

# OFFICE OF INSPECTOR GENERAL

## Audit Report

**Audit of the Railroad Retirement Board's Compliance with the  
Improper Payments Elimination and Recovery Act of 2010  
in the Fiscal Year 2015 Performance and Accountability Report**

**Report No. 16-07  
May 13, 2016**



**RAILROAD RETIREMENT BOARD**

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## EXECUTIVE SUMMARY

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### Background

The Office of Inspector General for the Railroad Retirement Board (RRB) conducted a mandated audit to assess fiscal year 2015 compliance with the Improper Payments Elimination and Recovery Act of 2010 (IPERA) and the Improper Payments Elimination and Recovery Improvement Act of 2012, which both amended the Improper Payments Information Act of 2002.<sup>1</sup>

### Findings

Our audit determined that the RRB was not fully compliant with IPERA requirements. The RRB was not in compliance with the requirements for a risk assessment because its risk assessment documents did not meet the minimum requirements specified in Office of Management and Budget's guidance. We found that the agency was in compliance with the other IPERA reporting requirements, when applicable.

In addition, we found that improvement is needed to ensure the accuracy of reported improper payment amounts for the RRA and RUIA programs, which were understated by approximately \$12 million and \$904,000, respectively. As a result of these understatements, the reported improper payment amounts for fiscal year 2014 would have exceeded the amounts reported for fiscal year 2013. Thus, the agency's performance in reducing improper payments has not been effective. We also identified improper payment reporting deficiencies, which made the RRB improper payments report incomplete.

### Recommendations

In total, we made six detailed recommendations to RRB management related to:

- revising the overall process for the RRA program to ensure the accuracy of the data that supports improper payment reporting;
- recording entire receivable balances;
- revising its methodology for the RUIA program to ensure compliance with improper payment guidance;
- increasing the quantity of cases in a review to ensure that it is representative of the population;
- strengthening controls for the review of underlying support for improper payment reporting to ensure the accuracy of the data; and
- developing and documenting policies and procedures to ensure that improper payment reporting is prepared in accordance with applicable guidance.

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<sup>1</sup> Public Laws 111-204, 112-248, and 107-300, respectively.

## **Management Responses and Our Comments**

The Office of Programs concurred with three of the six recommendations, deferred their response for two recommendations, and did not concur with our recommendation regarding revising the overall process for the RRA program to ensure the accuracy of the data that supports improper payment reporting. The Office of Programs stated that their methodology has been refined for the RRA program as a result of the previous IPERA audit and these revisions have been submitted to OMB for their comments. They also stated that their overall process has been in place since 2002 and that they routinely review and make adjustments as appropriate based on applicable OMB guidance.

While the OIG agrees that the Office of Programs' overall process for the RRA improper payment process has been in place for many years with occasional adjustments, our audit results show that this process is insufficient for improper payment reporting purposes. Approximately 23 percent of improper payments reported for the RRA program are based on estimates and projections that has proven to be error prone, resulting in RRA improper payments being understated by at least \$12 million. We reiterate the need for revision of their overall process to improve the accuracy of improper payment reporting. Without a thorough and reliable assessment of its improper payments program, the RRB is at risk of failing to identify all improper payments, which ultimately will allow them to continue.

The full text of management's responses is included in the appendices.

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## INTRODUCTION

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This report presents the results of the Office of Inspector General's (OIG) audit of the Railroad Retirement Board's (RRB) fiscal year 2015 compliance with the Improper Payments Elimination and Recovery Act of 2010 (IPERA) and the Improper Payments Elimination and Recovery Improvement Act of 2012, which both amended the Improper Payments Information Act of 2002.<sup>2</sup>

### 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 paid \$12.2 billion in retirement/survivor benefits and \$85.1 million in unemployment and sickness insurance benefits during fiscal year 2015.

Improper payment legislation was enacted to reduce wasteful, improper payments and directed the Office of Management and Budget (OMB) to issue governmentwide guidance regarding reporting requirements. IPERA 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, and any payment for a good or service not received (except for such payments authorized by law).

IPERA reporting guidance was issued as Appendix C to OMB Circular No. A-123, *Requirements for Effective Estimation and Remediation of Improper Payments*.<sup>3</sup> The guidance defines significant improper payments as (1) both 1.5 percent of program outlays and \$10,000,000 of all program or activity payments made during the fiscal year reported or (2) \$100,000,000 (regardless of the improper payment percentage of total program outlays). OMB guidance requires each agency's Inspector General to assess IPERA compliance within 180 days after the issuance of the Agency's Financial Report (AFR) or Performance and Accountability Report (PAR).<sup>4</sup> Agencies that are noncompliant with IPERA are subject to additional reporting requirements. Noncompliance for one year requires that the agency submit a plan describing the actions to be taken to become compliant. Noncompliance for two consecutive fiscal years for

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<sup>2</sup> Public Laws 111-204, 112-248, and 107-300, respectively.

<sup>3</sup> OMB, *Management's Responsibility for Internal Control*, Circular No. A-123 (December 21, 2004).

<sup>4</sup> OMB, *Appendix C to Circular No. A-123, Requirements for Effective Estimation and Remediation of Improper Payments*, M-15-02 (October 20, 2014).

the same program or activity requires a review from OMB to determine if additional funding would help the agency become compliant.

IPERA guidance states that agencies are to establish primary and secondary accountable officials, who are primarily charged with responsibility for implementing improper payment guidance and its requirements. Implementation of IPERA guidance should be a significant responsibility and be a major focus of the primary and secondary accountable officials. The RRB's Executive Committee (1) oversees day-to-day operations of the agency in conformance with existing laws, regulations, and policies; (2) makes recommendations to the Board Members on agency-related policy issues; and (3) promotes coordination and communication on matters of agencywide policy and direction. The Executive Committee is also responsible for oversight and problem solving regarding cross organizational internal control issues, and functions as the agency's senior management council with respect to the responsibilities outlined in OMB Circular No. A-123.

