



U.S. RAILROAD RETIREMENT BOARD

**OFFICE OF INSPECTOR GENERAL**

# Railroad Retirement Board Write-off and Waiver Processes were not Fully Efficient, Effective, or Adequate

Report No. 19-05

February 20, 2019  
Revised April 23, 2019

### NOTICE

On April 23, 2019, the Office of Inspector General revised and reissued this report, which was originally issued on February 20, 2019, to correct certain information on pages 6, 7, and 15. Corrections on pages 6 and 7 clarify that RRB's waiver and write-off processes were not adequate to ensure compliance with applicable laws, regulations, and guidance, as was stated in our overall conclusion on the Report Summary page and page 5 of the original report, rather than RRB's waiver and write-off processes were "not compliant," as was originally stated on pages 6 and 7. A correction on page 15 of this report removed a paragraph from the OIG's Response to Management's comments, which stated that "In its response, RRB management falsely stated that OIG concluded that the RRB was 'not compliant' with applicable laws, regulations, and guidance." These corrections did not affect the report's overall conclusions or recommendations.



## What We Found

Our audit determined that the Railroad Retirement Board's (RRB) processes for waiving and writing off debt were not fully efficient or effective, and were not adequate to ensure compliance with laws, regulations, and guidance in order to protect RRB trust funds. Processes were not fully efficient, effective, or adequate because policies and procedures were either incomplete or outdated, and did not clearly define roles and responsibilities. During sample testing, we found significant weaknesses and inconsistencies related to approvals and support, waiver processing, and defined thresholds. In the testing of waiver transactions, we found inconsistencies in waiver processing and subjectivity in the Debt Recovery Section's decision making. We also found that defined thresholds for automatic write-offs and automatically granted waivers were not always efficient and effective.

## What We Recommend

To address the weaknesses identified in this audit, we made a total of four recommendations, two of which include developing and implementing comprehensive written policies and procedures and conducting training on the new policies and procedures. A third recommendation was to establish controls to ensure non-forfeiture of debt balances due to automatic thresholds, and a fourth was to update Management Control Review documentation to reflect changes in write-off and waiver processing due to the RRB's migration to a new financial management system.

RRB management neither concurred nor non-concurred with our findings and observations, but ultimately concurred with three recommendations, and partially concurred with one recommendation.

## What We Did

Our objective was to determine if RRB's processes for waiving and writing off debt were efficient, effective, and adequate to ensure compliance with laws, regulations, and guidance in order to protect RRB's trust funds.

In order to complete this work, we considered laws, regulations, and guidance, and compared criteria to RRB policies, procedures, and documentation, and reviewed agency documentation to assess effectiveness. We also interviewed applicable agency staff and conducted walkthroughs.

Because we determined that RRB's policies and procedures were either incomplete or outdated, and did not clearly define roles and responsibilities, we tested three samples to verify the accuracy and completeness of waiver and write-off transactions, and to assess compliance with RRB's existing internal policies, procedures, and practices.

The scope of the audit was waiver and write-off transactions from fiscal year 2013 through fiscal year 2017.

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## INTRODUCTION

This report presents the results of the Office of Inspector General's (OIG) audit of the waiver and write-off processes at the Railroad Retirement Board (RRB).

### Objective(s), Scope, and Methodology

The audit objective was to determine if RRB's processes for waiving and writing off debt were efficient, effective, and adequate to ensure compliance with laws, regulations, and guidance in order to protect RRB's trust funds.

The scope of the audit was waiver and write-off transactions from fiscal year 2013 through fiscal year 2017, as processed in the Program Accounts Receivable (PAR) System, Financial Management Integrated System (FMIS), and Employer Contribution and Collection System (ECCS).

To accomplish the audit objective we

- identified criteria provided in laws, regulations, and guidance related to the collection, write-off, and waiver of accounts receivable;
- reviewed agency policies and procedures related to the collection, write-off, and waiver of accounts receivable;
- reviewed agency documentation, records, and system data related to write-off and waiver transactions, and support in PAR, FMIS, and WorkDesk;<sup>1</sup>
- predict the finding elements that will be used (condition, criteria, cause, and effect);
- tested three samples to verify the accuracy and completeness of the waiver and write-off transactions, assessed compliance with RRB's existing internal policies, procedures, and practices, and projected our assessments to the universe (See Appendices II, III, and IV); and
- interviewed applicable agency staff and conducted walkthroughs.

We assessed the reliability of waiver and write-off transactional data from PAR and FMIS by (1) reviewing the data for obvious errors in accuracy and completeness; (2) comparing the data to RRB source systems; and (3) making inquiries of agency officials knowledgeable about the data. In addition, we traced a sample of transactions to source documents and systems. We determined that the data from PAR and FMIS were sufficiently reliable for the purposes of this report.

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<sup>1</sup> At the Railroad Retirement Board, documents in the imaging system are accessed using WorkDesk.

We also assessed the reliability of the waiver and write-off transactional data file representing data from ECCS. We attempted to obtain supporting documentation, or explanations for this data, but were told that no other supporting documentation existed. Therefore, we have determined that the data file representing data from the ECCS was of undetermined reliability and as a result, we could not use this data to perform testing to answer our audit objectives.

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 2018 through November 2018.

## **Background**

The RRB, an independent agency in the executive branch of the federal government, 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). The RRB also administers aspects of the Medicare program. In carrying out its mission, the RRB states that it will pay benefits to the right people, in the right amounts, in a timely manner, and will take appropriate action to safeguard customers' trust funds.

Within the RRB, the Bureau of Fiscal Operations (BFO) contains several organizational units, one of which is the Debt Recovery Section (DRS). The Chief Financial Officer is responsible for oversight of BFO.

