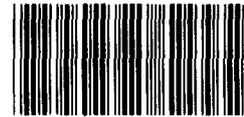


May 1990

RAILROAD
RETIREMENT BOARD

Internal Controls for
Unemployment Program
Improving, but Gaps
Remain



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Human Resources Division

B-239100

May 3, 1990

The Honorable Edward M. Kennedy
Chairman, Committee on Labor and
Human Resources
United States Senate

The Honorable Lloyd Bensten
Chairman, Committee on Finance
United States Senate

The Honorable Thomas A. Luken
Chairman, Subcommittee on Transportation
and Hazardous Materials
Committee on Energy and Commerce
House of Representatives

The Honorable Thomas J. Downey
Chairman, Subcommittee on Human Resources
Committee on Ways and Means
House of Representatives

The Railroad Unemployment Insurance and Retirement Improvement Act of 1988 required GAO to (1) study the frequency of fraud and payment error in the railroad unemployment-sickness benefits program and (2) report to the Congress. We agreed with your staffs that the most effective way to achieve the act's intent would be to review the program's internal controls for safeguarding against fraud and payment error.

The Accounting and Auditing Act of 1950 requires federal agencies to establish and maintain effective internal controls. The Federal Managers' Financial Integrity Act (FMFIA) of 1982 reinforced this requirement by focusing on what internal controls were intended to accomplish. The act states that internal controls must ensure that (1) the use of resources is consistent with laws, regulations, and policies; (2) these resources are safeguarded against waste, loss, and misuse; and (3) reliable data are obtained, maintained, and disclosed in reports.

In addition to reviewing these controls, we obtained related program information that should be useful to the Congress. To do this, we

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- examined earlier GAO reviews, internal audits by the Railroad Retirement Board, and Office of Inspector General (OIG) studies concerning the unemployment-sickness benefits program (see app. I);
 - reviewed current internal controls (see app. II);
 - observed and traced actual transactions through the processing system at headquarters and field offices (see app. II); and
 - assessed the Board's computer system, including its recent analysis of computer security (see app. II).

Appendix I contains a more detailed description of the objectives, scope, and methodology of our review (see p. 10). We carried out our review from December 1988 through July 1989 in accordance with generally accepted government auditing standards.

Background

Railroad employees were originally covered by state unemployment programs established under the 1935 Social Security Act. Unemployed railroad workers were often denied benefits, however, because they became unemployed while working in one state whereas their employers had paid unemployment taxes in another state. Consequently, in June 1938 the Congress created a separate railroad unemployment program to cover railroad workers; in 1946, the Congress expanded the program to include sickness benefits. The requirements for program eligibility are discussed in appendix III (see p. 22).

The Railroad Retirement Board is an independent federal government agency that administers retirement-survivor and unemployment-sickness benefits programs for the nation's railroad workers. The Board, headquartered in Chicago, has 90 field offices and about 1,600 employees. During 50 years of operation, it has paid out over \$102 billion in retirement benefits and about \$6 billion in unemployment and sickness benefits: 925,000 retirement-survivor beneficiaries received about \$6.7 billion and about 101,000 unemployment-sickness beneficiaries received about \$132 million in 1988. Unemployment-sickness benefits paid in June 1989 averaged \$150 a week for each beneficiary. This report addresses the internal controls for the unemployment-sickness benefits program. Appendix IV contains detailed information on the program's operations and describes the Board's internal controls (see p. 24).

Results in Brief

Through the program's current internal controls, the Board identified approximately \$1 million in fraud and payment error during benefit

year 1988.¹ In addition, from October 1987 through September 1989, the Board's OIG obtained 95 criminal convictions for fraudulent unemployment-sickness benefits amounting to \$383,300. OIG also has under investigation 842 cases for benefits of about \$3 million.

The Board has internal controls in place to deter fraud and payment error and, on the basis of a 1985 GAO review,² has strengthened its internal controls by implementing new procedures. Even with these improvements, however, gaps exist in controls for processing benefits and in computer operations that may permit fraud and payment error to go undetected. Appendix II contains the details of our assessment of the unemployment-sickness benefits program, steps taken by the Board to improve controls, and the problems we identified (see p.12). Specifically, we found the following:

- There is no assurance that the people filling out the physician certificates, required to obtain sickness benefits, are the applicants' physicians. Applicants, rather than physicians, submit the certificates to the Board. This presents an opportunity for an applicant to falsify this certificate and obtain fraudulent benefits. Three studies—a 1978 Board internal audit, an independent consulting firm study, and our 1985 review—pointed out the potential for submitting fraudulent certificates to obtain sickness benefits. The studies recommended establishing additional controls, such as checking lists of physicians' tax identification numbers against certificates, but these controls have not been implemented. The potential for falsifying physician certificates would be minimized if the Board had direct contact with physicians (see p. 14).
- Documents used to enter data into the computer are not adequately controlled. Computer personnel estimate the number of documents to be processed and do not reconcile discrepancies between the estimates and the actual number of documents processed. In addition, original documents are sent to outside contractors for keypunching, but duplicates of these documents are not maintained to (1) prevent unauthorized changes or (2) permit reconstruction because of document loss or damage. Finally, GAO guidance for evaluating internal controls in computer operations states that input data should be combined by type (batch),³ with a count and predetermined control totals of input data to deter

¹A benefit year runs from July 1 through June 30.

²Need to Improve Internal Controls to Curtail Possible Fraud and Abuse in the Railroad Retirement Board's Unemployment and Sickness Insurance Program (GAO/HRD-85-37, Feb. 27, 1985).

³Evaluating Internal Controls in Computer Based Systems, Audit Guide (June 1981).

potential fraud⁴—caused by added, lost, or changed source documents (see p. 13).

