



U.S. RAILROAD RETIREMENT BOARD

**OFFICE OF INSPECTOR GENERAL**

Audit of the Railroad  
Retirement Board's Compliance  
with Improper Payments  
Elimination and Recovery Act of  
2010 in Fiscal Year 2017  
Performance and  
Accountability Report

Report No. 18-05

May 9, 2018

*Audit of the Railroad Retirement Board's Compliance with  
Improper Payments Elimination and Recovery Act of 2010 in Fiscal  
Year 2017 Performance and Accountability Report*



## What We Found

Our audit determined that the Railroad Retirement Board (RRB) was compliant with Improper Payments Elimination and Recovery Act of 2010 (IPERA) requirements, when applicable, for the Railroad Retirement Act (RRA) and the Railroad Unemployment Insurance Act (RUIA) programs for its fiscal year 2017 reporting. The RRB did not report improper payment amounts for the Medicare Part B program. We found that improvements are needed to ensure that improper payment amounts are accurate and complete for the RRA and RUIA programs. We determined that the reported improper payment amounts were understated by approximately \$20.8 million and \$1.6 million for the RRA and RUIA programs, respectively. We also found that the reported recaptured payments were understated by an estimated \$5.5 million for the RRA program.

## What We Recommend

To address the weaknesses identified in this audit, we made two recommendations to improve the accuracy of reported improper payment data and individual outstanding receivable balances in RRB receivable systems. We also recommended that the agency identify the cause for errors in outstanding receivable balances. Additional recommendations for improvement remain open from our previous IPERA audits.

RRB management concurred with all three of our recommendations for corrective action.

## What We Did

OMB guidance requires each agency's Inspector General to assess IPERA compliance. Our audit procedures included identification of criteria; assessment of the accuracy and completeness of agency reporting, evaluation of the agency's performance in reducing and recapturing improper payments; testing statistically valid random samples to assess the accuracy of agency determinations of proper and improper receivables; and comparing agency methodology to OMB guidance and IPERA.

The mandated objectives of this audit were to

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

The scope of the audit was fiscal year 2016 improper payment data reported in the RRB's fiscal year 2017 Performance and Accountability Report.

## Contents

INTRODUCTION	1
OBJECTIVES, SCOPE, AND METHODOLOGY	1
BACKGROUND	2
RESULTS OF AUDIT	4
PUBLISH A PERFORMANCE AND ACCOUNTABILITY REPORT	5
CONDUCT RISK ASSESSMENT	5
PUBLISH IMPROPER PAYMENT ESTIMATES	6
PUBLISH CORRECTIVE ACTION PLANS	6
PUBLISH ANNUAL REDUCTION TARGETS	6
REPORTED GROSS IMPROPER PAYMENT RATES OF LESS THAN TEN PERCENT	7
INACCURATE IMPROPER PAYMENT DATA FOR THE RAILROAD RETIREMENT ACT AND RAILROAD UNEMPLOYMENT INSURANCE ACT PROGRAMS	7
RAILROAD RETIREMENT ACT PROGRAM	7
RAILROAD UNEMPLOYMENT INSURANCE ACT PROGRAM	11
RECOMMENDATION	12
MANAGEMENT’S COMMENTS AND OUR RESPONSE	12
INCOMPLETE IMPROPER PAYMENT DATA	13
AGENCY PERFORMANCE IN REDUCING AND RECAPTURING IMPROPER PAYMENTS	13
RAILROAD RETIREMENT ACT PROGRAM	14
RAILROAD UNEMPLOYMENT INSURANCE ACT PROGRAM	15
RECOMMENDATIONS	15
MANAGEMENT’S COMMENTS	15
APPENDIX I: MANAGEMENT RESPONSE	16
APPENDIX II: MANAGEMENT RESPONSE	18
APPENDIX III: STATISTICAL SAMPLING METHODOLOGY AND RESULTS RAILROAD RETIREMENT ACT RECEIVABLE RECORDS IN THE PROGRAM ACCOUNTS RECEIVABLE SYSTEM	19
APPENDIX IV: STATISTICAL SAMPLING METHODOLOGY AND RESULTS RAILROAD RETIREMENT ACT RECEIVABLE RECORDS IN THE FINANCIAL MANAGEMENT INTEGRATED SYSTEM	21
APPENDIX V: STATISTICAL SAMPLING METHODOLOGY AND RESULTS RAILROAD UNEMPLOYMENT AND INSURANCE ACT RECEIVABLE RECORDS IN THE PROGRAM ACCOUNTS RECEIVABLE SYSTEM	23

## OFFICE OF INSPECTOR GENERAL – U.S. RAILROAD RETIREMENT BOARD

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APPENDIX VI: STATISTICAL SAMPLING METHODOLOGY AND RESULTS RAILROAD UNEMPLOYMENT AND INSURANCE ACT RECEIVABLE RECORDS IN THE FINANCIAL MANAGEMENT INTEGRATED SYSTEM	25
APPENDIX VII: KNOWN UNDERPAYMENT CALCULATIONS FOR THE RAILROAD RETIREMENT ACT PROGRAM	27
APPENDIX VIII: ALTERNATE CALCULATION OF KNOWN UNDERPAYMENT FOR THE RAILROAD RETIREMENT ACT PROGRAM	28
APPENDIX IX: ESTIMATED RECAPTURED PAYMENTS FOR THE RAILROAD RETIREMENT ACT PROGRAM	29
APPENDIX X: PREVIOUS OFFICE OF INSPECTOR GENERAL AUDIT RECOMMENDATIONS FOR IMPROPER PAYMENT REPORTING	30

### LIST OF TABLES

TABLE 1.	RRB FISCAL YEAR 2016 IMPROPER PAYMENTS	3
TABLE 2.	OIG ASSESSMENT OF COMPLIANCE FOR FISCAL YEAR 2017 REPORTING	4
TABLE 3.	RRB CALCULATED IMPROPER PAYMENT PERCENTAGES FOR RRA INITIAL AND POST UNDERPAYMENT CASES THAT RESULTED FROM THE FISCAL YEAR 2016 QUALITY ASSURANCE REVIEWS	8
TABLE 4.	RUIA QUALITY ASSURANCE UNDERPAYMENT SAMPLE RESULTS	11
TABLE 5.	COMPARATIVE IMPROPER PAYMENT DATA FOR THE RAILROAD RETIREMENT ACT PROGRAM	14
TABLE 6.	COMPARATIVE IMPROPER PAYMENT DATA FOR THE RAILROAD UNEMPLOYMENT INSURANCE ACT PROGRAM	15

## INTRODUCTION

This report presents the results of the Office of Inspector General's (OIG) audit of the Railroad Retirement Board's (RRB) fiscal year 2017 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>

### Objectives, Scope, and Methodology

The mandated objectives of this audit were to

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

Improper payment data reported in the RRB's fiscal year 2017 PAR consisted of fiscal year 2016 improper payment data.

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 2017 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 four samples to assess the accuracy of agency determinations of proper or improper for overpayments and the accuracy of the recorded amounts (see Appendices III, IV, V, and VI);
- tested RUIA underpayment cases against OMB criteria for improper payments;
- 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) Program Accounts Receivable System (PARS), (3) Financial Management Integrated System (FMIS), (4) payment rate and entitlement history system, (5) imaging system, and (6) RUIA spreadsheets used to record underpayments. Data reliability was tested by

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<sup>1</sup> Pub. L. No. 111-204, 124 Stat. 2224 (2010), Pub. L. No. 112-248, 126 Stat. 2390 (2013), Pub. L. No. 107-300, 116 Stat. 2350 (2002).

comparing data from the computer generated spreadsheets to various other agency systems and by verifying the accuracy of the filtered accounts receivable records provided to us for audit purposes. 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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. We did not test RRB internal controls for improper payments because testing is only required for agency programs that exceed the predetermined threshold defined by law. The RRB did not report any improper payment programs that exceeded the predetermined threshold for the scope period addressed in this audit report.