One of the RRB's comprehensive strategic goals is to serve as responsible stewards for customers' trust funds and agency resources. The objective is to ensure that trust fund assets are protected, collected, recorded, and reported appropriately. To address this objective, the RRB states that "In instances where erroneous payments occur, the RRB will apply its debt collection and management policies in a fair and equitable manner. The agency will carefully review individual cases, upon waiver requests, to determine any amounts eligible for waiver. Debts not subject to waiver will be collected, either directly or through referral to Treasury."<sup>2</sup>

The mission of DRS is to record, collect, and account for all debts (owed to the RRB) under the RRA and RUIA. This mission also includes promptly and correctly employing all appropriate collection tools, accurately and efficiently accounting for all collections, adjudicating waiver requests, and reporting on the status of debts and collections. A DRS control objective states that determinations and decisions regarding debts collectability are made by authorized individuals and in accordance with regulation and policy.

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<sup>2</sup> Railroad Retirement Board (RRB), *Strategic Plan 2014-2018* (Chicago, IL).  
*RRB Write off and Waiver Processes* - Report No. 19-05

In fiscal year 2016, the RRB paid retirement/survivor benefits of approximately \$12.3 billion to roughly 553,000 beneficiaries and net unemployment/sickness benefits of approximately \$133 million to about 33,000 claimants. In fiscal year 2017, the RRB paid retirement/survivor benefits of nearly \$12.5 billion to about 548,000 beneficiaries and net unemployment/sickness benefits of approximately \$106 million to about 28,000 claimants.

According to the Management Control Review documentation for DRS, in fiscal year 2016, DRS operations were responsible for approximately \$83.1 million in collections, \$1.3 million in adjustments, \$2.3 million in write-off/waiver actions, and \$3.0 million classified as currently not collectible. DRS processed 715 waiver request closures/decisions in fiscal year 2016. RRB did not have fiscal year 2017 data available as of July 2018. BFO documentation showed that from fiscal year 2013 to fiscal year 2017, BFO received 3,874 waiver requests and made 3,364 waiver decisions. These decisions include both grants and denials of waiver requests. Of the 3,364 waiver decisions made, approximately 372, or 11 percent of the waivers, were granted. The 372 waivers granted totaled approximately \$2 million.

A write-off is the suspension or termination of collection action and a waiver of recovery (waiver) is the RRB waiving its right to collect. Both write-offs and waivers result in termination of all collection efforts by the RRB and have the same accounting impact, as both are recorded in RRB systems as a write-off document type.<sup>3</sup> However, the cause of the write-off or waiver, as indicated by the transaction's action out code, will vary. Action out code 16C signifies that the write-off is a waiver. Therefore, waivers are a subset of write-offs when it comes to recording the transactions in RRB systems.

A waiver may be requested by a beneficiary who has been determined to have received an erroneous overpayment. A waiver may be granted if the RRB determines that (1) the overpaid person is without fault and (2) recovery would be contrary to the purpose of the RRA or RUIA, or would be against equity or good conscience.<sup>4</sup>

Write-offs and waivers can be for

- RRB benefit receivables, resulting from beneficiary debts for the RRA, RUIA, and Medicare programs; or
- employer receivables resulting from inaccurate contribution amounts paid by railroad employers. Employer receivables represent contributions due from a railroad – the employer – on behalf of their employees. An employer receivable may be caused by the employer not paying their contribution on time.

From October 2012 to June 2016, benefit receivables were processed in the RRB's PAR. In late June 2016, the benefit payment receivables function was migrated to the RRB's FMIS. PAR was closed on June 26, 2016, and then accounts receivable activity resumed on July 1, 2016 in FMIS.

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<sup>3</sup> Write-off document types are W2, W5, W8, WEC, or WRA, for the Railroad Retirement Act program, Medicare program, Railroad Unemployment Insurance Act program, employer contributions, or administrative debt, respectively.

<sup>4</sup> 20 C.F.R. Chapter II, § 255.10 (p)(482).

Additionally, in October 2012, employer receivables were processed in the RRB's ECCS. When FMIS was implemented on October 1, 2013, employer receivables began to be processed in FMIS instead of ECCS.

Therefore, for fiscal years 2013 through 2017, write-offs and waivers were recorded in PAR, FMIS, and ECCS.

## RESULTS OF AUDIT

Our audit determined that the RRB's processes for waiving and writing off debt were not fully efficient or effective, and were not adequate to ensure compliance with laws, regulations, and guidance in order to protect RRB trust funds.

We made four recommendations to address these weaknesses. The full text of management's response to these recommendations is included in this report as Appendix I.

### **RRB Write-off and Waiver Processes were not Fully Efficient, Effective, or Adequate**

We determined that RRB write-off and waiver processes were not fully efficient, effective, or adequate because policies and procedures were either incomplete or outdated, and did not clearly define roles and responsibilities.

We conducted testing on three statistically valid samples of waiver and write-off transactions, the results of which support this finding. (See Appendices II, III, and IV.) The types of weaknesses and inconsistencies identified during testing are discussed in detail later in this report.

#### ***Incomplete Policies and Procedures***

We found the following issues:

- There were limited written policies and procedures for DRS to use when processing and approving write-offs and waivers, and there were no day to day procedures for DRS staff. Our request to DRS for policies and procedures resulted in one document, which was not signed or dated and contained only write-off examples. DRS could not provide any other policies or procedures.
- There were internal documents on the RRB's Procedures, References, and Information Source Materials (PRISM) website that contained references to debt recovery activities, write-offs, and waivers. However, DRS was either unaware of the documents or did not use them. In addition, many of the documents had not been updated subsequent to the migration from PAR to FMIS and were, therefore, outdated.
- Existing policies and procedures, including those on PRISM, did not include step by step instructions for processing waivers and write-offs.
- Management Control Review documentation for DRS, which was last updated in April 2014, is due to be updated in April 2019. However, it was not updated after the FMIS migration in June 2016, as was required.
- Existing policies and procedures, including those on PRISM, did not clearly define the roles and responsibilities of DRS staff in processing write-offs and waivers.