Within the RRB, the Office of Programs compiles and reports improper payment data for the annual PAR. The RRB's improper payment amounts for fiscal year 2014, as reported in the RRB's fiscal year 2015 PAR, were \$70.6 million (0.59 percent of \$11.9 billion in outlays) and \$4.3 million (4.04 percent of \$106.2 million in outlays) for the RRA program and the RUIA program, respectively.<sup>5</sup>

## **Audit Objectives**

The mandated objectives of this audit were to:

1. determine whether the RRB is in compliance with IPERA;
2. evaluate the accuracy and completeness of improper payment reporting;  
and
3. evaluate agency performance in reducing improper payments.

## **Scope**

Improper payment data reported in the Railroad Retirement Board's fiscal year 2015 PAR, which consisted of fiscal year 2014 improper payment data and fiscal year 2015 "Do Not Pay" data.

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<sup>5</sup> RRB, *Performance and Accountability Report for Fiscal Year 2015* (Chicago, IL: November 2015).

## Methodology

To accomplish the audit objectives, we:

- identified criteria from improper payment laws, as well as OMB's governmentwide guidance for IPERA;
- reviewed the RRB's improper payment data as provided in the fiscal year 2015 PAR and related postings;
- assessed the accuracy and completeness of agency reporting and evaluated the agency's performance in reducing and recapturing improper payments;
- tested several samples to assess the accuracy of agency determinations of proper or improper for overpayments and underpayments and the accuracy of the recorded amounts;
- interviewed appropriate agency staff; and
- reviewed agency documentation, including support for overpayments and underpayments.

We tested reliability of data in the following RRB systems: (1) computer generated spreadsheets, (2) accounts receivable system, (3) payment rate and entitlement history system, and (4) imaging system. Data reliability was tested by comparing data from the computer generated spreadsheets to various other agency systems. We determined that the data was sufficiently reliable for the purposes of this audit.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit 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 December 2015 through April 2016.

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## RESULTS OF AUDIT

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Our audit determined that the RRB was not fully compliant with IPERA requirements because its risk assessment documents did not meet the minimum requirements specified in OMB guidance. We found that the agency was in compliance with the other IPERA reporting requirements, when applicable. Table I summarizes our assessments.

Table I: OIG Assessment of Compliance for Fiscal Year 2015 Reporting

<b>Compliance Requirements</b>	<b>Assessment</b>
Published an AFR or PAR for the most recent fiscal year and posted that report and any accompanying materials required by OMB on the agency website.	Compliant
Conducted a program specific risk assessment for each program or activity that conforms with Section 3321 of Title 31 U.S.C. (if required).	Not Compliant
Published improper payment estimates for all programs and activities identified as susceptible to significant improper payments under its risk assessment (if required).	Compliant
Published programmatic corrective action plans in the PAR or AFR (if required).	Not Required
Published, and has met, annual reduction targets for each program assessed to be at risk and measured for improper payments.	Not Required
Reported a gross improper payment rate of less than 10 percent for each program and activity for which an improper payment estimate was obtained and published in the PAR or AFR.	Compliant

In addition, we found that improvement is needed to ensure the accuracy of reported improper payment amounts for the RRA and RUIA programs, which were understated by approximately \$12 million and \$904,000, respectively. As a result of these understatements, the reported improper payment amounts for fiscal year 2014 would have exceeded the amounts reported for fiscal year 2013. Thus, the agency's performance in reducing improper payments has not been effective. We also identified improper payment reporting deficiencies, which made the RRB improper payments report incomplete.

OMB guidance requires that we report on six areas of compliance. The details of the audit findings and recommendations for corrective action follow. The full text of management's responses is included in the appendices.

## **Publish a Performance and Accountability Report**

Federal agencies are required to publish an AFR or PAR for the most recent fiscal year and post that report and any accompanying materials required by OMB on the agency website.

The RRB is in compliance with this requirement, as the fiscal year 2015 PAR was published and is available on the RRB's website. The RRB's improper payment data is included in the PAR.

## **Conduct Risk Assessments**

Federal agencies are required to conduct a program specific risk assessment for each program or activity that conforms with Section 3321 of Title 31 U.S.C.

The RRB did not comply with this requirement because its risk assessments did not meet the minimum requirements. As defined in OMB guidance, at a minimum, agencies shall take into account the risk factors shown below that are likely to contribute to improper payments:

1. whether the program or activity is new to the agency;
2. the complexity of the program or activity reviewed, particularly with respect to determining correct payment amounts;
3. the volume of payments made annually;
4. whether payments or payment eligibility decisions are made outside of the agency, for example, by a State or local government, or a regional Federal office;
5. recent major changes in program funding, authorities, practices, or procedures;
6. the level, experience, and quality of training for personnel responsible for making program eligibility determinations or certifying that payments are accurate;
7. inherent risks of improper payments due to the nature of agency programs or operations;
8. significant deficiencies in the audit reports of the agency including, but not limited to, the agency Inspector General or the Government Accountability Office (GAO) audit report findings, or other relevant management findings that might hinder accurate payment certification; and
9. results from prior improper payment work.

RRB policies and procedures were developed with the intent to provide guidance sufficient for the completion of risk assessments that meet OMB guidance. However, documented policies and procedures did not list the nine criteria provided in OMB guidance. For example, the risk assessment prepared for the Medicare Part B program did not include discussions of OIG findings regarding improper payment deficiencies for this program.

Due to this instance of noncompliance for two consecutive years for the same program or activity, IPERA guidance states that the Director of OMB will review the program and determine if additional funding would help the agency to become compliant. If the Director of OMB determines that additional funding would help the agency become compliant, the agency shall obligate an amount of additional funding determined by the Director of OMB to intensify compliance efforts. When providing additional funding for compliance efforts, the agency shall:

1. exercise reprogramming or transfer authority to provide additional funding to meet the level determined by the Director of OMB; and
2. submit a request to Congress for additional reprogramming or transfer authority if additional funding is needed to meet the full level of funding determined by the Director of OMB.

Our concerns about the report presentation of risk assessment data are discussed later in this report.

### Recommendations

In our last audit of improper payment reporting, we made two recommendations to address development and documentation of policies and procedures regarding a risk assessment process that meets IPERA requirements and preparation of risk assessments in accordance with OMB requirements.<sup>6</sup> These recommendations remain open.