We conducted our fieldwork at RRB headquarters in Chicago, Illinois from November 2017 through April 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 paid \$12.6 billion in retirement/survivor benefits and \$104.6 million in unemployment and sickness insurance benefits during fiscal year 2017.

Improper payment legislation was enacted to reduce 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>2</sup> The guidance defines significant improper payments as (1) both 1.5 percent of program outlays and \$10 million of all program or activity payments made during the fiscal year reported or (2) \$100 million (regardless of the improper payment percentage of total program outlays).

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<sup>2</sup> Office of Management and Budget (OMB), *Appendix C to Circular No. A-123, Requirements for Effective Estimation and Remediation of Improper Payments*, M-15-02 (Washington D.C.: October 20, 2014).

OMB guidance requires each agency’s Inspector General to assess IPERA compliance within 180 days after the issuance of the Agency’s Financial Report or Performance and Accountability Report (PAR).<sup>3</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 the same program or activity requires a review from OMB to determine if additional funding would help the agency become compliant. Noncompliance for three consecutive fiscal years for the same program or activity requires the agency to submit reauthorization proposals for each discretionary program or activity that has not been in compliance for three or more consecutive years, or proposed statutory changes to bring the program or activity into compliance.

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 2016 as reported in the RRB’s fiscal year 2017 PAR are provided in Table 1.

**Table 1. RRB Fiscal Year 2016 Improper Payments**

Program	Outlays	Improper Payments	Improper Payment Percentage
RRA	\$12.36 billion	\$74.74 million	0.60
RUIA	\$155.82 million	\$ 3.95 million	2.54

Source: RRB Performance and Accountability Report for Fiscal Year 2017.

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<sup>3</sup> OMB M-15-02.

## RESULTS OF AUDIT

Our audit determined that the RRB was compliant with IPERA requirements, when applicable, for the RRA and RUIA programs for its fiscal year 2017 reporting. The RRB did not report improper payment amounts for the Medicare Part B program as explained in the section of this report entitled “Published Improper Payment Estimates.” Table 2 summarizes our assessments.

OMB guidance requires that we report on six areas of compliance. The details of these compliance assessments, audit findings, and recommendations for corrective action are provided in this report. The full text of management’s responses is included in the appendices.

**Table 2. OIG Assessment of Compliance for Fiscal Year 2017 Reporting**

Compliance Requirement	Program		
	Railroad Retirement Act	Railroad Unemployment Insurance Act	Medicare
Agency Financial Report or PAR	Compliant	Compliant	Compliant
Risk Assessment	Not applicable for this program.	Not applicable for this program.	Not applicable for this program.
Improper Payment Estimates	Compliant	Compliant	Not reported, reporting will begin in the fiscal year 2018 PAR
Corrective Action Plans	Not applicable	Not applicable	Not applicable due to nonreporting
Annual Reduction Targets	Compliant	Compliant	Not applicable due to nonreporting
Improper Payment Rate of 10 Percent or Less	Compliant	Compliant	Not applicable due to nonreporting
Overall Compliance Assessment	Compliant	Compliant	Not applicable due to nonreporting; reporting will begin in the fiscal year 2018 PAR

Source: RRB OIG

We found that improvements are needed to ensure that improper payment amounts are accurate and complete for the RRA and RUIA programs. We determined that the reported improper payment amounts were understated by approximately \$20.8 million and \$1.6 million for the RRA and RUIA programs, respectively. We also found that the reported recaptured payments were understated by an estimated \$5.5 million for the RRA program.

Finally, we iterate that RRB has not yet taken the corrective actions required by IPERA to address the OIG’s determination of noncompliance for three consecutive years for its risk



assessments. IPERA requires that the agency submit reauthorization proposals for each discretionary program or activity that has not been in compliance for three or more consecutive years; or submit proposed statutory changes to bring the program or activity into compliance.<sup>4</sup> IPERA does not allow that nonconcurrency of our findings preempt this requirement.

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

Federal agencies are required to publish an Agency Financial Report 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 2017 PAR was published and is available on the RRB's website. The RRB's improper payment data is included in the PAR.

## **Conduct Risk Assessment**

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.

Risk assessments were not required for the three programs the RRB reports as being susceptible for significant improper payments: RRA, RUIA, and Medicare Part B. Risk assessments were completed for two other programs that the RRB administers: vendor payments and employee payments. Those risk assessments addressed all of the factors required by OMB guidance and were included in the fiscal year 2017 PAR.

In our prior year audit of IPERA compliance, we determined that RRB was noncompliant because its risk assessments were not prepared in accordance with OMB guidance for vendor payments and employee payments.<sup>5</sup> RRB did not concur with our conclusion or the stated recommendation that it take the action, as required by IPERA, in regard to noncompliance for the third consecutive year for the same programs to ensure that RRB programs for vendor payments and employee payments were brought into compliance.<sup>6</sup> IPERA requires an agency to submit reauthorization proposals for each discretionary program or activity that has not been in compliance for three or more consecutive years; or submit proposed statutory changes to bring the program or activity into compliance, when its Inspector General determines it is noncompliant with IPERA for three consecutive years. At that time, RRB management stated that the risk assessments had been revised to comply with OMB requirements prior to the issuance of our audit report on May 12, 2017. Because the risk assessments were not completed during the period under audit and they were not described in the RRB's fiscal year 2016 PAR, as required by OMB guidance, our conclusion of noncompliance remained.

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<sup>4</sup> Pub. L. 111-204, 124 Stat. 2224 (2010).

<sup>5</sup> Railroad Retirement Board (RRB) Office of Inspector General (OIG), *Audit of Railroad Retirement Board's Compliance with the Improper Payments Elimination and Recovery Act of 2010 in the Fiscal Year 2016 Performance and Accounting Report*, Report No. 17-05 (Chicago, IL: May 12, 2017).

<sup>6</sup> RRB OIG, Report No. 17-05, Recommendation 1.

As part of this year's audit, when we inquired about the revised risk assessments, RRB management provided documentation to support that they were prepared in April 2017.

Due to the agency's nonconcurrence, they did not make the corrective actions required by IPERA. By not taking the required corrective actions, RRB management did not afford the Congress an opportunity to address RRB noncompliance for the third consecutive year nor comply with IPERA.

### **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 complied with this requirement for the RRA and RUIA programs but not for the Medicare Part B program. RRB reported improper payment estimates for the RRA and RUIA programs. Improper payment estimates were not reported for the Medicare Part B program. The RRB's payment integrity section of the fiscal year 2017 PAR stated that the Centers for Medicare and Medicaid Services (CMS) established the Comprehensive Error Rate Testing (CERT) program to estimate improper payment error rates and uses data from the CERT program to reduce or eliminate improper payments through various corrective actions. It was also stated that the Medicare error rate was not available when the payment integrity report was published. The RRB plans to begin reporting Medicare Part B improper payment data in the fiscal year 2018 PAR.

### **Publish Corrective Action Plans**

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

The RRB is not required to meet this requirement for the RRA and RUIA programs because the reported improper payment estimates did not exceed the level for significant improper payments as defined in OMB guidance. The RRB has not yet published improper payment rates for the Medicare Part B program as discussed in the section of this report entitled "Publish Improper Payment Estimates." Therefore, the lack of reported data made this assessment not applicable for the Medicare Part B program.

### **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.

The RRB complied with this requirement for the RRA and RUIA programs because the RRB published and met its annual reduction targets. The RRB has not yet published improper payment rates for the Medicare Part B program as discussed in the section of this report entitled "Publish Improper Payment Estimates."