The Government Accountability Office's *Standards for Internal Control in the Federal Government* (GAO Standards) require that management (1) identifies changes in the internal control system that either have occurred or are needed because of changes in the entity and its environment, (2) considers whether current controls address the identified issues and modifies controls if necessary, (3) documents in policies the internal control responsibilities of the organization, and (4) communicates to personnel the policies and procedures so that personnel can implement the control activities for their assigned responsibilities.<sup>5</sup> This includes management documenting, in policies for each unit, its responsibility for process objectives and risks, control activity design, implementation, and operating effectiveness. Each unit also documents policies in the appropriate level of detail to allow management to effectively monitor the control activity.

The RRB's *Management Control Guide* states that management control documentation should be updated when warranted in the judgment of the responsible official. To ensure documentation is complete, current, and accurate, it should be updated as changes occur, which may originate from redesigns of support systems and controls.

RRB Basic Board Order 4, *Money and Finance Policies* (Board Order 4) states that the RRB shall establish and maintain a debt collection program designed, to the extent practicable, to collect all receivables, to enable management to evaluate collection policies, to provide efficient and effective account servicing, and to provide accurate and timely financial reports.<sup>6</sup>

The migration to FMIS in June 2016 represented a significant change in processing and internal controls over the write-off and waiver processes. The migration had not been incorporated into DRS policies and procedures to reflect current processes. Additionally, most policies and procedures were not step by step and did not define DRS roles and responsibilities.

Outdated, unused, and limited policies and procedures, and a lack of defined roles and responsibilities, led to subjective and inconsistent decision making among staff, and other weaknesses as described throughout this report. As a result, RRB's write-off and waiver processes; were not fully efficient or effective; were not adequate to ensure compliance with applicable laws, regulations, and guidance; and did not adequately protect RRB trust funds.

All of the following weaknesses and inconsistencies, which were identified during sample testing, occurred because DRS's policies and procedures were either incomplete or outdated.

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<sup>5</sup> Government Accountability Office (GAO), *Standards for Internal Controls in the Federal Government*, GAO-14-704G (Washington, D.C.: September 2014).

<sup>6</sup> RRB, Basic Board Order 4, *Money and Finance Policies*, 10-GE-0079 (Chicago IL: October 25, 2010).

**Sample Testing Identified Weaknesses and Inconsistencies**

We tested three samples to verify the accuracy and completeness of waiver and write-off transactions, and to assess compliance with internal policies, procedures, and practices. We found significant weaknesses and inconsistencies related to approvals and support, waiver processing, and defined thresholds. We then projected our assessments to the universe (See Appendices II, III, and IV). As a result, we concluded that RRB’s processes for waiving and writing off debt were not always efficient, effective, and adequate to ensure compliance with laws, regulations, and guidance in order to protect RRB trust funds.

**Approvals and Support were Missing or Inadequate**

We found write-off and waiver transactions that were either: (1) not approved, or the approvals were inadequate or (2) had no support, or the support was inadequate.

**Approvals**

According to DRS staff, a Supervisory Debt Specialist is required to approve waiver and write-off transactions over \$5,000, and a second approval by the Debt Recovery Manager is required for transactions over \$10,000. However, DRS staff stated that, in some cases, the Debt Recovery Manager authorized the Supervisory Debt Specialist or Debt Recovery Officer to act in their absence. We found 25 transactions that were not approved as required, or there was no evidence to show who approved them. (See Table 1)

**Table 1. Transactions with Approval Errors**

Source / Type of Transactions	Transactions Over \$5,000	Transactions with Errors	Percentage of Transactions with Errors	Total Dollar Impact
PAR (10/1/12 to 6/30/16)	9	8	89%	\$521,145.03
FMIS (07/1/16 to 9/30/17)	6	5	83%	\$112,773.63
Waivers Only (PAR and FMIS) (10/1/12 to 9/30/17)	<u>33</u>	<u>12</u>	<u>36%</u>	<u>\$218,169.82</u>
<b>Total</b>	<b>48</b>	<b>25</b>	<b>52%</b>	<b>\$852,088.48</b>

Source: RRB OIG analysis of sample transactions.

## ***Support***

As part of our statistical samples, we found 19 write-off and waiver transactions that were not fully supported by documentation. Either some or all of the required supporting documents were missing, or the documentation did not fully support the write-off or waiver. This occurred for

1. nine write-off transactions totaling \$17,274.58 in the PAR Sample,
2. seven write-off transactions totaling \$19,431.42 in the FMIS Sample, and
3. three waiver transactions totaling \$182.67 in the Waiver Only Sample.

Transactions include the following examples:

- A waiver for \$10,104.92 was granted based on the financial hardship of the debtor, but there was no documentation obtained or reviewed by DRS to support or prove the accuracy of the monthly expenses and outstanding bills listed by the debtor. Adequate support should have included billing statements or invoices. (PAR Sample)
- A waiver for \$32 was granted and the only documentation that could be found was an internal RRB email. Adequate support would include, at a minimum, a waiver request from the beneficiary. (Waiver Only Sample)
- A write-off transaction for \$2,994 was written off even though supporting documentation was not complete and did not support the \$2,994 amount that was written off. (FMIS Sample)

Write-off transactions for 72 employer receivables totaling \$476,593, which were recorded in ECCS from October 2012 to September 2013, were not supported. BFO provided a spreadsheet and told us the only documentation left to support write-off actions taken in ECCS were the spreadsheets.

