



U.S. RAILROAD RETIREMENT BOARD

OFFICE OF INSPECTOR GENERAL

The Implementation of the Disability Program Improvement Plan at the Railroad Retirement Board Did Not Result in a Fully Established Fraud Risk Assessment Process

Report No. 19-15

September 27, 2019



The Implementation of the Disability Program Improvement Plan at the Railroad Retirement Board Did Not Result in a Fully Established Fraud Risk Assessment Process

What DP George & Company Found

DP George & Company (DP George) determined that the implementation of the Disability Program Improvement Plan (DPIP) and other related program improvements did not result in a fully established fraud risk assessment process that is specific to the Railroad Retirement Board's (RRB) disability programs. Specifically, the actions taken did not: 1) establish a dedicated entity within the RRB to lead the fraud risk management process; 2) establish an ongoing fraud risk assessment process tailored to the disability programs that routinely determines and updates the fraud risk profile for the programs; and 3) establish an on-going fraud risk monitoring process to evaluate the effectiveness of corrective actions and identify new risks.

What DP George Recommends

To address the weaknesses identified in this audit, DP George made three recommendations. The first recommendation was to establish a permanent entity within RRB responsible for continuously assessing fraud risk, implementing corrective actions, and monitoring the effectiveness of those actions as they relate to the RRB disability program. The second recommendation was to establish an on-going fraud risk assessment process that regularly gathers information about disability program fraud risk, assesses the potential likelihood and impact, determines fraud risk tolerance, examines the suitability of existing fraud and documents the fraud risk profile. The third recommendation was to conduct risk-based monitoring tied to the fraud risk profile of the disability program to evaluate the effectiveness of preventive activities and use the results to improve the design and implementation of fraud risk management activities within the disability program.

RRB management concurred with the three recommendations, but stated that they do not have the authority to take these actions. As such, these recommendations will be forwarded to the RRB Board for consideration.

What We Did

The Office of Inspector General (OIG) for the RRB engaged DP George to conduct a performance audit to assess the implementation of RRB's DPIP. This audit was conducted in accordance with the performance audit standards established by Generally Accepted Government Auditing Standards. DP George is responsible for the audit report and the conclusions expressed therein. RRB OIG does not express any assurance on the conclusions presented in DP George's audit report.

The objective was to assess RRB's implementation of its DPIP and other related program integrity improvements to determine the efficiency and effectiveness of actions taken to prevent future fraud and abuse in RRB's disability programs. In order to complete this work, DP George identified criteria in laws, regulations, and best practices; identified applicable RRB policies, procedures; and obtained and reviewed RRB's DPIP. DP George also interviewed applicable agency staff, and determined actions taken to implement the DPIP & other related improvements.

The scope of our audit covered actions taken in response to the DPIP and other related program integrity through September 2018.



The Implementation of the
Disability Program
Improvement Plan at the
Railroad Retirement Board
Did not Result in a Fully
Established Fraud Risk
Assessment Process

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EXECUTIVE SUMMARY

September 25, 2019

Mr. Martin Dickman, Inspector General
Railroad Retirement Board
Office of Inspector General
844 North Rush Street
Chicago, IL 60611-1275

Dear Mr. Dickman,

DP George & Company, LLC (DPG) audited the implementation of the Railroad Retirement Board (RRB) Disability Program Improvement Plan (DPIP) and related program integrity improvements against relevant RRB policies and procedures, internal control guidance, and GAO's *A Framework for Managing Fraud Risks in Federal Programs*. Performance against these criteria is the responsibility of RRB's management. DPG's responsibility is to make a determination regarding RRB's performance against the criteria.

DPG conducted the audit in accordance with Generally Accepted Government Auditing Standards (GAGAS) issued by the Comptroller General of the United States (2011 Revision, as amended). Those standards require that DPG plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for its findings, conclusions, and recommendations based on the audit objective. The stated objective for our audit was to:

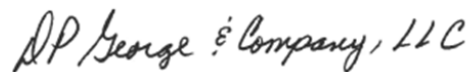
Assess RRB's implementation of the DPIP and other related program integrity improvements to determine the efficiency and effectiveness of actions taken to prevent future fraud and abuse in RRB's disability programs.