## **Reported Gross Improper Payment Rates of Less than Ten Percent**

Federal agencies are required to report 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 Agency Financial Report.

The RRB is in compliance with this requirement for the RRA and RUIA programs because the reported gross improper payment rates were less than 10 percent. The RRB has not yet published improper payment rates for the Medicare Part B program as discussed in the section of this report entitled “Publish Improper Payment Estimates.”

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

OMB guidance requires that the agency’s Inspector General evaluate the accuracy of agency reporting. We determined that RRB improper payment methodologies used for the RRA and RUIA programs result in inaccurate improper payments reported for both programs. We estimate that the reported RUIA improper payment amount is understated by approximately \$1.6 million. We continue to disagree with the methodology that the RRB uses for the RRA program but did not quantify its impact. In addition, we determined that the reported improper payment amount for the RRA program was understated by approximately \$20.8 million due to the RRB’s calculation method to estimate total improper underpayments.

### ***Railroad Retirement Act Program***

RRB OIG auditors continue to have concerns regarding the overall RRA quality assurance process that is used as a basis for a calculation included as a component of the overall improper payment amount. In addition, our concerns continue regarding RRA underpayment methodology regarding proper and improper determinations. We previously determined that the noted methodology was not in accordance with OMB guidance and IPERA.<sup>7</sup>

### **Overall Quality Assurance Process**

The Office of Programs uses its quality assurance process as the basis for various agency reports, including mandated improper payment reporting for RRA underpayments. This process consists of reviewing sample cases for accuracy and application of policies and procedures. The Office of Programs conducts separate quality assurance samples of initial and post cases. Initial cases are adjudicative actions that resulted from applications filed during the fiscal year under review. Post cases are rate adjustments that were made during the reviewed fiscal year.

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<sup>7</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 Accounting Report*, Report No. 15-06 (Chicago, IL: May 15, 2015) and RRB OIG, *Audit of Railroad Retirement Board’s Compliance with the Improper Payments Elimination and Recovery Act of 2010 in the Fiscal Year 2015 Performance and Accounting Report*, Report No. 16-07 (Chicago, IL: May 13, 2016).

Underpayments (accruals) that result from initial and post samples are reviewed to identify improper payments.

**Overall Quality Assurance Process Usage of Multi Column Spreadsheet**

The Office of Programs uses a multi column spreadsheet to record the following for each case: (1) monetary data, (2) whether the case resulted in an overpayment or underpayment, (3) determinations of whether the payment was proper or improper, and (4) codes used to categorize each improper payment by root cause. Formulas and codes within the spreadsheet are used to calculate improper underpayments and to categorize them according to OMB guidance for reporting purposes. We found that the spreadsheet did not correctly identify two improper payment amounts and the related root cause category codes. We also found an error in a formula used by the Office of Programs to estimate the total post case dollar errors in the universe. To be accurate, the improper payment projection from the quality assurance sample has to accurately reflect the following components: universe of cases, the sample dollar errors, and the number of cases sampled. The quantity of cases in the universe was incorrect, which impacted the overall calculation that is a component in the RRB’s overall computation of improper payments. These errors were not detected by the Office of Programs during the preparation and review process.

These errors occurred due to spreadsheet format errors, erroneous recording of a root cause code, and a typographical error in the estimation formula. Although these errors were immaterial, totaling \$895, they impacted the total reported improper payment amount and there is a risk that a larger error also could have gone undetected and could have impacted the reported total improper payments more significantly.

**Quality Assurance Process Application of Improper Payment Percentages**

To estimate its improper payments, RRB calculates separate improper payment percentages for each sample and then combines them into an overall improper payment percentage, as shown in Table 3. The Office of Programs uses the combined percentage to estimate the total improper underpayments for the fiscal year.

**Table 3. RRB Calculated Improper Payment Percentages for RRA Initial and Post Underpayment Cases that Resulted from the Fiscal Year 2016 Quality Assurance Reviews**

Sample Type	Total Accruals	Improper Portion of Accrual	Improper Payment Percentage
Post Sample	\$355,387.47	\$174,048.81	48.97%
Initial Sample	<u>\$581,526.33</u>	<u>\$ 21,948.68</u>	<u>3.77%</u>
Combined	\$936,913.80	\$195,997.49	20.92%

Source: RRB improper payment supporting documentation.

The RRB applies the combined percentage to a monetary amount referred to as “noncategorized payments” (see Appendix VII). As shown in Appendix VII, the resulting underpayment component is \$13.3 million according to the Office of Programs. The OIG determined that two percentages should have been applied separately. The initial rate should have been applied to an amount called “accruals associated with initial awards” and the post rate should have been applied to the amount referred to as “noncategorized payments”, as shown in Appendix VII. As a result, the OIG determined that the underpayment component should be \$34.1 million. As a result, we estimate that the RRB’s improper payment estimate for the RRA program is understated by approximately \$20.8 million (see Appendix VII).

This finding was previously reported in our improper payment reports published in fiscal years 2016 and 2017.<sup>8</sup> In those reports, we reported that the RRB’s underpayment components were understated by approximately \$12 million for fiscal year 2016 and \$19 million for fiscal year 2017. The Office of Programs did not concur with our recommendation to revise its computation for the application of separate improper payment percentages to the applicable components in its calculations of the total improper payments.<sup>9</sup> The Office of Programs responded that the calculation methodology is the most accurate estimation for initial and post underpayment accruals.

We disagreed then and continue to do so. In its response to the referenced recommendation, the Office of Programs stated that employee accruals as provided in its improper payment computations used in the fiscal year 2016 PAR included a disproportionate amount of employee accruals from the initial award category as compared to its quality assurance statistical sample. They also stated that accruals are not a selection criteria for its quality assurance review. The OIG determined that neither of these statements negate our computations. In addition, the Office of Programs stated that our use of dollar amounts to determine the percentage of initial accrual improper payments was not an accurate metric due to the wide range of accrual amounts. We determined that our projection, that includes this component, is more reasonable than the projection method used by the Office of Programs (see Appendix VII).

In its calculation of the projected improper payment amount for underpayment cases, the Office of Programs combines the accruals from separate initial and post samples and then calculates the improper payment percentage (as shown in Table 3). We considered an alternate calculation that would incorporate the percentage that the Office of Programs uses in its projection. We determined that if we used this percentage it should be applied to the combined related improper payment components for consistency purposes. This alternate calculation method results in an understatement of approximately \$16 million (see Appendix VIII). While this alternate calculation results in a somewhat smaller understatement, it also demonstrates that the amount projected by the Office of Programs is understated, by a significant amount.

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<sup>8</sup> RRB OIG, Report No. 16-07 and RRB OIG, Report No. 17-05.

<sup>9</sup> RRB OIG, Report No. 17-05, Recommendation 2.

We also previously recommended that the Office of Programs revise its overall process for the RRA program that supports improper payment reporting requirements to ensure accuracy of the reported data.<sup>10</sup> RRB management did not concur and stated that its methodology for the RRA program had been refined as a result of a previous IPERA audit. We have not closed this recommendation because as stated in our previous audit report, corrective action needs to be taken for the process that supports improper payment reporting because the RRB is at risk of failing to identify all improper payments, and thus not preventing such improper payments in the future.

In a separate audit, we noted that quality assurance results are used to estimate improper payments and that errors in the quality assurance process impact the reported improper payments that could result in underreported improper payments.<sup>11</sup> We identified deficiencies with the quality assurance process that included concerns regarding: (1) the sample selection process, (2) training for staff to ensure the statistical validity of sample results, (3) development and documentation of internal controls to ensure the integrity and accuracy of operations and related results, and (4) periodic testing of internal controls.