### **Publish Improper Payment Estimates**

Federal agencies are required to publish improper payment estimates for all programs and activities identified as susceptible to significant improper payments under its risk assessment.

The RRB published improper payment estimates for the RRA and RUIA programs. Although the RRB determined that the Medicare Part B program is susceptible to significant improper payments, improper payment estimates were not reported because the information is not currently available. Improper payment estimates for this program are not expected to be reported for this program until 2017, when system generated estimates are expected to become available.

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<sup>6</sup> RRB OIG, *Audit of Railroad Retirement Board's Compliance with the Improper Payments Elimination and Recovery Act of 2010 in the Fiscal Year 2014 Performance and Accountability Report*, OIG Audit Report No. 15-06, Recommendations 2 and 3 (Chicago, IL: May 15, 2015).

### **Publish Corrective Action Plans**

Federal agencies are required to publish programmatic corrective action plans in the PAR or AFR (if required).

The RRB is not required to meet this requirement because improper payment estimates, as reported, did not meet or exceed the level for significant improper payments as defined in OMB guidance.

### **Publish Annual Reduction Targets**

Federal agencies are required to publish and meet annual reduction targets for each program assessed to be at risk and measured for improper payments (if required).

The RRB is not required to meet this requirement because improper payment estimates, as reported, did not meet or exceed the level for significant improper payments as defined in OMB guidance.

### **Publish Gross Improper Payment Rates Less than Ten Percent**

Federal agencies are required to report a gross improper payment rate of less than ten percent for each program and activity for which an improper payment estimate was obtained and published in the PAR or AFR.

The RRB is in compliance with the requirement because the gross improper payment rates, as reported by the RRB, were less than ten percent.

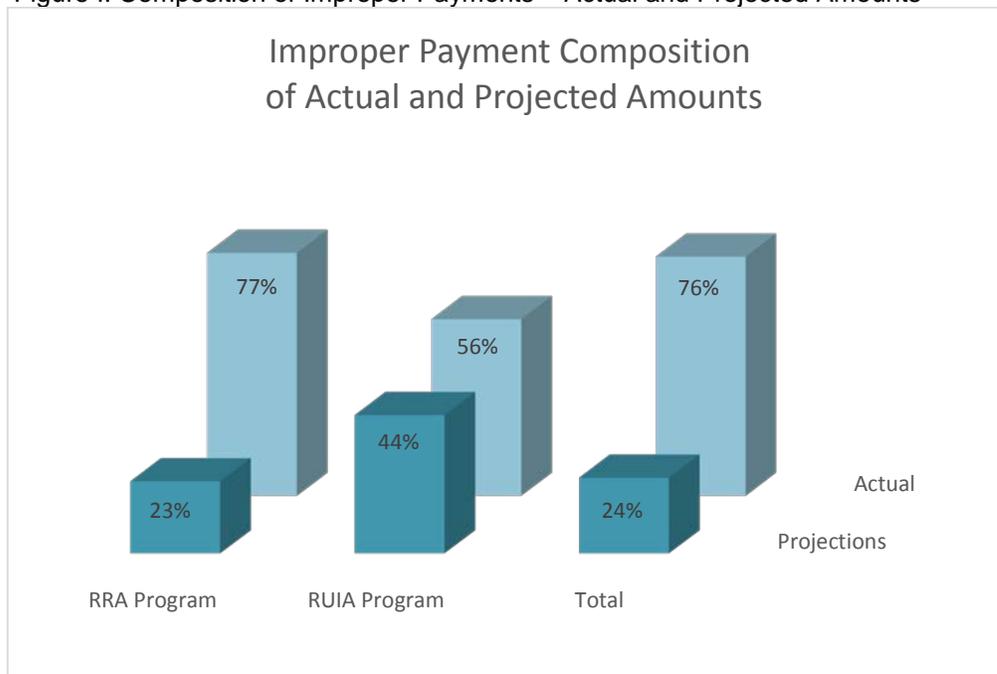
The RRB's improper payment amounts for fiscal year 2014, as reported in the RRB's fiscal year 2015 PAR, were \$70.6 million (0.59 percent of \$11.9 billion in outlays) and \$4.3 million (4.04 percent of \$106.2 million in outlays) for the RRA program and the RUIA program, respectively.

### **Inaccurate Improper Payment Data for the Railroad Retirement Act and Railroad Unemployment Insurance Act Programs**

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

Improper payment calculations for the RRA and RUIA programs consist of various components comprised of (1) actual improper payments identified from receivables due the RRB from beneficiary debts and (2) projections of estimates made from various sources. Figure I presents the composition of improper payments, displaying percentages of actual improper payments as compared to projections for both programs.

Figure I: Composition of Improper Payments – Actual and Projected Amounts



We identified errors in the improper payment estimates provided for the RRA and RUIA programs, as explained below and on the following pages. As a result of these errors, we determined that improper payment data for RRA and RUIA programs was not accurately reported.

Government Accountability Office's *Standards for Internal Control in the Federal Government* state that control activities help to ensure that all transactions are completely and accurately recorded.<sup>7</sup>

### Railroad Retirement Act Program Improper Payment Estimates

We identified errors in (1) the underlying data upon which the projections are based, (2) the application of the projections, and (3) recorded receivables, as explained in the sections that follow. As a result, RRA improper payments are understated by at least \$12 million.

- Errors in Underlying Data for Projections

Prior to mandated improper payment reporting, the Office of Programs had a quality assurance process in place for the RRA program. This process consisted of reviewing selected cases for accuracy and the application of policies and procedures. To meet improper payment legislation requirements, the Office of Programs expanded the quality

<sup>7</sup> Government Accountability Office, *Standards for Internal Controls in the Federal Government*, GAO/AIMD-00-21.3.1 (Washington, D.C.: November 1999). A newer version, effective beginning in fiscal year 2016, has been published, GAO 14-704G (Washington, D.C.: September 2014).

assurance process to identify improper underpayments. In the review of underpayments, a spreadsheet is prepared to summarize the data for each case. Several columns record monetary data, while others record the rationale for the determinations.

