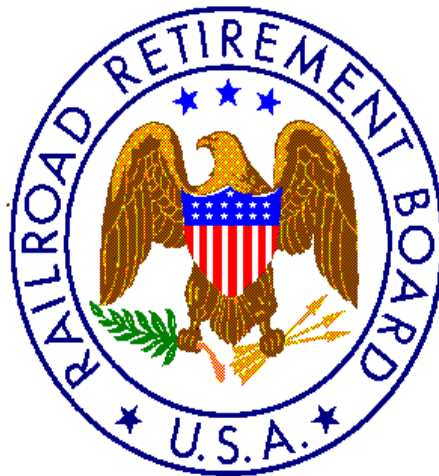


# OFFICE OF INSPECTOR GENERAL

## Audit Report

**Audit of the Railroad Retirement Board's Compliance with the  
Improper Payments Elimination and Recovery Act**

**Report No. 12-05  
March 08, 2012**



**RAILROAD RETIREMENT BOARD**

# TABLE OF CONTENTS

## INTRODUCTION

Background .....	1
Audit Objective .....	2
Scope .....	2
Methodology.....	2

## RESULTS OF AUDIT

Publication of a Performance and Accountability Report.....	4
Program Specific Risk Assessment.....	4
Improper Payment Estimates .....	5
Programmatic Corrective Action Plans.....	6
Annual Reduction Targets.....	6
Gross Improper Payment Rate.....	7
Recapture Improper Payments .....	7
Payment Recapture Audit Programs .....	8
Evaluation of Completeness and Accuracy .....	9
Recommendation.....	10
Management's Response .....	10
Evaluation of Performance .....	10

## APPENDIX

Appendix I - Management's Response.....	11
---	----

---

## INTRODUCTION

---

This report presents the results of the Office of Inspector General's (OIG) audit of the Railroad Retirement Board's (RRB) compliance with the Improper Payments Elimination and Recovery Act of 2010 (IPERA) which amended the Improper Payment Information Act of 2002 (IPIA).<sup>1,2</sup>

### 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 (RRA) and the Railroad Unemployment Insurance Act (RUIA). These programs provide income protection during old age and in the event of disability, death, temporary unemployment, or sickness. The RRB paid almost \$11.1 billion in benefits to over 607,000 beneficiaries during fiscal year (FY) 2011.

On July 22, 2010, the President signed IPERA which is meant to achieve the President's goal of reducing wasteful, improper payments. The Office of Management and Budget (OMB) issued government-wide guidance on the implementation of IPERA and has mandated that each agency's Inspector General annually review improper payment reporting in the agency's Performance and Accountability Report (PAR) for the most recent fiscal year.<sup>3</sup> Agency Inspector Generals are to complete their review and determination within 120 days of issuance of the PAR.

An improper payment is any payment that should not have been made or that was made in an incorrect amount under statutory, contractual, administrative, or other legally applicable requirements. Incorrect amounts are overpayments or underpayments that are made to eligible recipients. An improper payment also includes any payment that was made to an ineligible recipient or for an ineligible good or service, or payments for goods or services not received.

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 RRA and RUIA benefit payment programs were included.

---

<sup>1</sup> Public Law 107-300

<sup>2</sup> Public Law 111-204

<sup>3</sup> OMB Memorandum M-11-16, *Issuance of Revised Parts I and II to Appendix C of OMB Circular A-123*, April 14, 2011

Within the RRB, the Office of Programs reports improper payment related initiatives to improve benefit payment accuracy in the Management Discussion and Analysis (MD&A) portion of the annual PAR. They also compile IPIA reporting details as amended by IPERA which are included as “Other Accompanying Information” in the PAR. For FY 2010, they reported approximately \$62.3 million in improper RRA payments which were .58% of total outlays of \$10,780.2 million.

### **Audit Objective**

The audit objective was to determine whether the RRB’s improper payment reporting was in compliance with IPERA.

### **Scope**

Improper payment data reported in the RRB’s FY 2011 Performance and Accountability Report.

### **Methodology**

To accomplish the audit objective, we:

- identified criteria from IPIA, as amended by IPERA of 2010, as well as OMB’s government-wide guidance for IPERA;
- determined if IPERA reporting in the RRB’s FY 2011 PAR followed the format as provided by OMB Circular A-136, *Financial Reporting Requirements*;
- reviewed the improper payments portion of the RRB’s FY 2011 PAR and related postings to determine whether the RRB has met all of the stated requirements;
- determined the accuracy and completeness of RRB reporting;
- evaluated the RRB’s performance in reducing and recapturing improper payments;
- interviewed RRB staff; and
- reviewed RRB documentation.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

We conducted our fieldwork at the RRB's headquarters in Chicago, Illinois from November 2011 through February 2012.

---

## RESULTS OF AUDIT

---

Overall, our audit determined that the RRB complied with applicable IPERA reporting requirements, but was not required to comply with setting annual reduction targets. However, we found that the improper payment amount for FY 2010 was not reported accurately.

The details of the audit as well as our finding and recommendation for corrective action follow.

### **Publication of a Performance and Accountability Report**

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 MD&A section of their PAR; and
2. including the detailed portion of the reporting results as an appendix to the PAR.

The RRB met the criteria for this requirement.

The RRB published a PAR which was also available on the RRB's website.<sup>4</sup> 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 as "Other Accompanying Information" in the PAR.

### **Program Specific Risk Assessment**

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 United States Code.<sup>5</sup>

---

<sup>4</sup> [www.rrb.gov](http://www.rrb.gov)

<sup>5</sup> Improper Payments and Information Act of 2002

This law requires that:

1. the agency shall review all programs and activities they administer the year after IPERA's enactment, which is 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.

