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STATEMENT OF
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BEFORE THE
SUBCOMMITTEE ON MANPOWER AND HOUSING
COMMITTEE ON GOVERNMENT OPERATIONS
UNITED STATES HOUSE OF REPRESENTATIVES
ON
THE OPERATIONS OF THE RAILROAD RETIREMENT BOARD



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Madam Chairwoman and Members of the Subcommittee, we are happy to be here today to discuss with you the work we have done and are doing at the Railroad Retirement Board. We last testified before you in June of 1979 on the Board's activities and we will share with you the progress the Board has made in responding to the problems we identified in 1979. We will also comment on the status of the internal audit function at the Board and the possible effect of proposed personnel reductions on the Board's operations.

In our March 9, 1981, report to the Chairman, House Committee on Government Operations, 1/ we (1) provided data on the cost of Federal assistance to the Board, (2) reviewed the Federal role in providing financial assistance to the Board, and (3) examined alternatives for funding and administering the Board. The report contained no recommendations to the Board. However, it did contain recommendations to the Congress for actions that would (1) ensure that beneficiaries receive the social security equivalent benefit in light of the Board's financial crisis, (2) clarify certain aspects of the railroad retirement eligibility criteria and benefit structure to ensure payment of certain benefits, and (3) prompt a closer examination of the windfall question to decide how much the Federal Government was willing to pay. The Congress, in the Omnibus Budget Reconciliation Act of 1981, enacted provisions that responded to the substance of these recommendations.

1/"Keeping The Railroad Retirement Program On Track--Government and Railroad Should Clarify Roles And Responsibilities"
(HMD-61-27, Mar. 9, 1981).

In a September 24, 1981, report to the Chairman, Subcommittee on Commerce, Transportation and Tourism, House Committee on Energy and Commerce 1/, we showed that the Board could earn more interest income if railroad tax deposits were received and invested earlier. In that report, we said that requiring railroad employers to deposit retirement taxes as frequently as other employers deposit social security taxes and investing such taxes as soon as collected could have earned the Board about \$26 million in additional interest income in fiscal 1980. To earn this additional interest income, Treasury's regulations for collecting such taxes needed to be changed. Both the Board and Treasury agreed that earlier deposits were appropriate and the Board requested that the Treasury initiate such changes in its regulations. We understand that Treasury has postponed this action pending resolution of the President's proposal to defederalize the Railroad Retirement Board. We believe that the Treasury should not postpone this action because the railroads will pay retirement taxes whether the President's proposal is implemented or not.

At present GAO is conducting several reviews of the Board. One, requested by your Subcommittee, compares and contrasts the Board's disability program criteria and processes with SSA's program. Another review, requested by the Senate Appropriations Committee, Subcommittee on Labor, Health and Human Services, and Education, examines the potential impact that reductions in windfall benefits would have on railroad retirement beneficiaries. Neither of these

1/"Delays In Receiving And Investing Taxes Are Reducing Railroad Retirement Program Interest Income" (HRD-81-112, Sept. 24, 1981).

reviews has progressed sufficiently to allow us to offer any observations at this time.

In a third review, we are looking at the financial interchange between the Board and Social Security and the methodology and processes used to determine the amount of the annual transfer. Preliminary indications are that calculation errors by the Board have caused inaccurate estimates of the amounts that should be transferred. We have noted that neither SSA nor the Board has regularly audited the process used to determine the estimates.

Another review in progress examines the Board's Unemployment and Sickness Insurance program. We have noted that the program's account has been in a deficit position and is borrowing from the Retirement Account. That account, as you know, is itself faced with the possibility of borrowing from the Treasury to meet retirement payments.

At this point Madam Chairwoman, I would like to summarize our observations on the Board's progress toward improving its operations since we last appeared before you. On June 8, 1979, we testified that the Board needed to improve the accuracy, timeliness, and uniformity of eligibility decisions and payments to beneficiaries, and to make more effective use of its resources in other areas as well. At that time the Board agreed to take certain corrective actions.

For purposes of this testimony, we have grouped those actions the Board agreed to take under three headings: Claims Processing, Investment Opportunities, and Internal Audit.

Claims Processing

In 1979, we noted four areas in the Board's claims processing system that needed attention:

- Large backlogs in claims processing and benefit adjustments.
- An inadequate work measurement system.
- Insufficient monitoring of applicants' eligibility and weak quality controls.
- Delayed reconciliations of employers' tax and compensation reports.

The board, since 1979, has not appreciably reduced the backlog in claims processing and benefit adjustments. The backlog as of September 30, 1978, stood at 260,000 cases and as of September 30, 1981, stood at 234,000 cases—a reduction of 10 percent. We reported to this Subcommittee that large backlogs were (1) delaying initial and adjusted payments to beneficiaries, (2) increasing overpayments, (3) requiring extensive use of overtime, and (4) delaying certain internal review functions.