The Office of Programs also determined that certain estimates and projections would be made to identify other improper payments from various sources. Over time, calculation of RRA improper payments has become a complex process that consists of eight separate components. The OIG continues to find errors in some of the components that the Office of Programs uses to calculate improper payments.

We conducted statistical samples of RRA initial and post underpayments to verify if they were accurately recorded in RRB records and if the determinations were properly classified in regard to proper or improper. Our samples of 87 initial underpayments and 59 post underpayments resulted in 12 errors and 37 errors, respectively. We determined that initial and post underpayments were not accurately recorded and that the determinations of proper or improper were incorrect. As a result, we determined that the improper payment amount reported for the RRA program is understated (see Appendix I for more details).

Many of the errors we identified were caused by Office of Programs' consideration of corrective action timeliness in its assessments. The Office of Programs considers underpayments proper if (1) the accruals awarded are based on new material evidence received within the reporting year being reviewed as part of its annual quality assurance process and (2) the accrual period does not retroact beyond the reporting year. We determined that this rationale does not comply with IPERA guidance, which has specific definitions for improper payments that does not include timeliness. The Office of Programs explained that its use of timeliness carries forward from a previous methodology and that changes stemming from a legal opinion from the RRB's General Counsel had not been applied yet, as the legal opinion was obtained after its fiscal year 2014 report had already been completed.

Other errors were caused by inconsistencies in underlying support used to calculate the improper payment rate for underpayments, such as recording entire accrual amounts or only a portion of the accrual.

- Errors in Application of Projections

As a result of a prior OIG audit recommendation, the Office of Programs began to assess initial quality assurance review cases in fiscal year 2014 for improper payment determinations.<sup>8</sup> As part of this new process, the Office of Programs computed separate improper payment rates for initial and post underpayments and combined them into one overall improper payment percentage. The RRB applied that percentage to a monetary amount used to represent RRB payments that are not (1) monthly recurring payments,

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<sup>8</sup> RRB OIG, *Audit of Railroad Retirement Board's Compliance with the Improper Payments Elimination and Recovery Act of 2010 in the Fiscal Year 2014 Performance and Accountability Report*, OIG Audit Report No. 15-06, Recommendation 5 (Chicago, IL: May 15, 2015).

(2) accruals associated with initial awards, or (3) accruals for other identified processes. The resulting amount is called “non categorized payments” and had previously been used as the amount to which the post improper payment rate had been applied. We determined that these two improper payment percentages should have been applied to two separate amounts: the initial rate should have been applied to an amount called “accruals associated with initial awards” and that the post rate should have been applied to the amount called “non categorized payments.”

RRB management cited a prior OIG audit report as the basis for the manner in which initial and post improper payment rate projections were made.<sup>9</sup> The OIG disagreed because that audit report did not discuss projections of initial improper payment rates.

- Recorded Receivables

Agency receivables are caused by a variety of reasons that include (1) loss of entitlement for reasons that include death, (2) decreases in annuity rates due to earnings from employment, and (3) rate adjustments for many other reasons.

We conducted six statistical samples of recorded receivables to assess the accuracy of improper payment determinations and the amounts recorded in the agency’s receivable system. The receivable system is the primary component of improper payment amounts reported for the RRA and RUIA programs. Determinations of proper and improper for each receivable are predefined by the Office of Programs through the use of codes recorded in the agency’s receivable system. We planned to conduct separate samples of proper and improper receivables for the RRA and RUIA programs. However, we were unable to segregate improper RRA receivables from all receivables recorded for this program. As a result, we tested (1) all RRA receivables and (2) RRA proper receivables. Samples conducted of receivables recorded for (1) RUIA proper, (2) RUIA improper, and (3) all RRA receivables resulted in concluding that the determinations of proper and improper, as well as the receivable amounts, have been accurately reported (see Appendices II and III for more details).

- Errors in Receivables Categorized as Proper

We conducted a separate statistical sample of recorded RRA receivables categorized as proper to verify the accuracy of proper determinations and the amounts recorded. Our sample of 112 receivable records resulted in determining that 3 receivable records were not accurately recorded and were not classified as improper (see Appendix IV for more details). As a result, we determined that improper payment amount reported for the RRA program is understated.

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<sup>9</sup> RRB OIG, *Evaluation of the Sufficiency of Existing Data to Estimate the Impact of Improper Payments on the Railroad Retirement Act Benefit Program*, OIG Audit Report No. 03-12 (Chicago, IL: September 17, 2003).

The Office of Programs categorizes RRA receivables created due to annuity rate reductions resulting from entitlement or increases in social security benefits administered by the RRB as proper payments.<sup>10</sup> The RRA receivable is immediately offset by the social security accrual that would have been paid as a result of the funds due for the social security benefits.

For three error cases, the entire receivable balances were not recorded in the agency's receivable system and instead only the portion recovered from the social security accrual was recorded as a receivable. The unrecorded balances were beneath a predefined threshold of \$25 considered tolerable by the Office of Programs. Recovery attempts are not made for tolerable amounts. Although the remaining unrecovered portion should have been recorded in the agency's receivable system and identified as improper, it was not.

### Railroad Unemployment Insurance Act Program Improper Payment Estimates

In addition to recorded receivables, RUIA improper payment calculations consist of two other components (1) projections for underpayment cases and (2) overpayment estimates. We found errors in both sets of projections that resulted in RUIA improper payments being understated by approximately \$904,000.

- Underpayment Cases

The Office of Programs reviews 20 RUIA cases each year in which additional funds were disbursed to beneficiaries. These additional funds were reviewed to determine if they were proper or improper based on methodology developed by the Office of Programs.

We reviewed 100% of these 20 cases and determined that all 9 classified as proper by the Office of Programs should have been classified as improper. These cases were not classified as improper due to the methodology that the RRB developed that was not in compliance with OMB guidance for improper payments. Office of Programs' methodology predated OMB M-15-02, which provides additional cause categories for improper payments, thereby providing more examples of improper payments. While the definition of improper payments has not changed, this expansion of cause categories presents more examples of improper payments.