### **Incorrect Methodology**

Additionally, we previously identified other errors for underpayment cases that were not in accordance with OMB guidance and IPERA, as reported in our improper payment reports published in fiscal years 2015 and 2016.<sup>12</sup> As a result of a legal opinion issued by the RRB's General Counsel, the RRB continues to apply some of these incorrect methodologies.<sup>13</sup> Our previous recommendation for revision of RRA improper underpayment definitions remains open and we will continue to track its status.<sup>14</sup>

### **Sample Testing**

Improper payment calculations for the RRA program consists 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. We tested two statistically valid random samples of RRA receivables recorded in the RRB's accounts receivable systems: PARS and FMIS. We found no errors for accuracy of the recorded data. As a result, we found that the determinations of proper and improper for recorded receivables, as well as the receivable amounts, were accurately reported for the RRA program. See Appendices III and IV.

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<sup>10</sup> RRB OIG, Report No. 16-07, Recommendation 1.

<sup>11</sup> RRB OIG, *Improvements Needed for the Program Evaluation Process at the Railroad Retirement Board*, Report No. 17-07 (Chicago, IL: August 1, 2017).

<sup>12</sup> RRB OIG, Report No. 15-06 and RRB OIG, Report No. 16-07.

<sup>13</sup> RRB General Counsel, *Underpayment Classification for RRA Improper Payment Reporting*, Legal Opinion L-2015-54 (Chicago, IL; November 20, 2015).

<sup>14</sup> RRB OIG, Report No. 15-06, Recommendation 6.

## ***Railroad Unemployment Insurance Act Program***

### **Incorrect Methodology**

RRB OIG auditors continue to have concerns regarding RUIA underpayment methodology that is not in compliance with OMB guidance and IPERA. The Office of Programs sampled 100 underpayment cases and determined that 56 of them were proper, as shown in Table 4. We reviewed all of the RUIA underpayment cases and determined that 54 of the 56 cases determined as proper by the Office of Programs should be improper based on OMB guidance. As a result of our determinations and the manner in which the reported amounts are projected, we determined that RUIA reported improper payments are understated by approximately \$1.6 million. The Office of Programs considers these payments to be proper based on the information the agency had at the time of disbursement and that the subsequent disbursements do not make the original payments improper. In addition, they factor timeliness into their determinations. Neither of these arguments comply with IPERA.

**Table 4. RUIA Quality Assurance Underpayment Sample Results**

<b>Office of Programs' Determinations for RUIA Underpayment Case Sample</b>				
<b>Case Outcome</b>	<b>Total Payments in Sample</b>	<b>Sample Case Count</b>	<b>Projected Payments</b>	<b>Projected Case Count</b>
<b>Proper</b>	\$23,147.10	56	\$1,740,022	4,201
<b>Improper</b>	<u>\$21,362.47</u>	<u>44</u>	<u>\$1,605,867</u>	<u>3,301</u>
<b>Totals</b>	\$44,509.57	100	\$3,345,889	7,502

Source: RRB improper payment supporting documentation.

IPERA's definition of an improper payment is any payment that should not have been made or that was made in an incorrect amount. OMB guidance indicates that improper payments can result when a beneficiary has failed to report information to an agency that is needed to determine eligibility and the agency does not have access to databases containing earnings information.

This audit finding was also presented in our mandated improper payments report published in fiscal year 2016 when we found that RUIA improper payments had been understated by approximately \$904,000 because the RRB's improper payment methodology was not in accordance with OMB guidance or IPERA.<sup>15</sup> We recommended that the Office of Programs revise its definitions of improper underpayments in the methodology used for the RUIA program to ensure that it is in compliance with IPERA guidance.<sup>16</sup> The Office of Programs did not concur, citing a legal opinion issued by the RRB's General Counsel.<sup>17</sup> That legal opinion

<sup>15</sup> RRB OIG, Report No. 16-07.

<sup>16</sup> RRB OIG, Report No. 16-07, Recommendation 3.

<sup>17</sup> RRB General Counsel, *Underpayment Classification for RUIA Improper Payment Reporting*, Legal Opinion L-2016- 23 (Chicago, IL; June 17, 2016).

stated that although the RRB subsequently disbursed additional funds to RRB beneficiaries, the original payments were not improper because the information required for correct payment was not known or available when the original payment was made.

The OIG disagreed and strenuously continues to do so. Due to the lack of revision in RRB methodology for RUIA underpayments, RUIA improper payments do not comply with OMB guidance and IPERA and are inaccurate. Although the Office of Programs did not concur with our recommendation, this recommendation should still be implemented and RRB OIG auditors will continue to track its status.

### **Sample Testing**

In addition to recorded receivables, RUIA improper payment calculations consist of two other components (1) projections for underpayment cases and (2) overpayment estimates. We tested two statistically valid random samples of RUIA receivables recorded in the RRB's accounts receivable systems: PARS and FMIS. We found two errors for accuracy of the recorded data, which were within the allowable error tolerance levels established by our statistical sampling model. As a result, we found that the determinations of proper and improper for recorded receivables, as well as the receivable amounts, were accurately reported for the RUIA program. See Appendices V and VI.

### **Recommendation**

1. We recommend that the Office of Programs strengthen the Railroad Retirement Act program quality assurance preparation and review process to ensure the accuracy of reported improper payment data.

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

The Office of Programs concurred with our recommendation

The Office of Programs also stated that we continue to challenge their methodology for categorizing underpayments for RRA and RUIA programs. They refer to the legal opinions already discussed in the body of this finding. They also cite OMB approval of their methodology for these programs. During an IPERA training session conducted in September 2017, OMB stated that OIGs might not agree with previous OMB approvals provided for agency improper payment reporting documents. OMB went on to state that they will not get in the middle of such disagreements between OIGs and their respective agencies. OMB stated that while they approve certain methodology documents, it does not mean that the documents are okay. OMB clarified that the OIG and their respective agencies need to resolve these issues.

The Office of Programs also discusses that we continue to challenge their calculations for improper payment underpayments. They also refer to our approval of OIG audit report number 15-06 recommendation 5 that was closed as implemented. That recommendation pertained to our finding that they did not include estimates for some pending workloads in their overall calculation of improper payments.



Thus, OIG audit report number 15-06 recommendation 5 is unrelated to the improvements for application of percentages for improper underpayment calculations that we cite in our current audit report.

The Office of Programs stated that all open audit recommendations related to OIG audit report number 17-07 have been successfully closed out. This statement is not accurate because 3 recommendations they concurred with remain open and while they did not concur with 12 of our other recommendations, they remain open because we believe they should still be implemented and will continue to track their status. They cite three corrective actions as strengthening the reliability and validity of their quality assurance analysis. While these corrective actions have been made, they do not address the quality assurance deficiencies that are more directly related to improper payment reporting as described at the end of our report section entitled "Quality Assurance Process Application of Improper Payment Percentages."

### **Incomplete Improper Payment Data**

OMB guidance requires that the agency's Inspector General evaluate the completeness of agency reporting.

As previously discussed in this report, we determined that RRB improper payment methodologies used for the RRA and RUIA programs result in inaccurate improper payments reported for both programs. This impacts the completeness of the reported data for both programs.

#### ***Railroad Retirement Act Program***

As reported in a previous OIG audit report, RRB OIG auditors found that some RRB receivables were not recorded in the RRB's receivable system.<sup>18</sup> As a result, improper payment amounts reported for the RRA program were incomplete. Those receivables resulted from death matches and they were returned to the RRB prior to being recognized and recorded as receivables. Corrective action to address the related OIG recommendation was implemented in March 2017, which was after the fiscal year 2016 scope period for this audit report.<sup>19</sup> As a result, RRA improper payment amounts were incomplete for fiscal year 2016.

### **Agency Performance in Reducing and Recapturing Improper Payments**

OMB guidance requires that the agency's Inspector General evaluate agency performance in reducing and recapturing improper payments.