In March 1979 the Board began developing a system to automate, where possible, the manual operations used in claims processing. Recently the Board told us that development of the system had not progressed as much as the Board would have liked—because of continuous staff level reductions and certain basic ADP problems that hamper automation efforts. To expedite its automation effort the Board told us that in March of 1982 it entered into a contract with the Mitre Corporation. The Board told us it expects Mitre to finish its work by March 1983.

In conjunction with automating the claims processing, the Board agreed to develop and implement a mechanized caseload accounting system to identify and track work on hand and help in allocating staff. The Board recently told us that such a system is partially operational. Cases that are not tracked by the system are controlled manually.

In 1979 we pointed out that shortcomings in the work measurement system coupled with the absence of a comprehensive quality control program thwarted management's ability to measure production efficiency and staffing needs. The unit rates were based on unvalidated historical data and subjective judgment and the system was not agency-wide.

The Board has implemented a new work measurement system in the Bureau of Retirement Claims, which accounts for about one-third of the agency staff. The Board believes that the system there has proved successful. In June 1982, the Board plans to award a contract for the agency-wide implementation of the system and expects it to be fully implemented by July 1983.

We reported to this Subcommittee the need for improvements in monitoring eligibility and program quality control. For some eligibility requirements, the Board had no monitoring system and relied on self-reporting by beneficiaries. For other eligibility requirements, the Board had procedures for continuous monitoring but sometimes failed to use them. This increased the likelihood of overpayments and hardships for beneficiaries when the overpayments had to be collected. Also, the Board lacked a compre-

hensive quality control program to identify erroneous payments for major beneficiary groups and high-risk situations in need of more monitoring.

To determine the most appropriate response to both the eligibility monitoring and quality control problems, the Board authorized a benefit accuracy study which began in September 1979. The final report is due June 15, 1982. At that time the Board will decide what corrective actions to take.

Accurate reconciliation of employer railroad retirement tax returns with employer reports of employee wages and services, is important. Otherwise, the Board does not know that employees are receiving proper credit for their wages and service or that employers have paid taxes commensurate with credit given employees. In 1979 we reported to this Subcommittee that for the years 1972-76 from 17 to 26 percent of all accounts were unreconciled.

The Board said that additional manpower would enable the bureau doing reconciliations to bring that process up to date. Since 1979, the Board reports that the bureau has added four employees and now has one employee working full time on reconciliation. Nevertheless, for the years 1977-80, from 21 to 27 percent of all accounts were unreconciled.

The Board addressed the reconciliation issue in response to our September 24, 1981 report on delays in receiving and investing taxes which I alluded to earlier. In that report, we recommended that the Board and Treasury consider alternatives to allow faster transfer of deposited railroad retirement taxes to the Railroad Retirement Account. One alternative would be use of the Treasury

Financial Communication System (TFCS), a computer-assisted mechanism that transfers funds electronically within 1 day of deposit. The board has asked Treasury to require railroad employers to use TFCS because it believes that this system would help improve reconciliation by providing sufficient supporting documentation to account properly for amounts shown on tax warrants. We understand that Treasury has not yet acted on the Board's request.

Investment Opportunities

Before the 1979 hearing, we suggested to the Board several ways to make its approach to managing investments more flexible and dynamic. At the hearing, we informed you that the Board had established an investment committee. The committee pursued with Treasury ways of maximizing investment income under the liberalized rules passed in the 1974 Railroad Retirement Act. On November 8, 1979, Treasury agreed to give the Board more control over the the investment of its funds. As a result, the Board was able to realize additional interest income of about \$10 million in 1979 and about \$53 million in 1980. The Board also negotiated a float arrangement with Treasury which allows the Board to earn from 2 to 5 additional days of interest each month on benefit payments not paid by direct deposit. This agreement generated an additional annual gain of about \$2.5 million.

As I mentioned earlier, the Board can also increase the income from its investments through more timely receipt and investment of railroad tax deposits. The amount of such additional interest would depend on the contribution rate and base, the prevailing interest rate, and the actual dates of deposit. As we stated in our

September 1981 report, this would have been about \$26 million in fiscal year 1980. As I also mentioned earlier, however, Treasury is withholding action to permit this additional income because of uncertainty due to the President's proposal to defederalize the Board.

Internal Audit

Next, we will discuss those corrective actions the Board has taken for the internal audit staff since 1979. In addition we will address suggestions that the Board further strengthen its audit function by having a nonstatutory Inspector General who would report directly to the Board members.

The Board's internal audit activities, before 1979, were limited in scope. Most of its activities were geared to financial and compliance issues rather than considering the efficiency and effectiveness of the Board's operations. In fiscal year 1978, only one report dealt with automatic data processing activities. These limited efforts were attributable to a manpower shortage in the staff and the staff's many administrative duties which did not relate to performing audits.