We also determined that the 20 case review of a population of 5,375 cases (.37%) is not representative of the population and is insufficient for projection purposes in improper payment calculations. The Office of Programs stated that although the projection is made each year, it is not needed because it has the actual results from the entire population of cases. However, the OIG determined that the percentage of improper

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<sup>10</sup> The tier 1 portion of an RRA annuity benefit is based on the combined railroad retirement and social security credits of the railroad employee. The tier 1 portion is reduced by the amount of any actual social security benefit paid in order to prevent a duplication of benefits based on the social security covered earnings. The Social Security Administration determines the social security rate, but a combined monthly benefit is issued by the RRB.

payments would not be known and therefore a review of cases that is representative of the population is still needed.

- Overpayment Estimates

The Office of Programs also reviews overpayment errors identified from its quality assurance process and assessments are made regarding if the payments were proper or improper.

We determined that calculations made to project these errors to the population were incorrect. The Office of Programs identified 3 errors in its review of 440 cases. However, calculated projections erroneously used 441 and 411 as the total number of cases reviewed.

Management within the Office of Programs explained that these errors were the result of a formula error in a supporting spreadsheet and also a keying error.

#### Errors in Improper Payment Root Cause Categories

We identified errors in the chart that the Office of Programs prepared to categorize reasons for improper payments for the RRA and RUIA programs. Some of the errors were caused by formula errors in underlying charts, and other errors are the result of the findings provided in this report. As a result, root cause data were not accurately reported.

#### Recommendations

The Office of Programs should:

1. revise its overall process for the RRA program that supports improper payment reporting requirements to ensure the accuracy of the data;
2. document policies and procedures to ensure that entire receivable balances are recorded in the agency's receivable system;
3. revise its definitions of improper underpayments in the methodology used for the RUIA program to ensure that it is in compliance with IPERA guidance;
4. increase the quantity of cases included in the review of additional fund disbursements to ensure that the number of cases are representative of the population; and
5. strengthen controls for the review process for data that supports improper payment reporting to ensure that the data is accurately reported.

## Management's Response and Our Comments

The Office of Programs did not concur with recommendation number 1 and stated that their methodology has been refined for the RRA program as a result of the previous IPERA audit. They stated that the revisions are being reviewed by OMB and that they are waiting for comments. They also stated that their overall process has been in place since 2002 without significant challenges and that they routinely review and make adjustments as appropriate based on applicable OMB guidance.

While the OIG agrees that the Office of Programs' overall process for the RRA improper payment process has been in place for many years with occasional adjustments, our audit results show that this process is insufficient for improper payment reporting purposes. Approximately 23 percent of improper payments reported for the RRA program are based on estimates and projections that has proven to be error prone. For example, their analysis of underpayments was designed to assess quality assurance and therefore was expanded to include additional columns to record their analysis from an improper payments perspective. The analysis has become complex with in its recording of: 1) total overpayment, 2) total underpayment, 3) whether the payment was improper, 4) improper underpayment amount, and 5) rationale regarding whether the payment was improper. We found errors in the various columns due to the misapplication of IPERA guidance, inconsistent mathematical recordings due to insufficient knowledge of how the amounts should be recorded, and different judgements made by staff in the Office of Programs, all of which impacts the calculation of improper payments. As stated in the finding, these errors resulted in RRA improper payments being understated by at least \$12 million. We reiterate the need for revision of their overall process to improve the accuracy of improper payment reporting. Without a thorough and reliable assessment of its improper payments program, the RRB is at risk of failing to identify all improper payments, which ultimately will allow them to continue.

The Office of Programs concurred with recommendation number two.

In regard to recommendation numbers 3 and 4, the Office of Programs stated that they have requested a legal opinion from the RRB's Office of General Counsel to determine if their RUIA underpayment classifications are in accordance with improper payment definitions provided in IPERA guidance. They also stated that their formal response to these recommendations will be deferred until they receive a response from the RRB's Office of General Counsel.

The Office of Programs concurred with recommendation number five.

## **Incomplete Improper Payment Reporting**

The RRB administers the Medicare program for RRB beneficiaries and has improper payment reporting responsibilities for this program. We found that improper payment reporting was not complete for the areas identified below.

- Risk Assessment Section

The RRB did not identify (1) all of the programs that risk assessments were prepared for, (2) risk factors used in its evaluations, and (3) a new program (Medicare Part B) determined to be susceptible to significant improper payments or the fiscal year in which an improper rate and amount will be reported for this program.

- Improper Payment Estimates

The RRB did not include the Medicare Part B program in its chart of estimates for programs determined to be susceptible to significant improper payments. Although estimates are not currently available, OMB guidance indicates that the chart should indicate the date by which improper payment estimates are expected to begin.

- Recapture of Improper Payments Reporting

The RRB did not discuss the Medicare Part B Program in the recapture audits section of the PAR as required by IPERA guidance.

OMB Circular A-136 requires that all programs assessed for risk be identified and that the risk factors should also be identified.<sup>11</sup> In addition, new programs identified as risk susceptible should indicate the fiscal year in which improper payment rates will be reported. It also requires that all programs susceptible to significant improper payments be listed in a table, regardless of whether the program had improper payments that exceeded the threshold and regardless of whether measurements are being reported. When no measurement is provided, the agency should indicate the date by which the measurement is expected and add a footnote explaining why the measurements were not provided.

OMB M-15-02 requires that all programs and activities that expend \$1 million or more annually shall be considered for payment recapture audits to determine if such audits would be cost effective.

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<sup>11</sup> OMB, *Financial Reporting Requirements*, Circular No. A-136 (August 4, 2015).

The reasons for the deficiencies are caused by an incomplete understanding of OMB guidance regarding reporting requirements as related to all of the programs that the RRB administers.

Incomplete improper payment reporting could impact the reader's comprehension of the subject matter, as well as the manner in which this data is used for other Federal agencies.

#### Recommendation

6. The Office of Programs should develop and document policies and procedures to ensure improper payment reporting is prepared in accordance with applicable guidance.

#### Management's Response

The Office of Programs concurred with recommendation number six.