The evidence obtained provides a reasonable basis for DPG's findings, conclusions, and recommendations based on the audit objectives.

Based on the test work performed, our audit determined that the implementation of the DPIP and other related program improvements did not result in a fully established fraud risk assessment process that is specific to the RRB's disability programs. The detailed findings for the audit are presented in the Audit Results section of this report.

We appreciate the cooperation and assistance extended by RRB and the OIG staff during the audit.

Sincerely,


DP George & Company, LLC
Alexandria, Virginia

OBJECTIVE(S), SCOPE, AND METHODOLOGY

The objective of the audit was to assess the Railroad retirement Board's (RRB's) implementation of its Disability Program Improvement Plan (DPIP) and other related program integrity improvements to determine the efficiency and effectiveness of actions taken to prevent future fraud and abuse in RRB's disability programs.

To accomplish our objective, we:

- identified criteria provided in applicable laws, regulations, and best practices related to RRB's disability program;
- identified and reviewed applicable RRB policies and procedures related to RRB's disability programs;
- obtained and reviewed RRB's DPIP and other related program integrity improvements;
- interviewed RRB management and disability staff;
- determined the actions taken to implement the DPIP and other related program integrity improvements; and
- assessed the actions taken against the applicable criteria identified.

The scope of our audit covered actions taken in response to the DPIP and other related program integrity through September 2018.

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

We conducted our fieldwork from October 2018 through August 2019. During our audit, we performed site visits to RRB headquarters in Chicago, Illinois in October 2018, April 2019, and June 2019.

BACKGROUND

The RRB administers the retirement, survivor, unemployment and sickness programs mandated by the Railroad Retirement Act (RRA) and the Railroad Unemployment Insurance Act (RUIA). The RRA provides for payment of retirement benefits based on age and service in the railroad industry and to those who are permanently disabled from work in their regular railroad occupation or who are totally disabled from any regular employment.

Beginning in late 2011, the Department of Justice issued several indictments in a physician assisted disability benefit fraud scheme involving former employees of the Long Island Railroad (LIRR). As a result of the LIRR investigation and a combination of related or similar audit reports and letters issued by the RRB Inspector General (IG) and the General Accountability Office (GAO), multiple recommended corrective actions were presented to RRB management concerning the RRB disability programs. As a means of summarizing the adopted corrective actions, the Fraud Prevention Task Force developed the DPIP. The original plan identified the five sources that led to the corrective actions and provided a summary for each of the 17 adopted improvements. Eventually, the plan increased to 18 improvements and was converted into a tracking matrix identifying sub-tasks related to each overall improvement, the projected and actual completion dates for the tasks, and the owner of each task. The Fraud Prevention task Force met on a regular basis to review and manage completion of the corrective actions. In September 2018, the last of the identified sub-tasks within the DPIP was completed.

AUDIT RESULTS

Our audit determined that the actions taken as a result of the DPIP were not fully effective in establishing a risk based approach to prevent future fraud and abuse in RRB's disability programs. Specifically, the actions taken did not, 1) establish a dedicated entity within RRB to lead the fraud risk management process; 2) establish a fraud risk assessment process tailored to the disability programs that routinely determines and updates the fraud risk profile for the programs; and 3) establish an on-going fraud risk monitoring process to evaluate the effectiveness of corrective actions and identify new risks.

We provide three recommendations aimed at addressing these weaknesses.

Finding #1: No Dedicated Entity to Lead Fraud Risk Management

The actions taken as a result of the DPIP did not establish a dedicated entity to lead fraud risk management. While the Fraud Risk Detection Task Force managed the corrective actions identified in the DPIP to implementation, it was not established as a permanent entity with responsibility for continuously assessing fraud risk, implementing corresponding corrective actions, and monitoring the effectiveness of those actions. The Fraud Risk Task force is not currently meeting and there is no clearly established entity in place to specifically assess and monitor fraud risk.