The Board has made some progress in developing a comprehensive internal audit program. Since 1979, the Board has filled the vacancy of the Director of the bureau which headed the internal audit staff. It has increased the internal audit section's staffing from eight full-time permanent positions to 11 positions. It also has added two part-time professional positions to the internal audit staff. The Board said that all nonaudit functions have been removed

from the audit staff's duties. As a result, the Board said that audit activities have been broadened to include operational reviews and audits of automated data processing activities.

With regard to whether there should be a nonstatutory Inspector General who would report directly to the Board, we offer the following comments.

GAO strongly supports the statutory Inspector General concept and its independent status. The Congress has established 17 such Inspector Generals.

There also is precedent for the establishment of nonstatutory Inspector Generals and a number of agencies have created such positions to head their internal audit functions. The position does not, however, have the same requirements as exist for the statutory Inspector Generals--such as dual reporting to both Congress and the head of the agency or having congressional involvement in their appointment or possible dismissal. Actually, the Board may establish whatever non-statutory position it wishes, calling it whatever it desires--this will not necessarily strengthen the audit function. The key to fortifying this function is the degree of auditors' independence.

The Comptroller General's "Standards For Audit of Government Organizations, Programs, Activities, and Functions" places upon individuals and organizations the responsibility for maintaining independence so that opinions, conclusions, judgments, and recommendations will be impartial and will be viewed as such by knowledgeable third parties. It further states that the audit

organization must be organizationally independent and free from external impairments. The latter would encompass influences on (1) the assignment of personnel, (2) the audit organization's funds or resources, (3) the selection of areas to be audited, (4) the content of audit reports, and (5) the auditor's continued employment. As it stands now, the audit function reports to the Board's Chief Executive Officer. The Chief Executive Officer is responsible for the day-to-day operations at the Board. The internal audit organization's independence depends to a large degree on the Chief Executive Officer's policies because he directs the allocation of resources, such as personnel, travel, and training funds. If the Officer provides less than adequate support to the audit staff, the audit coverage could suffer.

To enhance the independence of the internal audit function, we believe that it should report and be directly responsible to the highest level--in this case the Board itself.

Personnel Cutbacks Imposed on the Board

In closing, I would like to briefly address your concern about the effect that proposed personnel cutbacks may have on the Board's operations. We have not studied the proposed cutbacks or alternatives that would best enable the Board to provide maximum service to rail workers and beneficiaries. I would like to share with you, however, our understanding of the proposed changes and some perceptions we received through discussions with the Board.

The Board's work force has declined from 1,880 employees in 1977 to 1,534 employees in April 1982--a decrease of about 18 percent.

The current levels closely parallel the ceilings on employment mandated by OMB.

The board has said that previously imposed employee ceilings have cut its headquarters operations to bare minimum levels--from 1,326 in December 1976 to 1,079 in April 1982, a reduction of 19 percent. The Board contends that cuts in headquarters staff have:

- Increased processing time for retirement and disability applications.
- Increased overpayments in benefits because of reduced quality assurance efforts.
- Decreased recoveries of overpayments.

From December 1976 to April 1982, the Board's field staff was reduced from 596 to 455, a reduction of 24 percent. As a result of cuts in the field office staff, the Board says it has become necessary to:

- Curtail substantially the frequency of visits to areas where there are no field offices.
- require field offices to serve larger areas and more beneficiaries.
- Downgrade some field offices and thereby reduce services to beneficiaries.

To comply with OMB's recommendations that 143 more staff positions be eliminated in fiscal 1983, the Board says it may have to close upwards of 66 (two thirds) of its field offices during that year. Closing that many field offices would reduce the accuracy

and integrity of benefit payments, the Board contends, because the field office staff would have to:

- Reduce the monitoring of student beneficiaries and representative payees.
- Decrease investigations of possible overpayments.
- Curtail their presence in some parts of the country and thus reduce possibilities for the detection and deterrence of fraud, waste, and abuse.

To comply with OMB's wish to cut staff to around 1,100 employees by fiscal 1985 (a reduction of 47 percent from the 1977 level), the Board says it might have to abolish its field offices altogether.

In recent testimony the Board has said that in order to process claims in a timely manner, protect program integrity, and make all necessary adjustments to the maintenance of beneficiary rolls, staff would have to be restored to the 1977 level.

As I said, Madam Chairwoman, we have not made a comprehensive independent analysis of the board's staff needs or of the effects of staff cuts, or of the implication of successful automation to the degree appropriate for necessary staff levels.

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Madam Chairwoman, that concludes my statement. We would be happy to respond to any questions the Subcommittee may have.