- The Board's computer documentation indicated that incorrect and unauthorized software programs have been used to process benefits. GAO guidance for evaluating controls and the Board's own procedures require (1) careful testing and safeguarding of computer software programs to prevent unauthorized and potentially incorrect computer programs from being used for actual processing and (2) that any software changes have proper authorization by a responsible official and a record be kept (see p. 15).
- The Board's security for the computer center is inadequate. During our visit, the doors to both the central computer room and the tape library were standing open "due to air conditioning problems." GAO guidance for evaluating internal controls states that computers, information, and data should be protected against theft, loss, unauthorized manipulation, fraudulent activities, and natural disasters. The Board's security does not, however, assure this protection. In addition, the location of the computer facility above the cafeteria increases the risk from fire (see p. 16).
- The Board's policy is to investigate the background of all computer employees, but we found employees who had not been investigated. For example, top-ranked computer officials who have worked at the Board for many years, including the chief of computer services, had not received background checks. Standards require screening all computer personnel before they are hired to (1) assure their integrity and (2) guard against fraud and sabotage in federal data processing.⁵ In addition, Board employees who certify computer tapes for payment, which averages about \$500,000 a day, had not received background checks (see p. 16).
- Board personnel do not manually verify whether claimants are working (they are not eligible for benefits if so), and computer generation of potential wage-reporting violations takes months to resolve. The Board has established manual and computerized procedures to match wage data with records of railroad and state employment offices to see if claimants have earnings that were not reported to the Board. In benefit year 1988, approximately 70 percent (\$700,000 from \$1 million) of payment error and over 90 percent of fraud were a result of these procedures (see p. 17).

⁴A control total is the sum of all values of a variable that appears on documents in a group. It is calculated before the batch is read into the computer for later comparison with an analogous total calculated by the computer.

⁵Federal Information Processing Standards Publication 73, Guidelines for Security of Computer Applications.

- Board claims examiners process transactions for benefit payments and also enter them directly into computerized claims-processing, without earlier approval or authorization of supervisory personnel. These activities are not separated, as called for by GAO standards for internal controls in the federal government.⁶ Those standards require separating key duties and responsibilities in authorizing and processing transactions. Such separation is an essential internal control in reducing the possibility of fraud and payment errors. Under the Board's process, an employee could authorize and receive fraudulent payments without being discovered (see p. 19).

Conclusions and Recommendations

The Board has significant internal controls in place to deter fraud and payment error and has detected such occurrences in the past. Some gaps exist, however, in separation of duties, control over computer documents, verification of physician certificates, wage matches, controls over computer software, computer center security, and security checks of computer personnel. The Board should improve its internal controls in these areas to (1) deter those with knowledge of benefit processing and computer operations from introducing fraudulent transactions, (2) reduce payment error, and (3) reduce administrative costs in correcting fraud and payment error.

We recommend that the Chairman of the Railroad Retirement Board do the following:

- Alter procedures to ensure adequate separation of claims-processing and payment authorization activities.
- Provide better control for documents used to enter data so the documents cannot be lost or manipulated.
- Strengthen controls to ensure that only properly authorized computer programs are used, the computer center is secure, and all computer personnel receive background security checks.
- Improve control for validity of physician certificates of sickness by implementing our earlier recommendation that physicians (1) provide their tax identification numbers with the certificates and (2) deal directly with the Board rather than through claimants.
- Increase (1) the priority for resolving discrepancies disclosed by computer matches of benefit payments with state employment records and (2) the number of manual matches in states in which computer match

⁶Accounting Series, Standards for Internal Controls in the Federal Government, United States General Accounting Office (1983).

agreements have not been negotiated. A cost-benefit analysis should be carried out, however, to assure that the benefits derived exceed the costs incurred.

Our review of fraud and payment error in the unemployment-sickness benefits program did not reveal deficiencies that require changes in legislation to reduce losses.

Agency Comments

The Board, in its written comments, generally concurred with our recommendations and described the actions planned or already taken to implement them. Concerning our recommendation about the validity of physician certificates, the Board does not plan to alter procedures to require that physicians submit medical statements directly to it. The Board plans to develop alternative procedures, however, that it believes will achieve the result intended by our recommendation. The Board will determine the best method to incorporate, in claims-processing routines, an increased level of direct communication with physicians (see app. V).

We are sending copies of this report to the Chairman of the Railroad Retirement Board and other interested congressional committees. Other interested parties will be sent copies on request.

Please call me on (202) 275-1655 if you or your staffs have any questions about this report. Other major contributors are listed in appendix VI.



Linda G. Morra
Director, Intergovernmental
and Management Issues

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Abbreviations

BCC	Bureau of Compensation and Certification
BDP	Bureau of Data Processing
BFO	Bureau of Fiscal Operations
BFS	Bureau of Field Services
BUSI	Bureau of Unemployment and Sickness Insurance
EEI	estimated end of inability
FMFIA	Federal Managers' Financial Integrity Act
GAO	General Accounting Office
OCR	optical character reader
OIG	Office of Inspector General
RRB	Railroad Retirement Board
RUIA	Railroad Unemployment Insurance Act
RUCS	Railroad Unemployment Claims System
SCORE	Service & Compensation of Railroad Employees

Objectives, Scope, and Methodology

Section 7107 of the Railroad Unemployment Insurance and Retirement Improvement Act of 1988 states that our report is to include

- estimates of rates and amounts of annual losses because of fraud and payment error,
- comparisons of such rates with rates of loss in similar federal programs,
- recommendations for legislation to reduce the losses resulting from fraud and payment error, and
- such other matters relating to fraud and payment error as the Comptroller General determines are appropriate.

Assessing the extent of fraud in any program is difficult. If fraud is discovered, the program deficiencies permitting the fraud must be corrected to prevent further losses. The amount of fraud uncovered, however, is not necessarily indicative of how much may yet exist. The federal government has passed several laws (see p. 2) to ensure that programs are designed and administered in ways that minimize the opportunity for, and thus the amount of, fraud.

Considering how difficult it is to determine how much fraud there is in a program, GAO discussed the intent of the act with staffs of the congressional committees responsible for the unemployment-sickness benefits program. They agreed that the most effective way to achieve the act's intent would be to review the program's internal controls for safeguarding against fraud and payment error.