## **Statistical Sampling Methodology and Results Railroad Retirement Act Program – Underpayments (Initial and Post)**

This appendix presents the methodology and results for the RRA initial and post underpayment (accruals) samples conducted for this audit. We selected statistically valid random samples of initial and post accrual records identified in the annual quality assurance review conducted by the Office of Programs.

### **Sampling Objective**

The sampling objective was to verify the accuracy of: (1) the accrual amount and (2) the proper or improper determinations made by the RRB.

### **Scope**

Our review consisted of all initial and post accrual records included in the fiscal year 2014 quality assurance review conducted by the Office of Programs – Program Evaluation and Management Services – Program Evaluation Section for Retirement, Survivor, Taxation, and Medicare.

### **Universe/Sampling Unit**

The universe consisted of 179 initial accrual records and 87 post accrual records. The sampling unit was a claim number that was reviewed by the Office of Programs – Program Evaluation and Management Services – Program Evaluation Section for Retirement, Survivor, Taxation, and Medicare.

### **Sample Selection Methodology**

We used One Step Attribute Acceptance Sampling using a confidence level of 90% and a critical error rate of 5%, which directed samples of 87 initial accrual records and 59 post accrual records. The threshold for acceptance was two for initial accrual records and one for post accrual records. Therefore, if two or fewer errors existed for the initial case sample, or one or fewer errors existed for the post case sample, we would infer with 90% confidence that the determination of proper and improper, as well as the amounts recorded as accruals, were accurately reported for the RRA program.

### **Sample Evaluation Methodology**

For each initial and post accrual record, we obtained and reviewed data from various RRB systems to determine if the accrual data as reported in the quality assurance report agreed to the underlying support in the agency systems.

**Statistical Sampling Methodology and Results  
Railroad Retirement Act Program – Underpayments (Initial and Post)**

**Results of Review**

Our review resulted in the following errors, as identified by attribute.

Test Attributes	Initial Cases		Post Cases	
	Tested	Errors	Tested	Errors
Accrual amount was properly supported.	87	1	59	0
Accrual amount was reported correctly.	87	7	59	4
Improper accrual amount was recorded accurately.	87	2	59	17
The accrual was properly classified.	87	1	59	16
The accrual was adjudicated in the correct fiscal year.	87	1	59	0
<b>Total Number of Errors</b>		<b>12</b>		<b>37</b>

**Auditor's Conclusion**

Based on our evaluation of two statistically valid samples, we found 12 errors for the initial sample and 37 errors for the post sample. As a result, we cannot conclude that the determination of proper and improper, as well as the amounts recorded as accruals, have been accurately reported for the RRA program.

**Statistical Sampling Methodology and Results  
Railroad Unemployment Insurance Act Overpayments  
(Proper and Improper)**

This appendix presents the methodology and results for the RUIA proper and improper receivable samples conducted for this audit. We selected statistically valid random samples of recorded receivables categorized as proper and improper.

### **Sampling Objective**

Our sampling objective is to verify the accuracy of the RRB's determinations of: (1) proper and improper assessments and (2) recorded receivable amounts for the RUIA program.

### **Scope**

Our review consisted of receivables established under the RUIA program in the RRB's receivable system during fiscal year 2014.

### **Universe/Sampling Unit**

The sampling universe of RUIA receivables consisted of 5,536 receivable records downloaded from the agency's receivable system for receivables established during fiscal year 2014. From this universe 3,860 receivables were deemed proper and 1,676 receivables were deemed improper.

### **Sample Selection Methodology**

We used Two Step Attribute Acceptance Sampling using a confidence level of 90% and a critical error rate of 5%, which directed the following for each sample:

- proper sample: 58 records for the first step and 55 records for the second step (for a total of 113 records if the first step failed); and
- improper sample: 58 records for the first step and 52 records for the second step (for a total of 110 records if the first step failed).

If one or more errors were discovered as a result of first step test results in either sample, second step testing would be required for that sample.

The threshold for acceptance after second step testing was two errors for either sample. Therefore, if zero errors existed in the first step or if after the second step, two or fewer errors were identified, we would infer with 90% confidence that the receivable determinations of proper and improper and the receivable amounts were accurately reported for the RUIA program.

**Statistical Sampling Methodology and Results  
Railroad Unemployment Insurance Act Overpayments  
(Proper and Improper)**

**Sample Evaluation Methodology**

For each receivable record, we obtained and reviewed data from various RRB systems to determine if the receivable data as recorded in the agency's receivable system agreed to the underlying support in other agency systems.

**Results of Review**

Our reviews resulted in the following errors, as identified by attribute.

Test Attributes	Proper Cases		Improper Cases	
	Tested	Errors	Tested	Errors
Receivable amount used as a basis for improper payment reporting was found in RRB systems.	58	0	110	0
Receivable amount was supported by data in agency systems.	58	0	110	1
The receivable was properly classified.	58	0	110	0
The accrual was adjudicated in the correct fiscal year.	58	0	110	0
The source code, used for classification purposes, was correct.	58	0	110	0
<b>Total Number of Errors</b>		<b>0</b>		<b>1</b>

**Auditor's Conclusion**

Based on our evaluation of two statistically valid samples of RUIA proper and improper receivable records, we conclude that the determination of proper and improper and the amounts recorded as receivables have been accurately reported for the RUIA program.

## Statistical Sampling Methodology and Results Railroad Retirement Act - Receivables

This appendix presents the methodology and results for the RRA receivable sampling conducted for this audit. We selected a statistically valid random sample of RRA receivables.

### Sampling Objective

Our sampling objective is to verify the accuracy of the RRB's determinations of: (1) proper or improper assessments and (2) the recorded receivable amount for the RRA program.

### Scope

Our sample was selected from receivables established under the RRA program in the RRB's receivable system during fiscal year 2014.

### Universe/Sampling Unit

The sampling universe of RRA receivables consisted of 27,306 receivable records downloaded from the agency's receivable system for receivables established during fiscal year 2014. The sampling unit was a billing document identification number recorded in the agency's receivable system.