We inquired of RRB staff what actions the agency had taken to reduce improper payments. The agency identified nine items as their efforts to reduce improper payments for the RRA and RUIA programs. We compared them to improper payment initiatives reported in prior year PARs. Six of the items were reported as remaining in progress for most, if not all, of the five year period that the OIG reviewed. Progress toward completion of these efforts to reduce improper

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<sup>18</sup> RRB OIG, *The Railroad Retirement Board's Method for Recording and Reporting Overpayments Identified by Death Matches Can Be Improved*, Report No. 16-08 (Chicago, IL; August 4, 2016).

<sup>19</sup> RRB OIG, Report No. 16-08, Recommendation 2.

payments has taken longer than initially estimated by the RRB. We conclude that due to delays in implementing these initiatives, RRB efforts to reduce improper payments have not been as effective as they could have been.

***Railroad Retirement Act Program***

While conducting sample testing for the RRA program, we found that some RRB improper payment receivable records had incorrect balances because although some of the outstanding payments had been returned to the RRB, they had not been posted to the related receivable records. We determined that reported recaptured amounts for the RRA program were understated by an estimated \$5.5 million (see Appendix IX). As a result, these unposted returned payments were not reported as recaptured amounts. This occurred because the Bureau of Fiscal Operations provides the recaptured amounts to the Office of Programs for reporting purposes, but the Bureau of Fiscal Operations was unaware of the unposted returned payments.

RRB receivables are established and as payments are returned to the RRB through various means, they are to be posted to the related receivable records to accurately reflect the correct account balance. The returned payments we found that had not been posted had all been recorded in the Office of Programs’ returned payment system, but the returned payments had not been posted in PARS or FMIS. We provided the Bureau of Fiscal Operations with a listing of the sample cases we identified that did not accurately reflect recorded returned payments. We inquired about the cause of these errors, but the Bureau of Fiscal Operations had not identified the reason.

A comparison of reported RRA program improper payment data for fiscal years 2016 and 2015 showed that there was a slight increase in reported improper payment amounts, while at the same time the improper payment percentage remained fairly consistent. We note that the reported amounts, as shown in Table 5, do not include RRB OIG auditor determinations that improper payments were understated by \$20.8 million and \$19 million for fiscal years 2016 and 2015, respectively. This finding was previously presented in this report. Thus, RRB improper payments for fiscal year 2016 would have exceeded the amount reported for fiscal year 2015. As a result, we determined that the RRB has not effectively reduced improper payments for the RRA program. Recoveries increased for the same period.

**Table 5. Comparative Improper Payment Data for the Railroad Retirement Act Program**

<b>Fiscal Year</b>	<b>Improper Payment Amounts<sup>a</sup></b>	<b>Improper Payment Percentage as Compared to Outlays</b>	<b>Recoveries</b>
2016	\$74.74 million	.60%	\$64.42 million
2015	\$71.21 million	.58%	\$45.90 million

Source: RRB Performance and Accountability Reports for Fiscal Years 2017 and 2016.

<sup>a</sup> The reported improper payment amounts do not include OIG identified understatements.

***Railroad Unemployment Insurance Act Program***

A comparison of reported RUIA program improper payment data for fiscal years 2016 and 2015 showed that there was a slight increase in reported improper payment amounts, while at the same time the improper payment percentage dropped by a fairly significant amount, as shown in Table 6. This occurred due to the increase in outlays, which rose from \$104.12 million to \$155.82 million for fiscal years 2015 to 2016, respectively. Reported recoveries increased for the noted period. Because improper payment amounts increased for the comparative period, we determined that the RRB has not effectively reduced improper payments for the RUIA program.

**Table 6. Comparative Improper Payment Data for the Railroad Unemployment Insurance Act Program**

<b>Fiscal Year</b>	<b>Improper Payment Amounts<sup>b</sup></b>	<b>Improper Payment Percentage as Compared to Outlays</b>	<b>Recoveries</b>
2016	\$3.95 million	2.54%	\$23.19 million
2015	\$3.47 million	3.34%	\$21.97 million

Source: RRB Performance and Accountability Reports for Fiscal Years 2017 and 2016.

<sup>b</sup>The reported improper payment amounts do not include OIG identified understatements.

***Recommendations***

We recommend that the Bureau of Fiscal Operations:

2. identify and post all existing unposted returned payments; and
3. identify the cause for unposted returned payments and take the necessary corrective actions to ensure the accuracy of future reported recaptured amounts.

***Management’s Comments***

The Bureau of Fiscal Operations concurred with our recommendations.

### APPENDIX I: MANAGEMENT RESPONSE



UNITED STATES GOVERNMENT  
**MEMORANDUM**

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

May 3, 2018

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

**FROM :** Janet M. Hallman Janet Hallman  
Director of Program Evaluation and Management Services  
Through: Michael Tyllas  
Director of Programs **MICHAEL TYLLAS**

**SUBJECT:** Audit of the Railroad Retirement Board's Compliance with the Improper Payments Elimination and Recovery Act of 2010 in the Fiscal Year 2017 Performance and Accountability Report

#### Office of Programs Response

**Recommendation 1** We recommend that the Office of Programs strengthen the Railroad Retirement Act program quality assurance preparation and review process to ensure the accuracy of reported improper payment data.

**Office of Programs Response** We concur. The Office of Programs will strengthen our process to include edits in the multi-column input worksheet referenced in the audit report and update associated procedure to reflect this enhancement in order to help prevent the types of errors which were detected.  
Target date for completion: October 31, 2018.

**Office of Programs Response Regarding RRA and RUIA Improper Payment Methodology** The OIG continues to challenge our methodology for categorizing RRA and RUIA underpayments. We would like to reiterate that RRB's categorization of underpayments for both the RRA and RUIA programs are in full compliance with OMB's guidance and the definition of improper payments.  
Based on the Office of General Counsel's legal opinion L-2015-54, dated November 20, 2015 (RRA), we made some modification to the categorization of various underpayment accruals found in our Quality Assurance review cases and therefore, are now in compliance. Based on the Office of General Counsel's legal opinion L-2016-23 dated June 17, 2016 (RUIA) we obtained verification that our methodologies for categorization of underpayments were already in compliance with IPERA. The RRB obtained OMB approval of our RUIA methodology in February 2014 and our RRA methodology in August 2016, further confirming that we are compliant with OMB IPERA guidance.

*Continued on next page*

**Office of Programs Response, Continued**

**Office of Programs Response Regarding RRA and RUIA Improper Payment Methodology (continued)**

The OIG continues to challenge our methodology for determining the percentage of RRA improper payments made in the ‘Non-Categorized Payments’ of underpayment accruals. Historically, we had originally deemed the entire ‘Non-Categorized Payments’ amount as improper and later used exclusively the percentage developed from the Post Quality Assurance review. However, IPERA Audit 15-06 Recommendation #5 directed improvement, we concurred and now apply improper payment percentages developed from both our Initial and Post Adjudication Quality Assurance reviews. The OIG reviewed our revised methodology, indicated the revision made addressed the intent of the recommendation, and closed it as implemented. This revised methodology was also approved by OMB in August 2016.

After close out of the recommendation, the OIG challenged this methodology in subsequent IPERA audits, providing two similar alternative calculation methodologies based on the Initial and Post Quality Assurance review results, this year indicating “We determined that our projection...is more reasonable than the projection method used by the Office of Programs” yet the OIG offers no substantive analysis to support this determination. The OIG’s suggestions have several concerning flaws as we detailed in our response in the IPERA report 17-05 and were summarized in this audit report.

This is a tool that we still consider to be the most accurate methodology to calculate an estimation of initial and post underpayment accruals. The Office of Programs will continue to analyze the types of payments attributed to the ‘Non-Categorized Payments’ and make refinements as appropriate to increase the accuracy of our Improper Payment Analysis in the future.