To assess the Board's internal controls, we (1) reviewed the program's legislative history; (2) assessed benefit eligibility criteria in relation to the law; (3) reviewed earlier studies made by the Board, its internal audit organizations, and GAO; (4) studied the Board's organizational structure; (5) interviewed Board officials; (6) reviewed program policies, procedures, and management reports; (7) reviewed changes in regulations proposed by the Board; (8) identified internal controls in place; (9) observed program operations at the Board's headquarters and five district offices; (10) reviewed claim files; (11) verified the correctness of a random sample of transactions by tracing them through the unemployment-sickness claims-processing system; (12) analyzed computer reports of processing problems, as well as fraud and payment error; and (13) reviewed cases closed by the Board's Office of Inspector General (OIG).

We also reviewed internal controls for the computer system and analyzed two new computer systems that were being implemented at the time of our review. Our assessment of computer programs was limited to

Appendix I
Objectives, Scope, and Methodology

reviewing the documentation for these programs; we did not develop or run test transactions through the computer systems.

Our work was done at the Board's headquarters in Chicago and at district offices in Baltimore, Joliet (Ill.), Milwaukee, New Orleans, and West Covina (Calif.)—one in each of the Board's five regions.

GAO's Assessment of the Internal Controls for the Unemployment-Sickness Benefits Program

The Board has extensive internal controls that identified approximately \$1 million in fraud and payment error during benefit year 1988.¹ In addition, from October 1987 through September 1989, the Board's OIG obtained 95 criminal convictions for fraud covering \$383,300 in unemployment-sickness benefits. The Board strengthened its internal controls on the basis of a 1985 GAO review, and the Board is implementing new procedures that will further strengthen them. Gaps still exist, however, in controls for computer operations and benefits processing, which may permit fraud and payment error to go undetected.

Defining Internal Controls

The Board's internal controls consist of review and approval steps. These take place in district and headquarters offices; the steps are designed to ensure that personnel correctly handle manually processed documents and identify discrepancies. In addition, there are computer controls that verify information being processed electronically. A principal control to determine if claimants are working is the Board's postpayment checking of employment data at state employment offices. Claimants cannot work and receive benefits. This control identified about 70 percent of the approximately \$1 million in fraud and payment error for benefit year 1988. Appendix IV describes current internal controls in detail (see p. 24).

Internal controls also consist of separation of processing duties. The duties of the Board's five bureaus reflect such a separation. These bureaus include the Bureau of Field Services (BFS), the Bureau of Data Processing (BDP), the Bureau of Compensation and Certification (BCC), the Bureau of Unemployment and Sickness Insurance (BUSI), and the Bureau of Fiscal Operations (BFO). (See fig. IV.1, p. 26, for key organizational controls for paying benefits.)

The Board has strengthened several of its internal controls. For example, employers were notified only when former employees initially submitted applications for unemployment benefits. Beginning in 1990, the Board must notify each railroad employer of every claim for benefits that an unemployed worker submits. The reason for the new notification system is that employers' tax rates will be affected by the volume of benefits paid. This will enable employers to challenge claims for benefits by former employees who may not be entitled to them. The application and claim process is discussed in appendix IV.

¹A benefit year runs from July 1 through June 30.

Internal Controls for Computer Input Data Inadequate

The Board's internal controls for documents that are used to enter data into the computer are inadequate. GAO guidance for evaluating internal controls in computer operations requires combining (batching) data by type,² with record counts and predetermined control totals, to assure that documents are not added, lost, or manipulated.³ This was not being done.

When we began our review, all unemployment benefit transactions from the district offices and sickness insurance transactions processed in headquarters were sent to a batch control unit. There personnel counted, logged, and hand-carried the transactions to the computer center. Personnel there did not make copies of the individual documents in the batches; the only identifiers for the batches were the (1) Social Security numbers on the first and last documents and (2) number of documents in each batch. There were no predetermined control totals.

We found that the number of documents actually processed by the computer did not always agree with the original batch count. This occurred frequently, according to the computer operators, but they did not reconcile discrepancies of plus or minus five documents.

When the computer rejects transactions, it notifies claims examiners to take action. Claims examiners correct these rejected transactions, called referrals, by preparing new documents that the examiners also batch and introduce into the computer. In tracing referrals, however, we found that the examiners did not have valid batch counts. They estimated, rather than counted, the documents because counting equipment did not operate accurately. In addition, during the rush to get documents to data processing at scheduled times, we observed extra documents being inserted into the estimated batches.

Accepting tolerance levels (for example, plus or minus five) and estimates defeats the batching of data, which is to assure that transactions have not been altered. No official policy, Board officials stated, permitted tolerance levels or estimates; the officials agreed to correct this deficiency. Personnel are now reviewing all batched documents, the Board said in comments on our draft report, to ensure the accuracy of batching. The Board also agreed to reconcile discrepancies on a sample basis.

²Evaluating Internal Controls in Computer Based Systems Audit Guide (June 1981).

³A control total is the total value of a variable in a batch. It is calculated before the batch is read into the computer for later comparison with a total calculated by the computer.

The Board cannot reconstruct a lost or damaged batch, a particularly significant problem for batches sent to outside contractors for keypunching. Board personnel do not prepare a record of the individual items in the batch; only the count is known. No resources are available, Board officials said, to copy every document sent out for keypunching; to date, however, no batches have been lost. In addition, prompt processing is the primary concern—that is, getting the money to unemployed workers—and copying would delay processing. Two new data entry systems, the Railroad Unemployment Claims System (RUCS) and Key/Master, officials also pointed out, will significantly reduce the number of documents that must be batched; information will be transmitted through computer terminals from remote sites.

Although RUCS and Key/Master will reduce the volume of paper documents to be batched and keypunched, they will not totally eliminate batching. Various sickness benefit transactions will still be batched. The Board said, in comments on our draft report, that staff will (1) photocopy a random selection of batched documents before release to the outside contractor and (2) compare the copies with the keyed documents when they are returned.