### Sample Selection Methodology

We used Two Step Attribute Acceptance Sampling using a confidence level of 90% and a critical error rate of 5%, which directed a first step sample of 59 billing documentation identification numbers for the first step, and 54 billing documentation identification numbers for the second step (for a total of 113 records if the first step failed). If one or more errors were discovered as a result of tests for the first step, second step testing would be required. The threshold for acceptance after second step testing was two errors. Therefore, if zero errors existed in our first step or if after the second step, two or fewer errors were identified, we would infer with 90% confidence that the receivable determinations of proper or improper and the receivable amounts have been accurately reported under the RRA program.

### Sample Evaluation Methodology

For each receivable record, we obtained and reviewed data from various RRB systems to determine if the receivable data, as recorded in the agency's receivable system, agreed to the underlying support in other agency systems.

**Statistical Sampling Methodology and Results  
Railroad Retirement Act - Receivables**

**Results of Review**

Our reviews resulted in the following errors, as identified by attribute.

<b>Test Attributes</b>	<b>Number of Records Tested</b>	<b>Errors</b>
Overpayment amount was found in the agency's receivable or other RRB system.	113	0
Overpayment amount was properly supported by data in agency systems.	113	0
The overpayment was properly classified.	113	1
The overpayment amount was established in the correct fiscal year.	113	0
<b>Total Number of Errors</b>		<b>1</b>

**Auditor's Conclusion**

Our evaluation of the statistically valid sample of 113 receivable records identified one error. As a result, we conclude that the determination of proper and improper, as well as the receivable amounts reported have been accurately reported for the RRA program.

## **Statistical Sampling Methodology and Results Railroad Retirement Act - Proper Receivables**

This appendix presents the methodology and results for the RRA proper receivable sampling conducted for this audit. We selected a statistically valid random sample of RRA receivables categorized as proper.

### **Sampling Objective**

The sampling objective was to verify the accuracy of the RRB's determination of: (1) proper receivable assessments and (2) proper receivable amount for the RRA program to ensure that these amounts should not have been recorded as improper.

### **Scope**

Our sample was selected from receivables established under the RRA program deemed proper in the RRB's PAR system during fiscal year 2014. RRA proper receivables are any receivables that were established during the fiscal year that have predefined codes used by the Office of Programs to identify proper receivables. These predefined codes relate to accruals withheld from Social Security awards that were used to recover the RRA receivable created as a result of this adjustment.

### **Universe/Sampling Unit**

The universe consisted of 4,982 RRA receivable records established during fiscal year 2014. The sampling unit was a billing document identification number recorded in the agency's receivable system.

### **Sample Selection Methodology**

We used Two Step Attribute Acceptance Sampling using a confidence level of 90% and a critical error rate of 5%, which directed a first step sample of 59 billing documentation identification numbers and an additional 53 billing documentation identification numbers for the second step (for a total of 112 records). If one or more errors were discovered as a result of testing for the first step, second step testing would be required. The threshold for acceptance after second step testing was two errors. Therefore, if zero errors existed in our first step, or if two or fewer errors were identified after second step testing, we would infer with 90% confidence that the receivable determinations of proper and the receivable amounts have been accurately reported for the RRA program.

### **Sample Evaluation Methodology**

For each receivable record, we obtained and reviewed data from various RRB systems to determine if the receivable data, as recorded in the agency's receivable system, agreed to the underlying support in other agency systems.

**Statistical Sampling Methodology and Results  
Railroad Retirement Act - Proper Receivables**

**Results of Review**

Our reviews resulted in the following errors, as identified by attribute.

<b>Test Attributes</b>	<b>Number of Records Tested</b>	<b>Errors</b>
Overpayment amount was found in the agency's receivable system or other RRB system.	112	0
Overpayment amount was properly supported by data in agency systems.	112	3
The overpayment was properly classified.	112	0
The overpayment amount was established in the correct fiscal year.	112	0
<b>Total Number of Errors</b>		<b>3</b>

**Auditor's Conclusion**

Our evaluation of the statistically valid sample of 112 receivable records identified three receivable records with errors. As a result, we cannot conclude that the determination of proper, as well as the overpayment amounts reports as receivables under the RRA program, have been accurately reported.

**Status of Previous OIG Audit Recommendations  
for Improper Payment Reporting**

The table below provides of the current status of previous recommendations that resulted from the mandated RRB OIG compliance reports for improper payments.

<b>Recommendation</b>	<b>Status</b>
The Office of Programs should 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. (RRB OIG Audit Report 12-05, Recommendation No. 1)	Closed on 4/8/13
The Office of Programs should obtain and maintain individual debtor records that support the total improper payment amounts for the RRA and RUIA programs. (RRB OIG Audit Report 13-05, Recommendation No. 1)	Closed on 3/13/14
The Office of Programs should obtain and maintain documentation to support the estimated outlay amounts for the RRA and RUIA programs from the Bureau of the Actuary. (RRB OIG Audit Report 13-05, Recommendation No. 2)	Closed on 3/13/14
The Office of Programs should standardize their procedures for the RRA and RUIA programs to ensure consistency of improper payment data reported in the PAR. (RRB OIG Audit Report 13-05, Recommendation No. 3)	Closed on 3/13/14
The Office of Programs should identify and implement additional initiatives to reduce improper payments for the RUIA program. (RRB OIG Audit Report 13-05, Recommendation No. 4)	Closed on 3/13/14
The Office of Programs should identify all programs that administer during the risk assessment process for improper payments. (RRB OIG Audit Report 14-05, Recommendation No. 1)	Closed on 2/10/16
The Executive Committee should take all of the necessary steps to prepare and submit the required plans within the 90 day reporting requirement. (RRB OIG Audit Report 15-06, Recommendation No. 1)	Open