The RRB met the criteria for this requirement.

The RRB's FY 2011 PAR included a risk assessment of the RRA benefit payment program. Estimated improper payments totaled \$62.3 million for FY 2010 with an improper payment percentage of .58% based on total outlays of \$10,780.2 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.<sup>6</sup> In January 2009, OMB granted the agency relief from reporting improper payments for the RUIA program. This program will be reported in the FY 2012 PAR.

The RRB did not experience any significant change in legislation and/or significant increase in funding levels during FY 2010.

### **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

---

<sup>6</sup> Significant improper payments were defined by IPERA as gross annual improper payments (total amount of overpayments plus underpayments) in the 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.

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 of this section on the preceding page.

For programs that estimate an improper payment amount less than \$10 million, agencies may include the same information as numbers 1 and 2 of this section.

The RRB met the criteria for this requirement.

The RRB reported the gross amount of annual overpayments for the RRA program which totaled \$62.3 million for FY 2010. They also provided the methodology for arriving at this balance.

### **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;
4. results of actions taken to address those causes; and
5. the portion of improper payments attributable to insufficient or lack of documentation, if applicable.

The RRB met the criteria for this requirement.

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 along with results of action initiatives. There were no improper payments attributable to insufficient or lack of documentation.

### **Annual Reduction Targets**

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.

The RRB is not required to comply with this requirement.



Because the RRB does not meet OMB's criteria for significant improper payments, no annual reduction targets are required to be published. See criteria for significant improper payments in footnote 6.

### **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 met the criteria for this requirement.

The RRB reported an FY 2010 improper payment rate of .58% for the RRA benefit payment program which is less than the 10% rate.

### **Recapture 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. discussion on the amount of actual improper payments the agency expects to recover;
2. 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;
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:
  - 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; and
  - b. responsible parties should be held accountable through annual performance appraisal criteria for:
    - 1) meeting applicable improper payment targets;

- 2) establishing and maintaining sufficient internal controls, including a control environment that prevents and promptly detects, and recovers improper payments; and
5. description of any statutory or regulatory barriers which may limit the agency's corrective actions in reducing improper payments.

The RRB met the criteria for this requirement.

For FY 2010, the RRB identified \$45.3 million in overpayments and \$40.9 million in recoveries which includes debts established prior to FY 2011. They also provided their methods for recovering improper payments.

The RRB provides a statement that internal controls are effective and human capital is adequate. 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 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.

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

A payment recapture audit program is an agency's overall plan for risk analysis and the performance of payroll 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 does not feel it is feasible or cost-effective to implement a formal payment recapture audit program. The agency submitted an analysis to OMB and the Inspector General justifying the reasons a payment recapture audit program was not implemented. This 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**

OMB guidance provides that the agency's Inspector General evaluate the completeness and accuracy of agency reporting. As part of our review of the improper payment elements, we evaluated the completeness and accuracy of the RRB's reporting of improper payment data.

#### Completeness of RRB IPERA Data

Our review disclosed that RRB reporting of improper payment balances in the FY 2011 PAR was found to be complete. All data we reviewed contained the necessary components.

#### Accuracy of RRB IPERA Data

Our review disclosed that RRB reporting of the FY 2010 improper payment balance in the FY 2011 PAR was understated by \$257,000.

The Office of Programs' review process requires verification of improper payment data to ensure the accuracy of information reported in the PAR.

The verification review process is not fully effective to identify errors in improper payment data.

Errors in improper payment data can affect improper payment reporting in the agency's PAR.

## Recommendation

We recommend that the Office of Programs:

1. strengthen the existing review process to ensure the accuracy of Improper Payments Elimination and Recovery Act reporting details in the annual Performance and Accountability Report.

## Management's Response

The Office of Programs concurs with this recommendation. They will evaluate and determine the best way to ensure the accuracy of reporting details.

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

## **Evaluation of Performance**

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

While RRA outlays have increased approximately 14% over the past five years, improper payments have steadily decreased each year with a cumulative 52% decrease from FY 2006 to FY 2010. The improper payment rate has never exceeded the 2.5% threshold established by IPERA.

Recovery of overpayments over the past five years has met the OMB standard of at least 85% within three years, commencing with FY 2011.

The agency has steadily improved its performance over the past five 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 also committed significant resources in the form of human capital and automation initiatives to minimize these errors.



UNITED STATES GOVERNMENT

FORM G-115f (1-92)

**MEMORANDUM**

RAILROAD RETIREMENT BOARD

March 6, 2012

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

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

**THROUGH:** Dorothy Isherwood *D. Isherwood*  
Director of Programs

**SUBJECT:** **Draft Report** – Railroad Retirement Board’s Compliance with the Improper Payments Elimination and Recovery Act of 2010

---

**OP Comments on Draft Report** We are pleased that this audit recognizes that the agency is in compliance with all of the various IPERA requirements. Although one error was brought to light during the course of the audit, it was not significant enough to impact the previously reported improper payment rate of .58%.

---

**Recommendation** We recommend the Office of Programs:

Strengthen the existing review process to ensure the accuracy of IPERA reporting details in the annual PAR

---

**OP Response** We concur. Programs will evaluate and determine the best way to ensure the accuracy of reporting details. Any necessary enhancements/changes will be implemented by May 31, 2012. Programs will apply those enhancements/changes effective with the reporting and validating of improper payment information prepared for the FY 12 PAR.

---