The Standards for Internal Control in the Federal Government require management to assess fraud risk to consider the types of fraud that can occur within the entity, identify potential fraud risk, and develop responses so that fraud risks are effectively mitigated.

The GAO document *A Framework for Managing Fraud Risks in Federal Programs* also establishes leading practices for fraud risk management. Leading Practice 1.2 provides that agencies should designate an entity to design and oversee fraud risk management activities that:

- understands the program and its operations, as well as the fraud risks and controls throughout the program;
- has defined responsibilities and the necessary authority across the program;
- has a direct reporting line to senior-level managers within the agency; and
- is located with the agency and not the Office of the Inspector General, so the latter can retain its independence to serve its oversight role.

In carrying out its role, the antifraud entity, among other things:

- serves as the repository of knowledge on fraud risks and controls;
- manages the fraud risk-assessment process;
- leads or assists with trainings and other fraud-awareness activities; and
- coordinates antifraud initiatives across the program.

The lack of a designated entity to manage the fraud risk assessment and monitoring process increases the risk that new fraud risks arise or existing fraud risks are not addressed appropriately within the RRB Disability Programs.

RECOMMENDATION

We recommend that the Office of Programs in coordination with the Railroad Retirement Board (RRB) Executive Committee:

1. establish a permanent entity within RRB responsible for continuously assessing fraud risk, implementing corrective actions, and monitoring the effectiveness of those actions as they relate to the RRB disability programs. There are two existing entities, the Fraud Prevention Task Force and the Internal Controls Assessment Team that could be considered for this designation.

MANAGEMENT'S COMMENTS

The Office of Programs concurred with the recommendation. However, it indicated that it does not have the authority to take the recommended action and will forward the recommendation to the RRB Board for consideration.

DPG RESPONSE

The focus of our audit was on the efficiency and effectiveness of actions taken to prevent future fraud and abuse in RRB's disability programs. We stress that the Office of Programs has primary responsibility for managing those programs and therefore, should take a proactive role in establishing a fraud risk assessment process that efficiently and effectively evaluates the potential for fraud to occur within the RRB disability programs.

Finding #2: Insufficient Fraud Risk Assessment Process

The actions taken as a result of the DPIP did not establish an on-going fraud risk assessment process that determines the fraud risk profile for the disability program and monitors the effectiveness of fraud risk prevention activities. Management documents control risks associated with its internal quality control function, the Program Evaluation and Management Services (PEMS) organization, and risks related to processing disability payments in a timely manner but not specifically risks related to internal or external fraud.

Performing a fraud risk assessment consists of, 1) identifying risks and defining risk tolerances (as applicable); 2) defining control objectives that align to each risk; and 3) analyzing risks that could prevent achieving the control objectives. The risk assessment then provides a basis for responding to the risks identified.

The Standards for Internal Control in the Federal Government state that management should define objectives clearly to enable the identification of risks and define risk tolerances. Additionally, management should identify, analyze, and respond to risks related to achieving the defined objectives. These standards also require management to assess fraud risk to consider the types of fraud that can occur within the entity, identify potential fraud risk, and develop responses so that fraud risks are effectively mitigated.

The GAO document *A Framework for Managing Fraud Risks in Federal Programs* also establishes leading practices for fraud risk management. Leading Practice 2.1 provides that management should plan regular fraud risk assessments that are tailored to the program while Leading Practice 2.2 establishes that management should identify and assess risks to determine the program's fraud risk profile. Leading Practice 4.1 provides guidance on conducting risk-based monitoring and evaluating the components of the fraud risk framework.

Without a sufficient risk assessment, the RRB lacks assurance that it has the right controls in place to effectively prevent and detect fraud in its disability program and continues to expose the program to fraud risks. We noted for instance that DPIP corrective action #18 to install a permanent Chief Medical Officer was implemented initially but the position has now been vacant since 2017. We also noted that the Anti-Fraud Assessment report prepared in response to corrective action #13 contained multiple recommendations with respect to improving

the culture of fraud within RRB and establishing stronger preventive controls within the risk process that could be implemented over a multi-year period. However, there is no monitoring on the part of the RRB to indicate if the recommendations have been implemented and if not, why. These are examples of new or continuing fraud risks that should be included and monitored through an RRB fraud risk profile.