Additionally, write-off transactions for four employer receivables within our sample totaling \$15,648, recorded in FMIS from July 2016 to September 2017, were not supported, and BFO staff stated that there is no documentation available to support these write-offs.

GAO Standards require that management

- clearly document internal control and all transactions and other significant events in a manner that allows the documentation to be readily available for examination;
- properly manage and maintain documentation and records;
- determine what level of authority each key role needs to fulfill a responsibility; and
- delegate authority only to the extent required to achieve the entity's objectives.<sup>7</sup>

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<sup>7</sup> GAO 14-704G.

Board Order 4 states that the Chief Financial Officer shall establish and maintain an accounting and reporting system which provides all required reports accurately and timely. It also states that bureau and office heads are responsible for accurate and timely reporting of all transactions and ensuring the validity of such transactions in the RRB's automated accounting system.

According to DRS, ECCS maintains historical data but they do not use it. However, when requested, documentation could not be provided to support transactional data. DRS staff stated that a former RRB employee maintained the spreadsheets while in RRB employment, but they could not locate the support for the spreadsheets. Additionally, documentation was not maintained to support the approver of these (additional) transactions, and there is no evidence or documentation to support the authorization and approval of transactions within the PAR system.

Due to missing or inadequate support, the accuracy of write-offs and waivers cannot be verified. If transactions are not supported or reviewed as required, inaccurate transactions may be recorded and the risk increases that DRS will not accurately and efficiently account for all debts and collections.

### ***Waiver Process was Inconsistent***

In reviewing waiver transactions, we found inconsistencies in waiver processing, and subjectivity in DRS's decision making, as shown by the following examples.

Waiver transactions over \$10,000 require two approvals, however, we found that those dual approvals were not always obtained, or were not documented consistently. For example:

- Two PAR waiver transactions, one for a waiver of \$6,397 and the other for a waiver of \$7,775, had no documentation to show who approved the waivers. Transactions over \$5,000, but under \$10,000 should have been approved by the Supervisory Debt Specialist. (PAR Sample)
- One waiver transaction of \$20,048, had no evidence of any approver in FMIS. This transaction should have been approved in FMIS by both the Supervisory Debt Specialist and the Debt Recovery Manager. (FMIS Sample)
- One waiver transaction of \$46,723, which should have been approved in FMIS by both the Supervisory Debt Specialist and the Debt Recovery Manager, was not approved by all of the appropriate individuals. The transaction was approved by the Supervisory Debt Specialist and a Claim Representative, but not by the Debt Recovery Manager. (FMIS Sample)
- The waiver process is initiated when the RRB receives a waiver request form from a beneficiary and DRS performs an analysis to determine if it should be granted or denied. However, we found that this process was not always followed.

Some examples include the following:

- In one case of a waiver for \$67.03, the beneficiary sent the RRB a request for reconsideration of the debt. However, instead of processing this request as a reconsideration, DRS granted a full waiver, even though the beneficiary had not asked for a complete waiver. (FMIS Sample).
- In another case for a waiver of \$12,945, RRB received a letter requesting a waiver of the debt, and DRS waived the entire debt even though the request was not on an official waiver form and was dated more than two years after the debt letter was sent to the beneficiary. (The normal process is to give the beneficiary 60 days from the date of the debt letter to request a waiver). (FMIS Sample)
- In two other cases, one for a waiver of \$72 (Waiver Only Sample) and one for a waiver of \$44, (FMIS Sample) waiver requests were granted without DRS performing any analysis because the accounts receivable amounts were each less than \$100.

As part of their analysis, DRS may be required to request and review financial information from the beneficiary, including tax forms and proof of monthly expenses and income. However, we found that DRS did not always do this analysis. Some examples include the following:

- In one case for a waiver of \$1,493, DRS's decision to grant a waiver cited that repayment would cause financial hardship for the beneficiary. However, no documents were provided to support the monthly expenses, income, or debt, claimed by the beneficiary. (Waiver Only Sample)
- In another case for a waiver of \$10,450, the waiver request was granted based on financial information that was not provided within the 30-day deadline prescribed by DRS. (Waiver Only Sample)

The action out code 16C signifies that the write-off transaction is a waiver. However, we found that the action out codes applied may not always be accurate because DRS stated that there could be waivers recorded in PAR that were not action out code 16C. Additionally, we noted large differences between waiver transaction trends in PAR and FMIS:

- Waivers (action out code 16C) accounted for only 2.2 percent of total write-offs (105/4814) and 3.6 percent of the dollars in PAR (\$748,057/\$20,681,768) (PAR Sample), but 19.9 percent of total write-offs (267/1,343) and 57.6 percent of the dollars (\$1,223,505/\$2,122,785) in FMIS. (FMIS Sample)
- An average of 2 waivers per month were processed in PAR (105 waivers over a course of 45 months) (PAR Sample), but an average of 18 waivers per month (267 waivers over a course of 15 months) were processed in FMIS. (FMIS Sample)

GAO Standards require that transactions are promptly recorded to maintain their relevance and value to management in controlling operations and making decisions. This applies to the entire process or life cycle of a transaction or event, from its initiation and authorization through its final classification in summary records. In addition, management should design control activities so that all transactions are completely and accurately recorded.<sup>8</sup>

GAO Standards also state that management should periodically review policies, procedures, and related control activities for continued relevance and effectiveness in achieving the entity's objectives or addressing related risks. If there is a significant change in an entity's process, management should review this process in a timely manner after the change to determine that the control activities are designed and implemented appropriately. Changes may occur in personnel, operational processes, or information technology.