**Office of Programs Response Regarding Quality Assurance Reviews**

The OIG references a separate audit regarding the quality assurance process. In response to Recommendations from OIG Audit Report 17-07 *Improvements Needed for the Program Evaluation Process at the Railroad Retirement Board*, the Office of Programs:

- strengthened its QA Analysis procedures by developing a data validation spreadsheet to ensure that the correct benefit payment amounts are recorded in the database,
- improved supporting documentation and timely communication regarding identified noncompliance errors, and
- strengthened training requirements to ensure Quality Assurance Specialists receive both periodic, ongoing technical training regarding RRA claims processing and fraud awareness training.

These additional measures further strengthened the reliability and validity of our QA analysis. All open recommendations pertaining to this audit have been successfully closed out.

## APPENDIX II: MANAGEMENT RESPONSE



UNITED STATES GOVERNMENT  
**MEMORANDUM**

FORM 6-1151(1-02)  
RAILROAD RETIREMENT BOARD

May 04, 2018

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

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

**SHAWNA WEEKLEY**  
Digitally signed by SHAWNA WEEKLEY  
DN: cn=SHAWNA WEEKLEY, o=U.S. Government,  
ou=Railroad Retirement Board,  
c=US, email=SHAWNA.WEEKLEY@RRB.GOV,  
serial=20180503143844-05000

**SUBJECT:** Management Response to Draft Report of Audit - Railroad Retirement Board's Compliance with the Improper Payments Elimination and Recovery Act of 2010 in the Fiscal Year 2017 Performance and Accountability Report

**Recommendation 2.** We recommend that the Bureau of Fiscal Operations “identify and post all existing unposted returned payments.”

**Management Response 2.** CONCUR, estimated completion date September 30, 2018.

**Recommendation 3.** We recommend that the Bureau of Fiscal Operations “identify the cause for unposted returned payments and take the necessary corrective actions to ensure the accuracy of future reported recaptured amounts.”

**Management Response 3.** CONCUR, estimated completion date September 30, 2018.

cc: Susan Leszkowicz, Supervisory Auditor  
Jeffery Baer, Director of Audit Affairs & Compliance  
Lawrence Haskin, Chief of TDSD  
Kris Garmager, Financial Management and Program Analyst

## **APPENDIX III: STATISTICAL SAMPLING METHODOLOGY AND RESULTS RAILROAD RETIREMENT ACT RECEIVABLE RECORDS IN THE PROGRAM ACCOUNTS RECEIVABLE SYSTEM**

This appendix presents the methodology and results for the sample conducted of Railroad Retirement Act (RRA) receivable records recorded in the Program Accounts Receivable System (PARS). We selected a statistically valid random sample of RRA receivables.

### **Sampling Objective**

Our sampling objective is to verify the accuracy of the Railroad Retirement Board'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 PARS during the period of October 1, 2015 through June 24, 2016.<sup>20</sup>

### **Universe/Sampling Unit**

The sampling universe of RRA receivables consisted of 19,836 receivable records downloaded from PARS for receivables established during the period of October 1, 2015 through June 24, 2016. The sampling unit was a billing document identification number recorded in PARS.

### **Sample Selection Methodology**

We used Two Step Attribute Acceptance Sampling using a confidence level of 90 percent and a critical error rate of 5 percent, which directed a sample size 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 percent confidence that the receivable determinations of proper or improper and the receivable amounts have been accurately reported under the RRA program.

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<sup>20</sup> The agency migrated its receivable system from the Program Accounts Receivable System to the Financial Management Integrated System. Receivable transactions in the programs accounts receivable system were last recorded on June 24, 2016. The agency began to record new receivable transactions in the Financial Management Integrated System beginning on July 1, 2016. Appendix IV presents our statistical sampling methodology and results for this population.

## Sample Evaluation Methodology

For each receivable record, we obtained and reviewed data from various agency systems to determine if the receivable data, as recorded in PARS, 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	Number of Records Tested	Errors
Receivable amount was found in PARS.	59	0
Receivable amount was properly supported by data in agency systems.	59	0
The receivable was properly classified by the agency as proper or improper.	59	0
The receivable amount was established in the correct fiscal year.	59	0
The receivable record in PARS was not a duplicate posting of the receivable record in the Financial Management Integrated System.	59	0
<b>Total Number of Errors</b>		<b>0</b>

## Auditor's Conclusion

Our evaluation of the statistically valid sample of 59 receivable records identified no errors for accuracy of the recorded data. As a result, we conclude that the determination of proper and improper for recorded receivables in PARS, as well as the receivable amounts have been accurately reported for the RRA program.



## **APPENDIX IV: STATISTICAL SAMPLING METHODOLOGY AND RESULTS RAILROAD RETIREMENT ACT RECEIVABLE RECORDS IN THE FINANCIAL MANAGEMENT INTEGRATED SYSTEM**

This appendix presents the methodology and results for the sample conducted of Railroad Retirement Act (RRA) receivable records recorded in the Financial Management Integrated System (FMIS). We selected a statistically valid random sample of RRA receivables.

### **Sampling Objective**

Our sampling objective is to verify the accuracy of the Railroad Retirement Board'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 FMIS during the period of July 1, 2016 through September 30, 2016.

### **Universe/Sampling Unit**

The sampling universe of RRA receivables consisted of 6,122 receivable records downloaded from FMIS for receivables established during the period of July 1, 2016 through September 30, 2016. The sampling unit was a billing document identification number recorded in FMIS.

### **Sample Selection Methodology**

We used Two Step Attribute Acceptance Sampling using a confidence level of 90 percent and a critical error rate of 5 percent, which directed a sample size of 59 billing documentation identification numbers for the first step, and 53 billing documentation identification numbers for the second step (for a total of 112 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 percent 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 agency systems to determine if the receivable data, as recorded in FMIS, 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	Number of Records Tested	Errors
Receivable amount was found in FMIS.	59	0
Receivable amount was properly supported by data in agency systems.	59	0
The receivable was properly classified by the agency as proper or improper.	59	0
The receivable amount was established in the correct fiscal year.	59	0
The receivable record in FMIS was not a duplicate posting of the receivable recorded in the Program Accounts Receivable System.	59	0
<b>Total Number of Errors</b>		<b>0</b>

## Auditor's Conclusion

Our evaluation of the statistically valid sample of 59 receivable records identified no errors for accuracy of the recorded data. As a result, we conclude that the determination of proper and improper for recorded receivables in FMIS, as well as the receivable amounts have been accurately reported for the RRA program

## **APPENDIX V: STATISTICAL SAMPLING METHODOLOGY AND RESULTS RAILROAD UNEMPLOYMENT AND INSURANCE ACT RECEIVABLE RECORDS IN THE PROGRAM ACCOUNTS RECEIVABLE SYSTEM**

This appendix presents the methodology and results for the sample conducted of Railroad Unemployment Insurance Act (RUIA) receivable records recorded in the Program Accounts Receivable System (PARS). We selected a statistically valid random sample of RUIA receivables.

### **Sampling Objective**

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

### **Scope**

Our sample was selected from receivables established under the RUIA program in PARS during the period of October 1, 2015 through June 24, 2016.<sup>21</sup>

### **Universe/Sampling Unit**

The sampling universe of RUIA receivables consisted of 4,490 receivable records downloaded from PARS for receivables established during the period of October 1, 2015 through June 24, 2016. The sampling unit was a billing document identification number recorded in PARS.

### **Sample Selection Methodology**

We used Two Step Attribute Acceptance Sampling using a confidence level of 90 percent and a critical error rate of 5 percent, which directed a sample size of 59 billing documentation identification numbers for the first step, and 53 billing documentation identification numbers for the second step (for a total of 112 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 percent confidence that the receivable determinations of proper or improper and the receivable amounts have been accurately reported under the RUIA program.