Internal Controls for Physicians' Certificates Inadequate

An applicant for sickness benefits must submit a physician's certificate—a card with the physician's name, address, signature, and diagnosis. The applicant generally sends the certificate to the Board. Earlier Board studies, as far back as 1978, and a 1985 GAO report pointed out the potential for submitting fraudulent certificates—because anyone can fill out these certificates—and recommended additional controls,⁴ such as requiring the physician to provide his or her tax identification number. Claimants have attempted, Board claims examiners said, to submit fraudulent certificates. Examiners identify such certificates by (1) comparing the handwriting on the application and on the certificate and (2) recognizing the use of lay, rather than medical, terminology in the diagnosis.

The Board has acknowledged the problem and, Board officials said, it will start using tax identification numbers for physicians late in 1990. The Board intends to obtain physician identification numbers from the Travelers Insurance Company, which administers Medicare payments for railroad retirement beneficiaries. The Board will incorporate the

⁴Need to Improve Internal Controls to Curtail Possible Fraud and Abuse in the Railroad Retirement Board's Unemployment and Sickness Insurance Program (GAO/HRD-85-37, Feb. 27, 1985).

numbers into a data base and compare those on the certificate with those in the data base. Using tax identifier numbers offers an additional opportunity for internal control. These identifiers would let the Board analyze certificates to determine if any physicians are submitting large numbers; the Board could then investigate those cases for potential fraud.

We believe relying only on tax identifier numbers may be inadequate. Since applicants obtain and submit certificates themselves, they could learn the physician tax identifiers. Direct communication between the Board and the physician would be preferable. Physicians could send the certificates directly to the Board in Board-supplied envelopes, and the Board could contact the physician for any subsequent certificates, for example, if the applicant is still sick at the expiration of the original period of sickness. The implementation of such a procedure is not specifically addressed in the Board's response to our draft report. The Board has, however, initiated a special study of the unemployment-sickness benefits program to evaluate current operations and procedures. This special study is scheduled to be completed in July 1990.

Internal Controls for Computer Programs and Security Inadequate

To prevent unauthorized and potentially incorrect computer programs from being used to produce payments, GAO guidance for evaluating internal controls and the Board's procedures require these programs to be tested and safeguarded. We reviewed 124 programs used daily by Board computer personnel. The program documentation showed these problems: 1 program was not properly authorized for use; 3 had logic statements missing; and 14 contained other logic problems. All of these problems may have involved poor documentation rather than incorrect programs. The missing logic statements, however, indicate that the calculations used for benefit payments could be affected.

Board officials should have been able to give us documentation of computer test runs showing that the errors were corrected. But they were unable to do so.

The Board uses three computer program inventories, each maintained by a different group, in the operation of its programs. We found differences in the data of these inventories, even though they should be the same, for example:

- Four programs in use were not indicated on two of the inventories.

- Five programs with different dates reflected changes made to the programs, but the dates on the inventories did not agree with the dates for the programs.
- Three programs labeled obsolete on one inventory should have been so labeled on the other inventories.
- Eight programs on one inventory were not on the other inventories.

We also found that the security for the computer center is inadequate. It is located above the cafeteria, thereby increasing fire risk. In addition, the security officer for data processing was not directly included in planning RUCS, which permits direct input of applications and claims from remote computer terminals. The security officer was not, therefore, protecting against unauthorized access to the computer so as to prevent fraud or payment error.

Since virtually all the internal controls depend on properly functioning computer programs, correct and properly authorized programs are central to accurate payments. In addition, inadequate controls for access to the computer tape library could result in unauthorized access to, or use of, computer programs and data. This increases opportunities for fraud and the likelihood of payment error.

Federal data-processing standards require screening computer personnel before hiring them.⁵ Although the Board has a policy of investigating its computer personnel, top-ranked officials—including the chief of computer services, who had been employed for many years—had not been investigated. The lack of investigations, a Board official said, was because of (1) the high cost of in-depth background checks by the Office of Personnel Management and (2) the number of such checks required in recent years for new hires and newly promoted employees. The Board said, in response to our draft report, it will make a concerted effort in fiscal year 1990 to complete investigations for senior computer personnel.

In addition, we found that Board staff who certify benefit payments—currently averaging about \$500,000 a day—had never been investigated. Although we saw no evidence of wrongdoing, the lack of investigations is a serious omission because the staff are in a significant position of trust.

⁵Federal Information Processing Standards Publication 73, Guidance for Security of Computer Applications.

Postpayment Verifications Inadequate

Claimants for unemployment-sickness benefits are not eligible for benefits if they are working. The Board, therefore, does computerized and manual postpayment verifications to discourage false claims and detect employed claimants. Three major railroads supply the Board with computerized wage data to match against benefit records. Another major railroad has given district office employees authorization for access to wage records of train and engine crews. The Board does computer matches of their records with state employment records; currently, the Board has contracts for computer matching of records with nine states and is negotiating for matching with three additional ones.

District offices periodically make manual matches of beneficiary records against wage data at railroad payroll offices. In those states that do not have computer-matching agreements with the Board, periodic manual matches of beneficiary records are also made with state employment records.

Investigating potential violations by matching railroad and state wage records, however, is time-consuming. Wage data reported by nonrailroad employers to state employment offices is accumulated into 3-month periods. Railroad employees, however, can be entitled to benefits for 1 day of unemployment. If railroad unemployment benefits are paid during the same period as wages or state employment benefits, the Board must ask each nonrailroad employer or state to determine the specific dates for which the beneficiary received nonrailroad compensation. The Board depends on the cooperation of the state employment agencies and the nonrailroad employers for this information and, often, encounters significant delays.

Our visits to district offices revealed few manual matches of railroad wage data against beneficiary records. Aside from the problem of delays cited above, wage data may not be easily accessible to the district offices. In addition, district offices do not use direct computer access to the payroll data, even when that is possible. For example, in two of the district offices we visited, the access codes to the railroad computer system had expired because of not being used.