*Board Order 4 states that the RRB shall establish and maintain a debt collection program designed, to the extent practicable, to collect all receivables, to enable management to evaluate collection policies, to provide efficient and effective account servicing, and to provide accurate and timely financial reports. Due care and prudent judgment will be exercised in enforcing debt collection procedures, as the purpose of the RRB's benefit programs is to provide income security to railroad families. It also states that the Chief Financial Officer shall establish the guidelines and procedures under which the program will operate.<sup>9</sup>*

The subjectivity and inconsistency of the waiver process occurred because DRS staff had limited written procedures to use when processing and approving waiver transactions.

Inconsistent decision making in waiver transactions leads to an inefficient and ineffective waiver process, which increases the risk of transactions being recorded inaccurately and debtors being treated differently. Furthermore, when waivers are not processed, approved, and granted or denied consistently, it may set an improper precedent for other debtors. If transactional decisions are subjective, they may vary from case to case, and the risk increases that DRS will not be able to accurately and efficiently protect the RRB's trust funds.

Because there could be waivers in PAR that were not coded as Action out code 16C, it is not possible to verify the completeness of a universe of waiver transactions.

### ***Defined Thresholds were Inefficient and Ineffective***

We found that defined thresholds for automatic write-offs (\$25) and automatically granted waivers (\$100) are not always efficient and effective.

We found transactions where automatic (system-generated) write-offs occurred for debts with balances that went below \$25 when ongoing recoveries were being made on that debt. When these automatic write-offs occur, the remaining debt balance is forfeited, even though it could be collected.

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<sup>8</sup> GAO 14-704G.

<sup>9</sup> RRB, Basic Board Order 4.

- The automatic write-offs occurred for 42 of 98 write-off transactions, or 43 percent, in our PAR sample. These 42 transactions totaled \$210.03. Based on these 42 transactions, we project the total number of comparable errors in the universe to be at least 1,742.<sup>10</sup>
- The automatic write-offs occurred for 30 of 91 write-off transactions, or 33 percent, in our FMIS sample. These 30 transactions totaled \$148.63. Based on these 30 transactions, we project the total number of comparable errors in the universe to be at least 357.<sup>11</sup>

We found transactions where waivers were granted automatically (but still manually processed) because debt balances were less than \$100. No analysis was performed to determine if a waiver should be granted regardless of dollar value.

- Waivers being granted automatically occurred for 14 of 69 waiver transactions, or 20 percent, in our Waivers Only (PAR and FMIS) sample. These 14 transactions totaled 838.48. Based on these 14 transactions, we project the total number of comparable errors in the universe to be at least 54.<sup>12</sup>

Additionally, during our sample testing, we noted waivers where the waiver was granted automatically because the debt was less than \$100, despite debtors offering to repay the debt by allowing monthly offsets of their annuities or to repay by cash.

DRS staff stated that for waiver requests under \$100, the cost for DRS to determine if a debt should be waived would be greater than the debt amount, and that there is not enough staff available for such work. No documentation, such as a cost benefit analysis, was provided to us to indicate when this threshold decision was made or to justify the threshold amount.

RRB regulations, however, state that a waiver can be granted if the RRB determines that (1) the overpaid person is without fault and (2) recovery would be contrary to the purpose of the RRA or RUIA, or would be against equity or good conscience. Additionally, Board Order 4 states that the RRB shall establish and maintain a debt collection program designed, to the extent practicable, to collect all receivables.

GAO Standards state that management may decide how an entity evaluates the costs versus benefits of various approaches to implementing an effective internal control system. However, cost alone is not an acceptable reason to avoid implementing internal controls. Management is responsible for meeting internal control objectives.

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<sup>10</sup> As a result of our statistically valid sample, we can project an estimate of the minimum number of exceptions to the universe of 4,814 write-off transactions in PAR from October 1, 2012 to June 30, 2016. See Appendix II for further details.

<sup>11</sup> As a result of our statistically valid sample, we can project an estimate of the minimum number of exceptions to the universe of 1,343 write-off transactions in FMIS from July 1, 2016 to September 30, 2017. See Appendix III for further details.

<sup>12</sup> As a result of our statistically valid sample, we can project an estimate of the minimum number of exceptions to the universe of 372 waiver transactions in PAR and FMIS from October 1, 2012 to September 30, 2017. See Appendix IV for further details.

The costs versus benefits considerations support management's ability to effectively design, implement, and operate an internal control system that balances the allocation of resources in relation to the areas of greatest risk, complexity, or other factors relevant to achieving the entity's objectives.

We found that thresholds for automatic write-offs and waivers were not always efficient and effective because

- debts that were currently being collected were written off; and
- waivers were granted based on debt balance alone and other determination factors were not considered, even in instances where repayments, or offers to offset annuity payments, were received.

We found that existing policies and procedures did not contain the same language or requirements. In addition, not all were updated or used by debt recovery. Policies and procedures reference writing off debts less than \$25, \$100, and \$150, state that collection efforts can stop if the cost of further collection action will exceed the recoverable amount.

When debt balances are not collected due to write-off and waiver thresholds, there is increased risk that the RRB will not be able to take appropriate action to safeguard customers' trust funds and that DRS will not be able to promptly and correctly employ all appropriate collection tools.

In November of 2015, Congress passed the Bipartisan Budget Act of 2015.<sup>13</sup> Section 834 of this Act requires that in any case involving Social Security (or SSI) overpayments, in which recovery of overpayment is waived because it would defeat the purpose, the Social Security Administration (SSA) shall require an individual to provide authorization for SSA to obtain financial records from their financial institution if SSA determines such records are necessary.