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<sup>21</sup> The agency migrated its receivable system from the Program Accounts Receivable System to the Financial Management Integrated System. Receivable transactions in the programs accounts receivable system were last recorded on June 24, 2016. The agency began to record new receivable transactions in the Financial Management Integrated System beginning on July 1, 2016. Appendix VI presents our statistical sampling methodology and results for this population.

## Sample Evaluation Methodology

For each receivable record, we obtained and reviewed data from various agency systems to determine if the receivable data, as recorded in PARS, 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	Number of Records Tested	Errors
Receivable amount was found in PARS.	59	0
Receivable amount was properly supported by data in agency systems.	59	0
The receivable was properly classified by the agency as proper or improper.	59	0
The receivable amount was established in the correct fiscal year.	59	0
A code used for underlying accounts receivable records to determine its proper classification as proper or improper was correct.	59	0
The receivable record in PARS was not a duplicate posting of the receivable record in the Financial Management Integrated System.	59	0
<b>Total Number of Errors</b>		<b>0</b>

## Auditor's Conclusion

Our evaluation of the statistically valid sample of 59 receivable records identified no errors for accuracy of the recorded data. As a result, we conclude that the determination of proper and improper for recorded receivables in PARS, as well as the receivable amounts have been accurately reported for the RUIA program.

## **APPENDIX VI: STATISTICAL SAMPLING METHODOLOGY AND RESULTS RAILROAD UNEMPLOYMENT AND INSURANCE ACT RECEIVABLE RECORDS IN THE FINANCIAL MANAGEMENT INTEGRATED SYSTEM**

This appendix presents the methodology and results for the sample conducted of Railroad Unemployment Insurance Act (RUIA) receivable records recorded in the Financial Management Integrated System (FMIS). We selected a statistically valid random sample of RUIA receivables.

### **Sampling Objective**

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

### **Scope**

Our sample was selected from receivables established under the RUIA program in FMIS during the period of July 1, 2016 through September 30, 2016.

### **Universe/Sampling Unit**

The sampling universe of RUIA receivables consisted of 958 receivable records downloaded from FMIS established during the period of July 1, 2016 through September 30, 2016. The sampling unit was a billing document identification number recorded in FMIS.

### **Sample Selection Methodology**

We used Two Step Attribute Acceptance Sampling using a confidence level of 90 percent and a critical error rate of 5 percent, which directed a sample size of 57 billing documentation identification numbers for the first step, and 52 billing documentation identification numbers for the second step (for a total of 109 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 percent confidence that the receivable determinations of proper or improper and the receivable amounts have been accurately reported under the RUIA program.

### **Sample Evaluation Methodology**

For each receivable record, we obtained and reviewed data from various agency systems to determine if the receivable data, as recorded in FMIS 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	Number of Records Tested	Errors
Receivable amount was found in FMIS.	109	0
Receivable amount was properly supported by data in agency systems.	109	2
The receivable was properly classified by the agency as proper or improper.	109	0
The receivable amount was established in the correct fiscal year.	109	0
A code used for underlying accounts receivable records to determine its proper classification as proper or improper was correct.	109	0
The receivable record in FMIS was not a duplicate posting of the receivable record in the Program Accounts Receivable System.	109	0
<b>Total Number of Errors</b>		<b>2</b>

## Auditor's Conclusion

Our evaluation of the statistically valid sample of 109 receivable records identified two errors for accuracy of the recorded data. As a result, we conclude that the determination of proper and improper for recorded receivables in FMIS, as well as the receivable amounts have been accurately reported for the RUIA program.

## APPENDIX VII: KNOWN UNDERPAYMENT CALCULATIONS FOR THE RAILROAD RETIREMENT ACT PROGRAM

We determined that the reported improper payment amount for the Railroad Retirement Act (RRA) program was understated by approximately \$20.8 million due to the calculation method used to estimate total improper underpayments. This finding is discussed in the section of this report entitled “Quality Assurance Process Application of Improper Payment Percentages”.

	<u>RRB Calculations</u>	<u>OIG Calculations</u>	
Total Benefit Payments	\$ 12,361,998,925	\$ 12,361,998,925	
Total Recurring RRA Payments from Master Benefit File	12,213,302,255	12,213,302,255	
Accrued RRA Benefits Associated with Initial Awards	76,776,435	76,776,435	
Underpayments Resulting from Recalculated Service and Compensation	5,570,792	5,570,792	
Accrued RRA Benefits Associated with the Payment of Lump Sum Payments	<u>2,590,323</u>	<u>2,590,323</u>	
Noncategorized Payments	<u>\$ 63,759,120</u>	<u>\$ 63,759,120</u>	
Estimated Percentage of Improper Payments Based on Quality Assurance Sample for Initial and Post Cases	20.92%	3.77%	Estimated Percentage of Improper Payments for Initial Cases Based on Quality Assurance Sample
		2,894,471.60	Estimated Amount of Improper Payments for Initial Cases Based on Quality Assurance Sample (as applied to the Accrued RRA Benefits Associated with Initial Awards amount)
		48.97%	Estimated Percentage of Improper Payments for Post Cases Based on Quality Assurance Sample
		<u>31,222,841.06</u>	Estimated Amount of Improper Payments for Post Cases Based on Quality Assurance Sample (as applied to the Noncategorized Payments amount)
Estimated Amount of Improper Underpayments Based on Quality Assurance Sample (as applied to the noncategorized payment amount)	<u>\$ 13,338,408</u>	<u>\$ 34,117,313</u>	OIG Estimated Amount of Improper Payments Based on Quality Assurance Sample
		<u>\$ 20,778,905</u>	Understated Difference

## APPENDIX VIII: ALTERNATE CALCULATION OF KNOWN UNDERPAYMENT FOR THE RAILROAD RETIREMENT ACT PROGRAM

This appendix provides an alternate calculation of the understatement provided in Appendix VI. This calculation method results in determining that the reported improper payment amount for the Railroad Retirement Act (RRA) program was understated by approximately \$16 million due to the calculation method used to estimate total improper underpayments. This finding is discussed in the section of this report entitled “Quality Assurance Process Application of Improper Payment Percentages”.

	<u>OIG Calculations</u>	
Total Benefit Payments	\$ 12,361,998,925	
Total Recurring RRA Payments from Master Benefit File	12,213,302,255	
Accrued RRA Benefits Associated with Initial Awards	76,776,435	
Underpayments Resulting from Recalculated Service and Compensation	5,570,792	
Accrued RRA Benefits Associated with the Payment of Lump Sum Payments	<u>2,590,323</u>	
Noncategorized Payments	<u>\$ 63,759,120</u>	
Estimated Percentage of Improper Payments Based on Quality Assurance Sample for Initial and Post Cases	20.92%	
Accrued RRA Benefits Associated with Initial Awards	76,776,435	
Noncategorized Payments	<u>63,759,120</u>	
	<u>\$ 140,535,555</u>	
	\$ 29,400,038	OIG Estimated Amount of Improper Payments Based on Quality Assurance Sample (as applied to the initial Awards and the Noncategorized Payments amount)
Estimated Amount of Improper Payments as Calculated by the Office of Programs	<u>13,338,408</u>	
	<u>\$ 16,061,630</u>	Understated Difference



## APPENDIX IX: ESTIMATED RECAPTURED PAYMENTS FOR THE RAILROAD RETIREMENT ACT PROGRAM

Auditors in the Office of Inspector General (OIG) found that some receivables due the Railroad Retirement Board (RRB) for improper payments had been returned to the RRB, but they had not been posted to the related receivable records for the Railroad Retirement Act (RRA) program. As a result they were not reported as recaptured amounts. This is discussed in the section of this report entitled “Agency Performance in Reducing and Recapturing Improper Payments”. See our calculations of the estimated underreported recaptured payments.