**Status of Previous OIG Audit Recommendations  
for Improper Payment Reporting**

Recommendation	Status
The Executive Committee should ensure that the necessary policies and procedures are developed and documented for the agency's use for the preparation of a risk assessment process that meets IPERA requirements. (RRB OIG Audit Report 15-06, Recommendation No. 2)	Open
The Executive Committee should coordinate the preparation of a risk assessment for agency administered programs in accordance with OMB guidance. (RRB OIG Audit Report 15-06, Recommendation No. 3)	Open
The Executive Committee should assess and determine who should be the improper payment official to ensure that they have sufficient knowledge and oversight of all RRB programs. (RRB OIG Audit Report 15-06, Recommendation No. 4)	Closed on 6/12/15
The Office of Programs should reevaluate their methodologies and document their procedures for the computation of improper payment components to ensure that all areas are properly included in their computation of improper payments for the RRA program. (RRB OIG Audit Report 15-06, Recommendation No. 5)	Closed on 2/12/16
The Office of Programs should revise and document their definitions of improper underpayments for the RRA program in compliance with IPERA guidance, and if similar definitions are used for other programs, revise them accordingly. (RRB OIG Audit Report 15-06, Recommendation No. 6)	Open
The Office of Programs should review the RRA underpayment cases again using IPERA guidance and revise the calculation of improper underpayments and its overall computation of improper payments for fiscal year 2013. (RRB OIG Audit Report 15-06, Recommendation No. 7)	Closed without implementation on 1/12/16
The Office of Programs should publish the revised RRA improper payment rate data for fiscal year 2013 in the fiscal year 2015 PAR. (RRB OIG Audit Report 15-06, Recommendation No. 8)	Closed without implementation on 1/12/16

**Status of Previous OIG Audit Recommendations  
for Improper Payment Reporting**

Recommendation	Status
<p>The Office of Programs should develop and document the necessary policies and procedures for the review and validation of the RUIA improper payment data to be reported in the PAR. (RRB OIG Audit Report 15-06, Recommendation No. 9)</p>	<p>No Corrective Action Taken to Date</p> <p>The OIG disagreed that this recommendation should be directed to another organization within the RRB because the bureau that prepares the report has a responsibility to ensure that the reported data is accurate and agrees to the supporting documentation. The OIG believes that this recommendation should still be implemented and will continue to track its status.</p>



UNITED STATES GOVERNMENT

**MEMORANDUM**

May 12, 2016

**TO :** Heather Dunahoo  
Assistant Inspector General for Audit

**FROM :** Janet M. Hallman *Janet M. Hallman*  
Director of Program Evaluation and Management Services  
Through: Michael Tyllas *Michael A. Tyllas, Ph.D.*  
Director of Programs

**SUBJECT:** Audit of the Railroad Retirement Board's Compliance with the Improper Payments Elimination and Recovery Act of 2010 in the Fiscal Year 2015 Performance and Accountability Report

**Office of Programs Response**


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**Recommendation**  
1 The Office of Programs should revise its overall process for the RRA program that supports improper payment reporting requirements to ensure the accuracy of the data.

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**Office of Programs Response**

We do not concur. As a result of last year's OIG IPERA audit in FY 2015, the Office of Programs made a few refinements to the RRA Improper Payment Analysis methodology. As a result of this update, we were required to resubmit our methodology to OMB for approval. Currently, OMB is reviewing our submission and we are awaiting their formal response. In addition, our overall process has been in place since the analysis of FY 2002 RRA improper payments without significant challenge. We routinely review and make adjustments as appropriate based on applicable subsequent guidance documents issued by OMB.

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## Office of Programs Response, Continued

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Recommendation  
2      The Office of Programs should document policies and procedures to ensure that entire receivable balances are recorded in the agency's receivable system.

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Office of  
Programs  
Response

We concur. The Office of Programs agrees with the OIG finding that RRA/SSA offset cases with receivable balances of \$25.00 or less should be established in PAR.

Updated PRISM procedures are required to establish consistent processing of RRA/SSA offset case handling. To ensure that receivable balances of \$25.00 or less are recorded in the agency's receivable system the Office of Programs will update PRISM procedure and the appropriate retirement and survivor training manuals.

In addition, the Office of Programs, specifically RSBD will hold a training session with the examiners to ensure they are aware of the proper procedures.

Target completion date for updating the procedure and conducting the training: September 30, 2016.

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Recommendation  
3 and 4

The Office of Programs should:

3. revise its definitions of improper underpayments in the methodology used for the RUIA program to ensure that it is in compliance with IPERA guidance.

4. increase the quantity of cases included in the review of additional fund disbursements to ensure that the number of cases are representative of the population.

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Office of  
Programs  
Response to 3  
and 4

The Office of Programs has submitted a legal opinion to the Office of General Counsel (OGC) regarding our classification of RUIA underpayments to determine if they are in accordance with the legal definition of Improper Payments as defined in IPERA. We are deferring our formal response to these recommendations until we receive the legal opinion from the OGC.

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## Office of Programs Response, Continued

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**Recommendation**  
5 The Office of Programs should strengthen controls for the review process for data that supports improper payment reporting to ensure that the data is accurately reported.

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**Office of Programs Response** We concur. The Office of Programs agrees that due to some formula errors not all the data found in the RRA and RUIA Improper Payment reports were accurately recorded. We will strengthen our validation process for both RRA and RUIA Improper Payment reporting.

This will be implemented with the analysis of FY 2015 improper payments published in the FY 2016 Performance and Accountability Report.

Target completion date: September 30, 2016

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**Recommendation**  
6 The Office of Programs should develop and document policies and procedures to ensure improper payment reporting is prepared in accordance with applicable guidance.

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**Office of Programs Response** We concur. The Office of Programs will develop policies and procedures to ensure improper payment reporting is prepared in accordance with applicable guidance for the benefit paying programs for which the Office of Programs (OP) is currently responsible (RRA, RUIA, and Medicare) and any programs in the future which may be transferred to OP from other areas of the agency. In addition, if subsequent applicable guidance documents, laws or regulations are issued, we will review and make adjustments as appropriate. These procedures will be in place for the upcoming FY 2016 Performance and Accountability Report.

The Office of Programs also agrees with the audit finding that the Medicare program was not reported in the Improper Payment section of the FY 2015 Performance and Accountability Report. The Improper Payment section will include Medicare in the upcoming FY 2016 Performance and Accountability Report.

Target completion date: September 30, 2016

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