We also found that the district offices made little attempt at nonrailroad postpayment verification: they did (1) few manual matches of wage data against the records of state employment offices and (2) no follow-up on the delayed responses to requests for both manual and computerized wage matches. For example, in 3 years, one district office had requested a state employment agency to make only three manual wage

matches for 5 to 7 percent of beneficiaries. Board headquarters had asked another district office to investigate 11 matches of computerized state wage data in August 1988. Of these 11, 6 were over 8 months old and unresolved when we visited. The district offices attributed the limited wage match efforts to insufficient staff. The Board said in response to our draft report, however, that for matches of state wage data, guidance would be issued to all field service offices by March 31, 1990, concerning the (1) number of wage match efforts and (2) prescribed time periods for completing these matches.

There is also inadequate separation of duties in the postpayment verification procedures. The same staff that process the original unemployment applications and claims do the manual matches. These staff could simply ignore a case for wage matches if a fraudulent benefit had been introduced into the system. Similarly, although computer matches eliminate judgment in selecting wage match cases, potential overpayments disclosed by computer matches are returned to the same staff that processed the original claims. In contrast, overpayment cases for sickness payments, discovered in computer matches, are turned over to a quality-assurance unit for resolution. This unit, not the claims examiners, is responsible for recovery actions. In this instance, duties are adequately separated.

The detection of unreported wages is an important internal control and a major deterrent to fraud. In benefit year 1988, about 70 percent of the Board's payment error, \$700,000 of the \$1 million, and over 90 percent of the OIG fraud cases and convictions resulted from unreported nonrailroad wages. These results were achieved even though our review indicated that (1) field offices did few manual wage checks and (2) computerized wage checks were not resolved promptly. Board officials told us that they planned to conduct a cost-benefit analysis of computer matching. They believe the benefits will exceed the costs, especially when considering that the existence of computer matching is a deterrent to those who claim unemployment benefits while working.

As a result of our 1985 review, the Board, in order to detect possible fraud, tested cases in which multiple benefits were being sent to the same address. The Board also matched its own employee wage data against benefit records to determine if fraudulent benefits were sent to Board employees. The Board only did these tests once, however, about 5 years ago. Although these tests did not disclose fraudulent benefits, they should be done more often as a deterrent.

Benefit-Processing Duties Not Separated

GAO standards for internal controls in the federal government require separate authorization for transactions and processing. To do this for thousands of small payments is prohibitively expensive. Therefore, GAO guidance permits sampling of payments amounting to less than \$1,000. When staff duties are not separated, internal controls must compensate for the lack of separation. Unemployment transactions processed by the Board's district offices and sickness transactions processed by headquarters, however, are forwarded directly to computer processing. Under RUCS and Key/Master, Board officials said, claims examiners at remote computer terminals without supervisory review will enter documents directly into the computer-processing system.

We discussed this lack of separation of duties with Board operating officials. They acknowledged the problem, but believe that compensating internal controls ensure the program's integrity. A review of every transaction, they asserted, is unwarranted; they cited such compensating controls as

- valid wage records on file for comparing with applications to determine eligibility for benefits,
- the need for a valid application before claims can be processed,
- controls over changes of address, and
- postpayment wage matches.

Staff reviewing a transaction, the officials also pointed out, would have no more information for making a judgment than the original claims processor (see app. IV for further detail). Our review suggests, however, that a staff member who understood the Board's internal controls could circumvent them. In doing claims processing, Board staff have access to records that show whether (1) a valid wage record exists and (2) a railroad employee is working or collecting benefits. With this information, a staff member could submit a fraudulent application that would match against a valid wage record, thereby permitting receipt of fraudulent benefits.

The Board notifies the applicant's current and base-year employers for each unemployment application received.⁶ But a railroad employer's questioning of an application is returned to the district office and then handled by the same staff member who originally processed the application. This offers an opportunity for that person to ignore the employer's

⁶The base year is the calendar year preceding the benefit year, which extends from July 1 through June 30. Thus, calendar year 1987 was the base year for the benefit year beginning July 1, 1988.

challenge. A similar deficiency exists in postpayment verification, as discussed on p. 18. The same field staff who make wage matches or follow up on them also process unemployment transactions. Likewise, the same staff who processed the original application handle any data from nonrailroad employers. Again, this provides an opportunity for ignoring the employer's challenge.

Sickness benefits are handled differently. The Bureau of Unemployment and Sickness Insurance's (BUSI) quality-assurance unit receives employer challenges, investigates them, and takes corrective actions. Responsibilities for sickness benefits are adequately separated.

Supervisory staff periodically review a judgmental sample of unemployment and sickness insurance transactions to evaluate how well the staff are doing. In addition, daily, a BUSI quality-assurance unit selects sickness transactions for examination.

We sampled 10 percent of both unemployment and sickness benefits for 1 day—241 transactions—and traced them through the benefit-processing system. We found no discrepancies in the sample transactions. The Board, however, inadequately separates duties for processing benefit payments, and the internal controls in place do not adequately protect against fraud. In addition, although the Board does a quality-assurance review of some sickness transactions, it does not review unemployment transactions.

The Board should assure the validity of unemployment and sickness benefits through adequate separation of duties. Authorization of every unemployment and sickness application or claim would be a significant burden on the Board's resources, but few additional resources would be required if the Board would do statistically sound, quality-assurance sampling of unemployment benefits as well as sickness benefits; this would also provide statistically sound data on performance errors for management reporting. The staff member who originally processes the application or claim should not also resolve employer challenges.

Agency Comments

The Board, in its written comments, generally concurred with our recommendations. Its comments are included in appendix V.

To ensure adequate separation of claims processing and payment authorization, the Board will develop procedures, following GAO guidance. The Board will do quality assurance reviews, using a statistically

valid sampling technique, for samples of both unemployment and sickness transactions. The Board will establish procedures requiring separate authorization for all payments over \$1,000 resulting from multiple claims paid on the same day.

Concerning better control over documents used to enter data into the computers, the Board will review all batched documents to ensure (1) they are combined by type and (2) accurate record counts are obtained. In addition, the Board will reconcile discrepancies on a sample basis.