The Act also states that if an individual refuses to provide, or revokes, any authorization for the Commissioner of Social Security to obtain from any financial institution any financial record, the Commissioner may, on that basis, determine that adjustment or recovery would not defeat the purpose of the title, and would be grounds for SSA to not grant the waiver of repayment.

While we are not making a formal recommendation in this regard, RRB could consider seeking similar legislation. Such authority, if granted to and utilized by RRB, could help to: identify instances where a waiver does not actually defeat the purpose of the recovery; improve returns of overpayments to the RRB; and ultimately strengthen the financial stability of the Federal Old-Age and Survivors Insurance Trust Fund.

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<sup>13</sup> Pub. L. No. 114-74, 129 Stat. 584 (2015).

## ***Recommendations***

We recommend the Bureau of Fiscal Operations:

1. develop or update, and implement comprehensive written policies and step by step procedures for all write-off and waiver processes, to include day to day operations, documentation and approvals, roles and responsibilities, and threshold requirements, to ensure consistency and compliance with applicable laws, regulations, and guidance;
2. develop and implement controls to ensure debt balances that can be collected are not forfeited due to automatic \$25 write-off or \$100 waiver thresholds;
3. conduct training on new policies and procedures to ensure that decision making is consistent; and
4. update Management Control Review documentation to reflect the new policies and procedures and changes in write-off and waiver processing which resulted from the migration to Financial Management Integrated System.

## ***Management's Comments and Our Response***

RRB management neither concurred nor non-concurred with our findings and observations and in its comments falsely stated our audit conclusions. RRB management's response included the following comments:

*We find this audit, and its result, fundamentally flawed and not in compliance with Government Accountability Office, 2011 Revision of the Government Auditing Standards, commonly referred to as generally accepted government auditing standards (GAGAS). While, the Office of Inspector General (OIG) asserts that the Railroad Retirement Board (RRB) is not "...compliant with laws, regulations, and guidance in order to protect RRB trust funds," the audit results do not demonstrate that the auditors obtained "sufficient, appropriate evidence to provide a reasonable basis" to support their conclusion. (GAGAS ¶ 6.56)*

What is troubling is that in its comments, RRB management stated that our audit work was flawed and not in compliance with generally accepted government auditing standards (GAGAS), and our conclusions were not adequately supported. We stand by our audit work, and as we state on page 2 of this audit report, we believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. Moreover, RRB management has absolutely no authority to assess our compliance with GAGAS. That authority resides with external peer reviewers, all of which have assessed us as compliant to date.

The Inspector General remains so concerned about RRB management's continued emphasis on making spurious inflammatory remarks regarding the OIG's work, rather than taking necessary corrective actions to improve RRB operations, he plans to discuss this report and these concerns with the new Railroad Retirement Board members.

In its response, RRB management stated that they neither concurred nor non-concurred with our findings and observations made as a result of our detailed testing of three different samples of waiver and write-off transactions, and also stated that “it did not appear that the auditors considered the feedback provided...” Their assumption is incorrect. During audit field work, in June 2018, we provided DRS management with the results of our testing and subsequently met with them to discuss the findings and obtain feedback. Based on their feedback, we made revisions to the results of individual cases, as necessary.

However, we determined that no changes were needed to our overall findings and conclusions. On two additional instances, we again provided RRB management with the same detailed results of our sample testing. During the exit conference in November 2018, DRS Management stated that “they were okay with the detailed cases and okay with the recommendations...”

Lastly, RRB management’s comments that it found our audit work flawed and not in compliance with government auditing standards are completely dishonest, unfounded, and unnecessary, as management not only concurred with Recommendations 1, 3, and 4, and partially concurred with Recommendation 2, RRB management stated that it plans to take corrective action to address all four recommendations made in this report.

**APPENDIX I: MANAGEMENT COMMENTS**



UNITED STATES GOVERNMENT  
**MEMORANDUM**

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

February 8, 2019

**TO** : Debra Stringfellow-Wheat  
Deputy Assistant Inspector General for Audit

**FROM** : Shawna R. Weekley **SHAWNA**  
Chief Financial Officer **WEEKLEY**

**SUBJECT** : Write-off, Waiver Process Audit Response

Digitally signed by  
SHAWNA WEEKLEY  
DN: c=US, o=U.S.  
Government, ou=Railroad  
Retirement Board,  
cn=SHAWNA WEEKLEY,  
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We find this audit, and its result, fundamentally flawed and not in compliance with Government Accountability Office, 2011 Revision of the *Government Auditing Standards*, commonly referred to as generally accepted government auditing standards (GAGAS). While, the Office of Inspector General (OIG) asserts that the Railroad Retirement Board (RRB) is not “...compliant with laws, regulations, and guidance in order to protect RRB trust funds,” the audit results do not demonstrate that the auditors obtained “sufficient, appropriate evidence to provide a reasonable basis” to support their conclusion. (GAGAS ¶ 6.56)

The Code of Federal Regulations (CFR) provides guidelines for making waiver decisions and suspending or terminating the collection of benefit overpayments. Specifically, the CFR defines fault and describes whether recovery would be contrary to the purpose of either the Railroad Retirement or Railroad Unemployment Insurance Acts. The audit results do not demonstrate that the auditors evaluated our application of the CFR. This glaring deficiency is evidenced by the fact that the OIG does not cite specific non-compliances with the CFR to support that assertion, nor do they make any correlating recommendations.

