODUCTION

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This report presents the results of the Office of Inspector General's (RRB-OIG) review of the status of prior recommendations for changes to the Railroad Retirement Board's (RRB) financial interchange with the Social Security Administration (SSA).

### BACKGROUND

The Railroad Retirement Board (RRB) is an independent agency in the executive branch of the Federal government. The RRB administers the health and welfare provisions of the Railroad Retirement Act (RRA) that provide retirement-survivor benefits for eligible railroad employees, their spouses, widows and other survivors. At the end of fiscal year (FY) 1998, there were approximately 718,000 annuitants receiving benefits.

The 1951 amendments to the RRA introduced the concept of a financial interchange between the Railroad Retirement and Social Security systems. The stated intent of the financial interchange is to place the Social Security trust funds in the same condition that they would have been if railroad employment had been covered by the Social Security Act.

The financial interchange between SSA and RRB is a major source of funding for benefits payable under the RRA. The RRB pays out approximately \$8 billion in RRA benefits annually. The RRB's FY 1998 financial statements recognized \$3.8 billion in financing related to the financial interchange.

The amount to be transferred between the Social Security and Railroad Retirement trust funds is formally agreed by the two agencies on an annual basis. Determination of the amount and the direction of the transfer is based on estimates of:

- the additional payroll taxes and income taxes that would have been received by the Social Security trust funds, with allowances for interest, had railroad employment been covered under the Social Security Act; and
- the additional benefits and administrative expenses that would have been paid from the Social Security trust funds had railroad employees been covered under the Social Security Act.

The estimation process includes evaluation of a statistical sample of RRB annuitants. Claims examiners and statisticians in the RRB's Bureau of the Actuary evaluate the sample cases using a methodology that has been agreed upon by both SSA and RRB. All benefit computations are performed under the provisions of the Social Security Act. The amount of benefits actually payable under the RRA has no bearing on the calculation. The sample results are projected to the entire population of RRB's beneficiaries.

The RRB-OIG, the General Accounting Office (GAO) and SSA have evaluated various aspects of the financial interchange. The GAO and RRB-OIG have issued six reports containing 34 recommendations during the period 1983 to 1992. SSA periodically reviews financial interchange calculations and has issued six annual reports during 1991 to 1997.

The RRB's strategic plan states that the agency is "committed to fulfilling its fiduciary responsibilities to the rail community" and has established prudent trust fund stewardship as a strategic goal. This project speaks directly to that key area of agency performance.

#### Objective, Scope and Methodology

The objective of this project was to assess the status of prior recommendations for changes to financial interchange process. In order to achieve our objective, we:

- reviewed applicable laws and regulations;
- reviewed prior audit reports;
- researched the disposition of prior audit recommendations;
- obtained and reviewed selected SSA debt recovery statistics; and
- interviewed staff in the Bureau of the Actuary.

The work was performed in accordance with generally accepted government auditing standards as applicable to our objectives. Fieldwork was conducted at RRB headquarters during May 1999 through August 1999.

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## RESULTS OF REVIEW

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Our review identified a prior audit recommendation that the RRB was previously unable to implement but that we believe is now feasible.

The financial interchange methodology assumes 100% accurate claims processing. No provision is made for overpayments or underpayments. In reality, SSA occasionally overpays its beneficiaries and not all of those overpayments can be recovered by the agency. This circumstance is not currently factored into the financial interchange methodology. As a result, the SSA trust funds may be over-funded by an amount equal to the value of unrecovered overpayments that would have been made had the RRA never existed.

In its 1987 audit report, "Audit of the Financial Interchange," dated January 7, 1987, the RRB-OIG recommended that agency personnel "work with SSA to implement policies and procedures to account for unrecovered overpayments and correct the financial interchange transfer amounts accordingly." The auditors projected the financial impact of correction to the 48 year period 1937 to 1985.

Although the agency agreed to study the issue, the recommendation was never implemented. The RRB and SSA must both agree to any change to the financial interchange methodology. Although there were extensive discussions on this issue, the two agencies were never able to agree upon a method of implementation. The recommendation was closed in 1993.

We believe that it is now possible to include unrecovered overpayments in the financial interchange calculation. SSA was able to provide us with unrecovered overpayment statistics for 1985 and later. We estimate the financial impact of such a change to be a one-time transfer of approximately \$48 million (including \$18 million in interest) to the RRB trust funds related to 1985-1997 and \$2 million for each year thereafter.

### Recommendation

We recommend that the Bureau of the Actuary pursue inclusion of unrecovered overpayments in the financial interchange calculation.

### Management's Response

Because the recommendation presented in this report cannot be made unilaterally by the RRB, the Bureau of the Actuary intends to present this report to SSA and seek concurrence on an appropriate calculation method.

The full text of management's response is presented as Appendix I to this report.



UNITED STATES GOVERNMENT  
**MEMORANDUM**

Appendix I

FORM G-1151 (1-92)

RAILROAD RETIREMENT BOARD

September 24, 1999

**TO** : Henrietta B. Shaw  
Assistant Inspector General for Audit

**FROM** : Frank J. Buzzi *Frank J. Buzzi*  
Chief Actuary

**SUBJECT** : Draft Management Information Report  
Financial Interchange: Status of Prior Recommendations for Change

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This is in response to your request for comments on the above referenced draft report.

The report recommends that the Bureau of the Actuary pursue the inclusion of unrecovered overpayments in the financial interchange calculation. The financial interchange between the railroad retirement and social security systems is intended to place the social security (OASDHI) trust funds in the same condition they would have been had railroad employment been covered by the Social Security and Federal Insurance Contributions Acts.

The methods used in calculating the financial interchange transfer have been mutually agreed upon by the Railroad Retirement Board (RRB), Social Security Administration (SSA) and Health Care Financing Administration (HCFA). A change in the calculation method such as recommended cannot be made unilaterally by the RRB. As a result, we intend to present your report to SSA and seek concurrence on an appropriate calculation method.

Our target date is tentatively June 30, 2001.