For control over computer programs, the computer center, and computer personnel, the Board will install a computer software package that will ensure that only authorized staff have access to programs. Contract personnel will tour the computer center daily to check on security, and Board staff working in sensitive areas will have background checks.

We recommended that physicians submit their tax identification numbers with sickness certificates directly to the Board rather than through claimants. The Board plans, it said, to develop alternative procedures that it believes will achieve the result intended by our recommendation. The Board expressed concern that direct communication with physicians would remove the claimants from the process, perhaps resulting in delayed benefit payments. The Board will determine, by December 31, 1990, how best to incorporate an increased level of direct communication between the Board and physicians into its claims-processing routines. Although delays in receiving benefits may occur, we believe that direct communication between physicians and the Board is the best method to prevent payment of fraudulent benefits.

The Board will issue guidance to all field offices concerning increasing (1) the priority for resolving discrepancies disclosed by computer matches and (2) the number of matches in states where computer matches are not possible. The guidance will include the prescribed time periods for investigating information obtained from state programs for wage matching. In addition, Board regional directors will be requested to review the status of manual wage matching and make arrangements to conduct such matches when computer-matching programs do not exist.

Employee Eligibility for Benefits

The Railroad Unemployment Insurance Act (RUIA) provides benefits to replace part of the railroad wages lost because of unemployment or sickness (including illness resulting from maternity). To receive benefits, an employee must be both "qualified" and "eligible." A qualified employee is one who earns sufficient creditable compensation in a base year (see fn. 6, p. 19), at least \$1,775 in calendar year 1989, including no more than \$710 in any month.¹

To be eligible for unemployment benefits, a qualified claimant must be unemployed and both able and available to work. A day of unemployment is one in which the claimant meets these conditions and does not receive any pay, is not disqualified, and is registered at a Board unemployment office.

To be eligible for sickness benefits, a qualified claimant must be unable to work because of illness or injury. A sick day is one on which the claimant meets these conditions, does not receive any pay, and has filed a statement of sickness. A physician's certificate is required to receive sickness benefits.

The unemployment-sickness benefits program pays 60 percent of the claimant's last daily wage in benefits. The minimum daily benefit is \$12.70 and the maximum is \$31.00.² Under current railroad wage rates, most claimants receive the maximum daily benefit.

Normal benefits are paid up to 130 days. After 130 days, claimants with 10 to 14 years of railroad service can receive extended benefits for 65 additional days; claimants with at least 15 years of railroad service can receive extended benefits for up to 130 days.

Claimants may be disqualified for fraudulent statements, receiving other social insurance benefits (such as state unemployment insurance), receiving separation allowances, voluntarily quitting without good cause, or engaging in an illegal strike. An unemployment claimant may also be disqualified for refusing to accept suitable work, failing to apply for work, or not reporting to a Board office for an interview. A sickness

¹In addition, a new employee must have worked in the railroad industry at least 5 months of the first year to draw benefits in the following year.

²The Gramm-Rudman-Hollings Act mandates spending reductions in certain federal programs. The Board will have to reduce biweekly unemployment and sickness benefits for fiscal year 1990 because of this act.

claimant may also be disqualified for not taking a medical examination when required by the Board.

Processing Procedures and Internal Controls

The Railroad Retirement Board has internal controls in place for the unemployment-sickness benefits program. At district and headquarters offices, the controls for manually processed documents consist of review and approval. There are also computer controls that verify information being processed.

Manual processing of applications and claims for unemployment are different from those for sickness. Computer processing at the Board's headquarters is generally the same for both types of benefits. Some procedures and internal controls were changed during our field work as a result of the 1988 Railroad Unemployment Insurance and Retirement Act and the implementation of two computer systems—the Railroad Unemployment Claims System (RUCS) and Key/Master. Our review of these two systems was limited to learning what they were meant to accomplish because they were still being tested and not fully operational.

Earlier Evaluation of the Board's Program

In 1985, we issued a report on the Board and recommendations for improvement.¹ The Board implemented four of our five recommendations. It began (1) doing more checks to detect claimants who fail to report nonrailroad employment while they are receiving unemployment benefits, (2) notifying railroad employers immediately after applications for benefits were filed, (3) verifying the authenticity of changes of address, and (4) reviewing the reason why multiple checks were sent to the same address. The Board has not, however, improved its procedures for verifying the validity of physicians' certificates.

In 1988, as part of its responsibility under the Federal Managers' Financial Integrity Act (FMFIA), the Board classified 24 of its 123 operating systems as being "highly vulnerable" to being unable to carry out their objectives. A system is a collection of associated activities, policies, and procedures that produce an end product, such as a benefit payment. Included in these 24 systems were unemployment and sickness applications and claims processing, payment tape processing (computer tapes sent to the Department of the Treasury, which generates benefit checks), data entry, and computer operations.

The Board acknowledged significant weaknesses in internal controls because of

¹Need to Improve Internal Controls to Curtail Possible Fraud and Abuse in the Railroad Retirement Board's Unemployment and Sickness Insurance Program (GAO/HRD-85-37, Feb. 27, 1985).

- the lack of controls for the accuracy of information that applicants and physicians furnish to the Board in connection with payment of sickness benefits;
- the lack of controls for preventing loss, destruction, or alteration of computer documents used to enter data when these documents are sent to an outside contractor for keypunching; and
- inadequate physical security in the computer center.