**FINDING: RRB’s write-off and waiver processes**

We neither concur nor non-concur with the findings and observations identified in the report of audit. The auditor selected three separate samples and notified the RRB of their initial observations on June 7, 2018 for the first two samples and June 19, 2018 for the third. The RRB provided feedback refuting or validating the observations on June 28, 2018. Upon receipt of referenced draft audit report, in order to formulate our response to the audit results, we asked the OIG to identify what sample items appear in the report of audit. In response, the audit manager informed us that the information had “not changed since that time [June 7, 2018 and June 19, 2018].” It does not appear that the auditors considered the feedback provided; therefore, we do not have sufficient information to comment on each individual finding component. While we neither concur nor non-concur with the finding, we do acknowledge the need for enhanced policy and procedures.

**Recommendation 1:** We recommend the Bureau of Fiscal Operations develop or update, and implement comprehensive written policies and step by step procedures for all write-off and waiver processes, to include day to day operations, documentation and approvals, roles and responsibilities, and threshold requirements, to ensure consistency and compliance with applicable laws, regulations, and guidance.

**Management Response:**

Concur. Estimated completion date: April 30, 2019

**Recommendation 2:** We recommend the Bureau of Fiscal Operations develop and implement controls to ensure debt balances that can be collected are not forfeited due to automatic \$25 write-off or \$100 waiver thresholds.

**Management Response:** Partially concur. Estimated Completion date: May 31, 2019  
The BFO staff will develop a control to collect debts that meet defined thresholds for individuals receiving benefits. For those not receiving benefits defined thresholds and write-off will continue to apply.

**Recommendation 3:** We recommend the Bureau of Fiscal Operations conduct training on new policies and procedures to ensure that decision-making is consistent.

**Management Response:**

Concur. Estimated completion date: May 31, 2019

**Recommendation 4:** We recommend the Bureau of Fiscal Operations update Management Control Review documentation to reflect the new policies and procedures and changes in write-off and waiver processing which resulted from the migration to Financial Management Integrated System.

**Management Response:**

Concur. Estimated completion date: May 31, 2019

cc: Dan Fadden, Senior Executive Officer/Director of Field Service  
Jeff Baer, Director of Audit Affairs and Compliance  
Division Chief (acting), Treasury, Debt Recovery, Financial Systems Division

## **APPENDIX II: STATISTICAL SAMPLING**

### **Statistical Sampling Methodology and Results Write-off and Waiver Transactions in the Program Accounts Receivable System October 1, 2012 through June 30, 2016**

This appendix presents the methodology and results for the sample testing of debts (receivables) that were written off or waived in the Program Accounts Receivable System (PAR) from October 1, 2012 to June 30, 2016. We selected a statistically valid random sample of write-off and waiver transactions.

#### **Sampling Objective**

Our sampling objectives were to (1) verify the accuracy and completeness of the waiver and write-off transactions, (2) assess compliance with internal policies and procedures, and (3) project our assessment to the universe.

#### **Scope**

Our sample was selected from write-off or waiver transactions in PAR from October 1, 2012 to June 30, 2016.

#### **Universe/Sampling Unit**

The sampling universe consisted of 4,814 write-off and waiver transactions from PAR for the period of October 1, 2012 to June 30, 2016. The sampling unit was one write-off or waiver transaction.

#### **Sample Selection Methodology**

We used attribute estimation sampling using a presumed universe error rate of 8 percent, desired maximum precision range of 10 percent, and desired confidence level of 90 percent, which directed a sample size of 98 transactions.

#### **Sample Evaluation Methodology**

For each transaction, we obtained and reviewed evidence from PAR and WorkDesk in order to accomplish our sampling objectives.

**Statistical Sampling Methodology and Results  
Write-off and Waiver Transactions in the Program Accounts Receivable System  
October 1, 2012 through June 30, 2016**

**Results of Review**

Our reviews resulted in the following errors, as identified by attribute. For each attribute tested in which an exception was found, we projected to the universe an estimate of the minimum number of errors with a confidence level of 90 percent. When no exception was found for a specific test, no projected minimum was made.

**Table 2. PAR Sample Results**

Attribute Tests	Sample Number Tested	Exceptions Observed in Sample	Projected Minimum Number of Errors in Universe <sup>a</sup>
Transaction was not found in PAR.	98	0	-
PAR transaction was also found in FMIS.	98	0	-
Action Out Code was incorrect or it could not be determined if Action Out Code was correct.	98	5	120
For transactions \$5,000 or greater, approver was not appropriate, or no evidence of approvals.	98	8	231
Debtor was in pay status, but pay was not offset to collect debt.	98	6	158
Debt met referral criteria but was waived or written off instead of being referred.	98	0	-
A waiver reconsideration request was not received within 60 days of the date of the overpayment letter.	98	0	-
A waiver request was not received for a transaction that was below \$100, but was waived automatically.	98	0	-
Debtor did not submit waiver or reconsideration request before debt was waived.	98	0	-
Waiver decision was not appropriate.	98	1	4
Transaction was not supported by documentation.	98	9	269
Transaction was not accurate based on documentation.	98	2	28

<sup>a</sup> Rounded down to the nearest whole number for reporting purposes.

## **APPENDIX III: STATISTICAL SAMPLING**

### **Statistical Sampling Methodology and Results Write-off and Waiver Transactions in the Financial Management Integrated System July 1, 2016 to September 30, 2017**

This appendix presents the methodology and results for the sample testing of debts (receivables) that were written off or waived in the Financial Management Integrated System (FMIS) from July 1, 2016 to September 30, 2017. We selected a statistically valid random sample of write-off and waiver transactions.

#### **Sampling Objective**

Our sampling objectives were to (1) verify the accuracy and completeness of the waiver and write-off transactions, (2) assess compliance with internal policies and procedures, and (3) project our assessment to the universe

#### **Scope**

Our sample was selected from write-off or waiver transactions in FMIS from July 1, 2016 to September 30, 2017.

#### **Universe/Sampling Unit**

The sampling universe consisted of 1,343 write-off and waiver transactions from FMIS for the period of July 1, 2016 to September 30, 2017. The sampling unit was one write-off or waiver transaction.