RECOMMENDATIONS

We recommend that Office of Programs in coordination with the Railroad Retirement Board Executive Committee:

2. establish an on-going fraud risk assessment process that regularly gathers information about disability programs fraud risk, assesses the potential likelihood and impact, determines fraud risk tolerance, examines the suitability of existing fraud and documents the fraud risk profile specifically for the disability programs; and
3. conduct risk-based monitoring tied to the fraud risk profile of the disability programs to evaluate the effectiveness of preventive activities and use the results to improve the design and implementation of fraud risk management activities within the disability programs.

MANAGEMENT COMMENTS

The Office of Programs concurred with the recommendations. However, it indicated that it does not have the authority to take the recommended actions and will forward the recommendations to the RRB Board for consideration.

DPG RESPONSE

The focus of our audit was on the efficiency and effectiveness of actions taken to prevent future fraud and abuse in RRB's disability programs. We stress that the Office of Programs has primary responsibility for managing those programs and therefore, should take a proactive role in establishing a fraud risk assessment process that efficiently and effectively evaluates the potential for fraud to occur within the RRB disability programs.



UNITED STATES OF AMERICA
RAILROAD RETIREMENT BOARD
844 NORTH RUSH STREET
CHICAGO, ILLINOIS 60611-1275

OFFICE OF PROGRAMS

September 20, 2019

Mr. Michael Smith
DP George & Company, LLC
Alexandria, Virginia

Re: **Audit - The Implementation of the Disability Program Improvement Plan at the Railroad Retirement Board Did not Result in a Fully Established Fraud Risk Assessment Process**

Dear Mr. Smith:

We have reviewed your findings concerning the above-referenced audit, the stated purpose of which was to assess RRB's implementation of the Disability Program Improvement Plan (DPIP) and other related program integrity improvements to determine the efficiency and effectiveness of actions taken to prevent future fraud and abuse in RRB's disability programs.

Your audit findings concluded that the actions taken as a result of the DPIP did not establish a dedicated entity to lead fraud risk management. While the Fraud Risk Detection Task Force managed the corrective actions identified in the DPIP to implementation, it was not established as a permanent entity with responsibility for continuously assessing fraud risk, implementing corresponding corrective actions, and monitoring the effectiveness of those actions. The Fraud Risk Task force is not currently meeting and there is no clearly established entity in place to specifically assess and monitor fraud risk. You further state that the lack of a designated entity to manage the fraud risk assessment and monitoring process increases the risk that new fraud risks arise or existing fraud risks are not addressed appropriately within the RRB Disability Programs.

You recommended that the Office of Programs in coordination with the Railroad Retirement Board (RRB) Executive Committee:

RECOMMENDATION 1:

1. establish a permanent entity within RRB responsible for continuously assessing fraud risk, implementing corrective actions, and monitoring the effectiveness of those actions as they relate to the RRB disability program. There are two existing entities, the Fraud Prevention Task Force and the Internal Controls Assessment Team that could be considered for this designation.

RESPONSE: Concur. While the Office of Programs concurs with this recommendation, we do not have the authority to take this action. As such, this recommendation will be forwarded to the RRB Board for consideration.


RECOMMENDATIONS 2 AND 3:

2. establish an on-going fraud risk assessment process that regularly gathers information about disability program fraud risk, assesses the potential likelihood and impact, determines fraud risk tolerance, examines the suitability of existing fraud and documents the fraud risk profile specifically for the disability program; and
3. conduct risk-based monitoring tied to the fraud risk profile of the disability program to evaluate the effectiveness of preventive activities and use the results to improve the design and implementation of fraud risk management activities within the disability program.

RESPONSE: Concur. While the Office of Programs concurs with this recommendation, we do not have the authority to take these actions. As such, these recommendations will be forwarded to the RRB Board for consideration.

Sincerely,

CRYSTAL
COLEMAN

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COLEMAN
Date: 2019.09.20 15:36:07 -05'00'

Crystal Coleman
Director of Programs