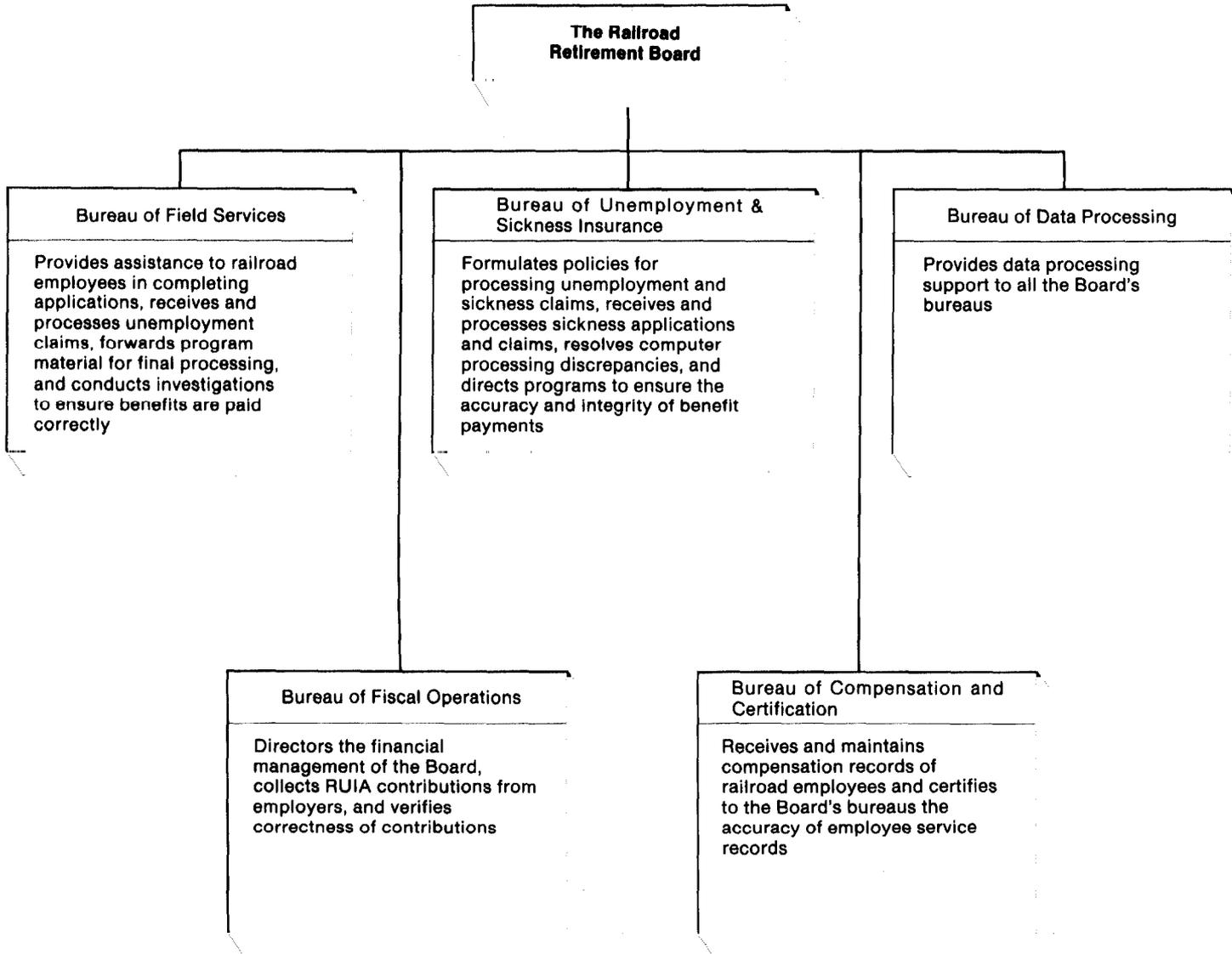
The Board's internal auditors had not comprehensively reviewed the program in recent years. The Board's OIG, established in 1986, had included a review of the program in its 1989 audit plan, but postponed the review because of our review.

Key Organizational Controls

Separation of duties is a key internal control. The Board's organizational structure is, therefore, a form of internal control since five of the Board's bureaus are separately involved in processing benefits. The Bureau of Unemployment and Sickness Insurance (BUSI) at Board headquarters has primary responsibility for the program—policies and procedures, quality control, and resolution of problem applications and claims. It receives and processes sickness applications and claims. The Bureau of Field Services (BFS) receives and processes unemployment applications and claims at district offices, resolves questionable items, interviews beneficiaries, and makes postpayment matches of benefits paid against railroad and state employment records. The Bureau of Compensation and Certification (BCC) receives wage data and maintains the master wage record, which determines eligibility. The Bureau of Fiscal Operations (BFO) independently reconciles wage data reported to BCC with the employer tax payments made on these wages to BFO. The Bureau of Data Processing (BDP) carries out computer operations.

The Board's key organizational controls concerned with unemployment and sickness benefits are shown in figure IV.I.

Figure IV.1: Key Organizational Controls for Paying Benefits



Unemployment Insurance Benefit Processing at District Offices

To apply for unemployment benefits, the applicant completes a UI-1 form, Application for Unemployment Benefits and Employment Service. This form, available from employers, labor organizations, and Board offices, requests the applicant's name, address, Social Security number, date of birth, railroad employment, and reason for unemployment. The form must be received by the Board within 30 days of the first day for which the applicant wishes to claim benefits. After the form has been processed, the Board sends a computer-generated UI-3 form, Claim for Unemployment Benefits, to the applicant. This form requests the claimant's name, Social Security number, and days not worked, including holidays. A claim must be filed for each 14-day period, beginning with the first day of unemployment. The applications and claims, which must be signed, are mailed directly to Board district offices. The Board also sends the claimant computer-generated UI-3 forms for filing subsequent claims.

On receipt of an application, the district office reviews it for completeness, resolves any problem, and establishes a file on the applicant. Claims examiners notify employers that they have an obligation to reimburse the Board if there is any indication that the applicant might subsequently receive some kind of settlement from the employer covering the period of unemployment for which Board benefits are to be paid.