#### **Sample Selection Methodology**

We used attribute estimation sampling using a presumed universe error rate of 8 percent, desired maximum precision range of 10 percent, and desired confidence level of 90 percent, which directed a sample size of 91 transactions.

#### **Sample Evaluation Methodology**

For each transaction, we obtained and reviewed evidence from FMIS, the Program Accounts Receivable System (PAR), and WorkDesk, in order to accomplish our sampling objectives.

**Statistical Sampling Methodology and Results  
Write-off and Waiver Transactions in the Financial Management Integrated System  
July 1, 2016 to September 30, 2017**

**Results of Review**

Our reviews resulted in the following errors, as identified by attribute. For each attribute tested in which an exception was found, we projected to the universe an estimate of the minimum number of errors with a confidence level of 90 percent. When no exception was found for a specific test, no projected minimum was made.

**Table 3. FMIS Sample Results**

Attribute Tests	Sample Number Tested	Exceptions Observed in Sample	Projected Minimum Number of Errors in Universe <sup>a</sup>
Transaction was not found in FMIS.	91	0	-
Action Out Code was incorrect or it could not be determined if Action Out Code was correct.	91	2	8
For transactions \$5,000 or greater, approver was not appropriate, or no evidence of approvals.	91	5	37
Debtor was in pay status, but pay was not offset to collect debt.	91	11	106
Debt met referral criteria but was waived or written off instead of being referred.	91	1	2
A waiver reconsideration request was not received within 60 days of the date of the overpayment letter.	91	0	-
A waiver request was not received for a transaction that was below \$100, but was waived automatically.	91	1	2
Debtor did not submit waiver or reconsideration request before debt was waived.	91	0	-
Waiver decision was not appropriate or appropriateness could not be determined.	91	6	48
Transaction was not supported by documentation.	91	7	59
Transaction was not accurate based on documentation or accuracy could not be determined.	91	7	59

<sup>a</sup> Rounded down to the nearest whole number for reporting purposes.

## **APPENDIX IV: STATISTICAL SAMPLING**

### **Statistical Sampling Methodology and Results Waiver Transactions in the Program Accounts Receivable System and the Financial Management Integrated System October 1, 2012 to September 30, 2017**

This appendix presents the methodology and results for the sample testing of debts (receivables) that were waived in the Program Accounts Receivable System (PAR) and Financial Management Integrated System (FMIS) from October 1, 2012 to September 30, 2017. We selected a statistically valid random sample of waiver transactions.

#### **Sampling Objective**

Our sampling objectives were to (1) verify the accuracy and completeness of the waiver transactions, (2) assess compliance with internal policies and procedures, and (3) project our assessment to the universe.

#### **Scope**

Our sample was selected from waiver transactions in PAR and FMIS from October 1, 2012 to September 30, 2017.

#### **Universe/Sampling Unit**

The sampling universe consisted of 372 waiver transactions from PAR and FMIS for the period of October 1, 2012 to September 30, 2017. The sampling unit was one waiver transaction.

#### **Sample Selection Methodology**

We used attribute estimation sampling using a presumed universe error rate of 6 percent, desired maximum precision range of 10 percent, and desired confidence level of 90 percent, which directed a sample size of 69 transactions. We stratified our sample by waiver amount in order to sample the same number of waiver transactions from each strata.

Strata	Dollar Value of Waiver	Waivers in Universe	Sample Size
1	\$0 to \$1,000	207	23
2	\$1,001 to \$10,000	105	23
3	\$10,001 and greater	60	23

#### **Sample Evaluation Methodology**

For each transaction, we obtained and reviewed evidence from PAR, FMIS, and WorkDesk, in order to accomplish our sampling objectives.

**Statistical Sampling Methodology and Results  
Waiver Transactions in the Program Accounts Receivable System  
and the Financial Management Integrated System  
October 1, 2012 to September 30, 2017**

**Results of Review**

Our reviews resulted in the following errors, as identified by attribute. For each attribute tested in which an exception was found, we projected to the universe an estimate of the minimum number of errors with a confidence level of 90 percent. When no exception was found for a specific test, no projected minimum was made.

**Table 4. Waiver Sample Results**

Attribute Tests	Sample Number Tested	Exceptions Observed in Sample	Projected Minimum Number of Errors in Universe <sup>a</sup>
A debt letter was not mailed to debtor.	69	0	-
A waiver request (Rights Request Form G-66A) was not submitted by debtor.	69	2	3
A waiver request (Rights Request Form G-66A) was not received within 60 days of the date of the debt letter.	69	1	Too small for projection.
Debtor did not submit waiver or reconsideration request before debt was waived.	69	1	Too small for projection.
Financial information (DR-423 and tax filings) was not submitted by the debtor within the timeframe prescribed in the request.	69	8	26
Erroneous Payment Decision and Waiver Rationale (Form G-167) was not completed.	69	16	64
Erroneous Payment Decision and Waiver Rationale (Form G-167) was not signed or dated by preparer or approver.	69	16	64
The Debt Recovery waiver decision was not communicated to the debtor.	69	1	Too small for projection.
Approver was not appropriate for waiver of \$5,000 or greater, or no evidence of approvals.	69	12	45
Claimant Appeal (Form HA-1) was not received within 60 days of the date of the Debt Recovery decision letter.	69	3	6
The waiver decision by Bureau of Hearings and Appeals was not communicated to the debtor.	69	0	-
Waiver decision was not appropriate or appropriateness could not be determined.	69	17	69
Waiver was not supported based on documentation.	69	3	6

<sup>a</sup> Rounded down to the nearest whole number for reporting purposes.