New Receivables Established for the RRA Program in the Financial Management Integrated System for Fiscal Year 2016		New Receivables Established for the RRA Program in the Program Accounts Receivable System for Fiscal Year 2016	
Case Count	Dollars	Case count	Dollars
6,122	\$17,035,834	19,836	\$42,901,721
Unposted Returned Payments as Discovered by OIG Auditors		Unposted Returned Payments as Discovered by OIG Auditors	
Case Count	Dollars	Case Count	Dollars
22	\$42,614.18	1	\$3,308.44
Total Cases in OIG Sample		Total Cases in OIG Sample	
59		59	
Percentage of Unposted Returned Payments in OIG Sample		Percentage of Unposted Returned Payments in OIG Sample	
37.29%		1.69%	
Average Dollars for Unposted Returned Payments in OIG Sample		Average Dollars for Unposted Returned Payments in OIG Sample	
\$1,937		\$3,308.44	
OIG Estimate of Unposted Returned Payments in the Universe		OIG Estimate of Unposted Returned Payments in the Universe	
6,122 x 37.29% =	2,282.89 cases	19,836 x 1.69% =	335.23 cases
\$1,937 x 2,282.89 =	\$4,421,958	\$3,308.44 x 335.23 =	\$1,109,088
<b>Total Estimated Understatement</b>			
<b>\$4,421,958 + \$1,109,088 = \$5,531,046</b>			

**APPENDIX X: PREVIOUS OFFICE OF INSPECTOR GENERAL AUDIT  
RECOMMENDATIONS FOR IMPROPER PAYMENT REPORTING**

<b>Railroad Retirement Board Office of Inspector General Audit Reports</b>		
<b>Report</b>	<b>Recommendation</b>	<b>Status</b>
<b>Report 12-05</b>	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. (Recommendation 1)	Closed April 2013
<b>Report 13-05</b>	Obtain and maintain individual debtor records that support the total improper payment amounts for the Railroad Retirement Act and Railroad Unemployment Insurance Act programs. (Recommendation 1)	Closed March 2014
	Obtain and maintain documentation to support the estimated outlay amounts for the Railroad Retirement Act and Railroad Unemployment Insurance Act programs from the Bureau of the Actuary. (Recommendation 2)	Closed March 2014
	Standardize procedures for the Railroad Retirement Act and Railroad Unemployment Insurance Act programs to ensure consistency of improper payment data reported in the Performance and Accountability Report. (Recommendation 3)	Closed March 2014
	Identify and implement additional initiatives to reduce improper payments for the Railroad Unemployment Insurance Act program. (Recommendation 4)	Closed March 2014
<b>Report 14-05</b>	Identify all programs they administer during the risk assessment process for improper payments. (Recommendation 1)	Closed February 2016
<b>Report 15-06</b>	Take all of the necessary steps to prepare and submit the required plans within the 90 day reporting requirement. (Recommendation 1)	Open
	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 Improper Payments Elimination and Recovery Act requirements. (Recommendation 2)	Open
	Coordinate the preparation of a risk assessment for agency administered programs in accordance with Office of Management and Budget guidance. (Recommendation 3)	Closed May 2018
	Assess and determine who should be the improper payment official to ensure that they have sufficient knowledge and oversight of all Railroad Retirement Board programs. (Recommendation 4)	Closed June 2015
<b>Report 15-06 (continued)</b>	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 Railroad Retirement Act program. (Recommendation 5)	Closed February 2016

<b>Railroad Retirement Board Office of Inspector General Audit Reports</b>		
<b>Report</b>	<b>Recommendation</b>	<b>Status</b>
<b>Report 15-06 (continued)</b>	Revise and document their definitions of improper underpayments for the Railroad Retirement Act program in compliance with Improper Payments Elimination and Recovery Act guidance, and if similar definitions are used for other programs, revise them accordingly. (Recommendation 6)	Open
	Review the Railroad Retirement Act underpayment cases again using Improper Payments Elimination and Recovery Act guidance and revise the calculation of improper underpayments and its overall computation of improper payments for fiscal year 2013. (Recommendation 7)	Closed January 2016
	Publish the revised Railroad Retirement Act improper payment rate data for fiscal year 2013 in the fiscal year 2015 Performance and Accountability Report. (Recommendation 8)	Closed January 2016
	Develop and document the necessary policies and procedures for the review and validation of the Railroad Unemployment Insurance Act improper payment data to be reported in the Performance and Accountability Report. (Recommendation 9)	No corrective action taken due to disagreement between agency and Office of Inspector General auditors that this recommendation should be directed to another organization with the agency.
	Ensure that the proper controls are in place to make sure that the policies and procedures are followed to properly support the improper payment data reported for the Railroad Unemployment Insurance Act program. (Recommendation 10)	No corrective action taken due to disagreement between agency and Office of Inspector General auditors that this recommendation should be directed to another organization with the agency.

<b>Railroad Retirement Board Office of Inspector General Audit Reports</b>		
<b>Report</b>	<b>Recommendation</b>	<b>Status</b>
<b>Report 16-07</b>	Revise its overall process for the Railroad Retirement Act program that supports improper payment reporting requirements to ensure the accuracy of the data. (Recommendation 1)	Agency did not concur. Office of Inspector General auditors believe that this recommendation should still be implemented.
	Document policies and procedures to ensure that entire receivable balances are recorded in the agency's receivable systems. (Recommendation 2)	Open
	Revise its definitions of improper underpayments in the methodology used for the Railroad Unemployment Insurance Act program to ensure that it is in compliance with Improper Payments Elimination and Recovery Act guidance. (Recommendation 3)	Agency did not concur. Office of Inspector General auditors believe that this recommendation should still be implemented.
	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. (Recommendation 4)	Closed January 2017
	Strengthen controls for the review process for data that supports improper payment reporting to ensure that the data is accurately reported. (Recommendation 5)	Closed March 2017
	Develop and document policies and procedures to ensure improper payment reporting is prepared in accordance with applicable guidance. (Recommendation 6)	Closed December 2016
<b>Report 17-05</b>	Take the actions as required by Office of Management and Budget guidance in regard to noncompliance for third consecutive year for the same program to ensure that RRB programs for vendor payments and employee payments are brought into compliance. (Recommendation 1)	Agency did not concur. Office of Inspector General auditors believe that this recommendation should still be implemented.
	Revise its computation for application of improper payment percentages for the Railroad Retirement Act program associated with initial and post underpayments to ensure that they are separately applied to the applicable components in Railroad Retirement Board calculations of the total improper payments. (Recommendation 2)	Agency did not concur. Office of Inspector General auditors believe that this recommendation should still be implemented.

<b>Railroad Retirement Board Office of Inspector General Audit Reports</b>		
<b>Report</b>	<b>Recommendation</b>	<b>Status</b>
	Ensure that the Railroad Unemployment Insurance Act master workbook is properly maintained and updated in accordance with the validation guidelines to ensure that the reported data is accurately supported. (Recommendation 3)	Closed May 2017
	Develop and implement "Do Not Pay" validation guidelines for the Railroad Retirement Act program to ensure that the reported data complies with current Office of Management and Budget guidance. (Recommendation 4)	Closed September 2017
	Work with agency management to ensure that the internally established deadline to provide Railroad Retirement Act program "Do Not Pay" data is set for a date that will allow data to be reported for the entire fiscal year. (Recommendation 5)	Closed September 2017
	Develop and implement procedures to ensure that Railroad Retirement Act program "Do Not Pay" data resulting from matches of non Improper Payments Elimination and Recovery Improvement Act databases include monetary values as required by Office of Management and Budget guidance. (Recommendation 6)	Closed September 2017