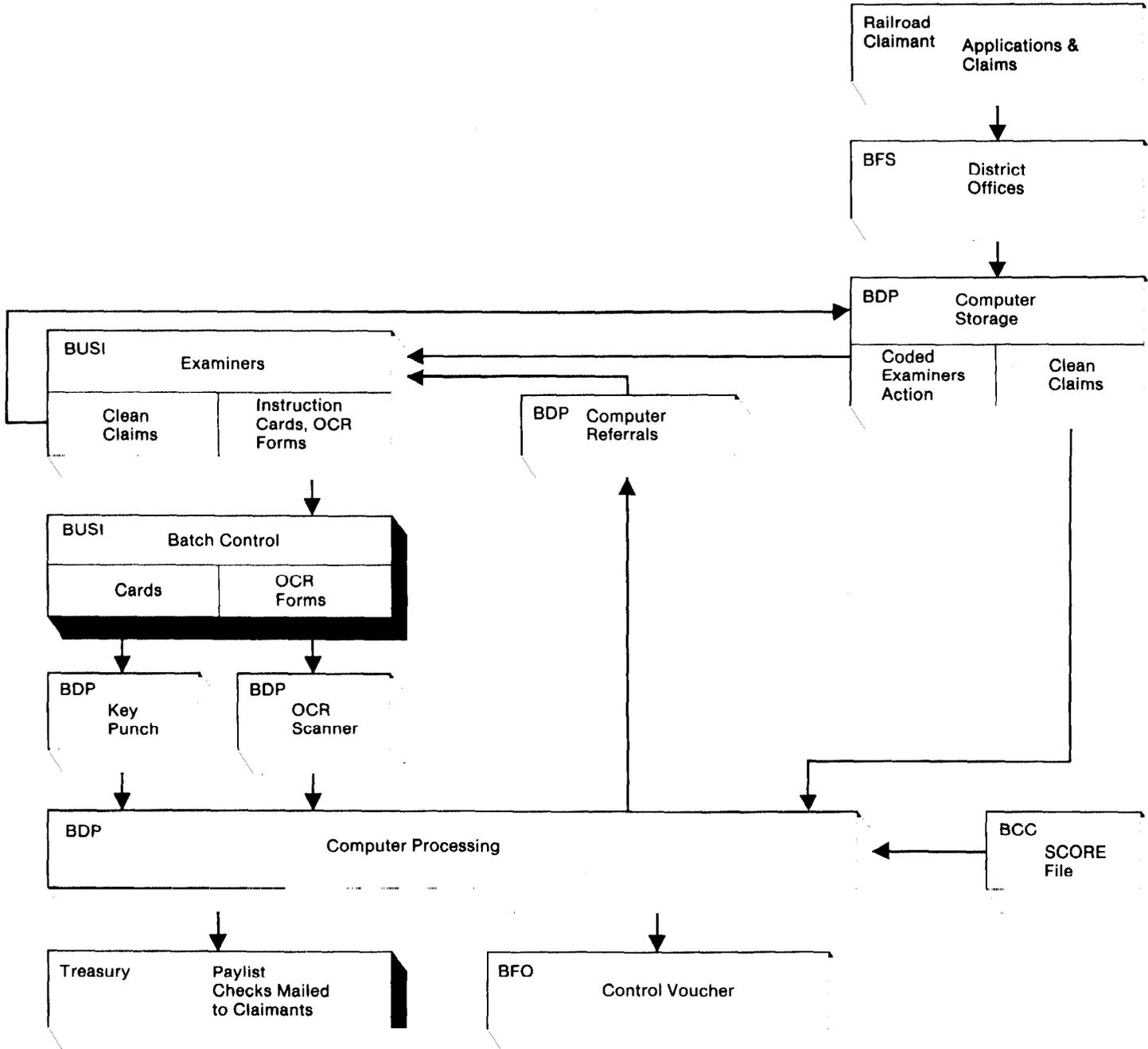
Claims examiners at district offices evaluate claims for completeness and allowable benefit days. An examiner can deny any days claimed if there is an indication that the claimant

- was not available for work;
- received remuneration on the days not worked (that is, vacation or severance pay);
- registered too late for the days claimed (the definition of acceptable delay varies with the cause);
- was a "voluntary quit" without good cause; or
- was a passenger, road, or yard service employee who exceeded limits on the number of miles traveled or hours worked.

Examiners resolve questions concerning claims by calling the claimant or the claimant's employer. Some district offices have the capability to check by computer the wage records of a major railroad employer to determine if a claimant is working. With some exceptions, regulations require that all claimants must be called into the district office for an interview at least once a year and before the fourth claim period.

Examiners in district offices then send all applications and claims to Board headquarters. At the start of our review, they were sent by mail to BUSI. It then sent "clean claims" directly to keypunching for entry into BDP's computer system. During our review, the Board installed a new system, RUCS, that permits district offices to electronically enter unemployment applications and claims into the headquarters computer. A few transactions from the district offices require special handling by headquarters claims examiners because of problems. After resolution, the headquarters claims examiners also enter these problem cases into the computer-processing system. The processing of unemployment benefits is shown in figure IV.2.

Figure IV.2: Processing of Unemployment Insurance Benefits



We visited one district office in each of the Board's five regions and observed the application and claims-processing operations at each office. We found that claims examiners were generally following Board policies and procedures. A review of a random sample of 3 to 5 percent of claim files for benefit year 1988 disclosed

- properly signed applications and claims;
- the required claimant personal interviews;
- actions taken on questionable items, such as claimants actively seeking work; and
- proper responses to application notifications from railroad employers.

Sickness Insurance Benefit Processing at Board Headquarters

To apply for sickness benefits, the applicant files an application, which is a two-part form, SI-1a Application for Sickness Benefits and SI-1b Statement of Sickness. District offices, railroads, and union offices distribute the forms. The SI-1a form requests the applicant's name, address, Social Security number, date of birth, the date the applicant became sick or was injured, the date he/she last worked, and any dates the applicant does not wish to claim. The applicant applies as soon as possible after onset of his/her sickness or injury, regardless of whether he/she returned to work.

The applicant's physician completes the SI-1b form. The main information requested includes the date the applicant became sick or was injured, the date of examination, the diagnosis and findings, and the date the physician expects the applicant to return to work. The physician signs the SI-1b form, fills in his/her address, and the applicant mails both the SI-1a and SI-1b forms to Board headquarters. A sickness application cannot be processed without a completed SI-1b form. The Board's district offices are not involved in sickness claims processing.

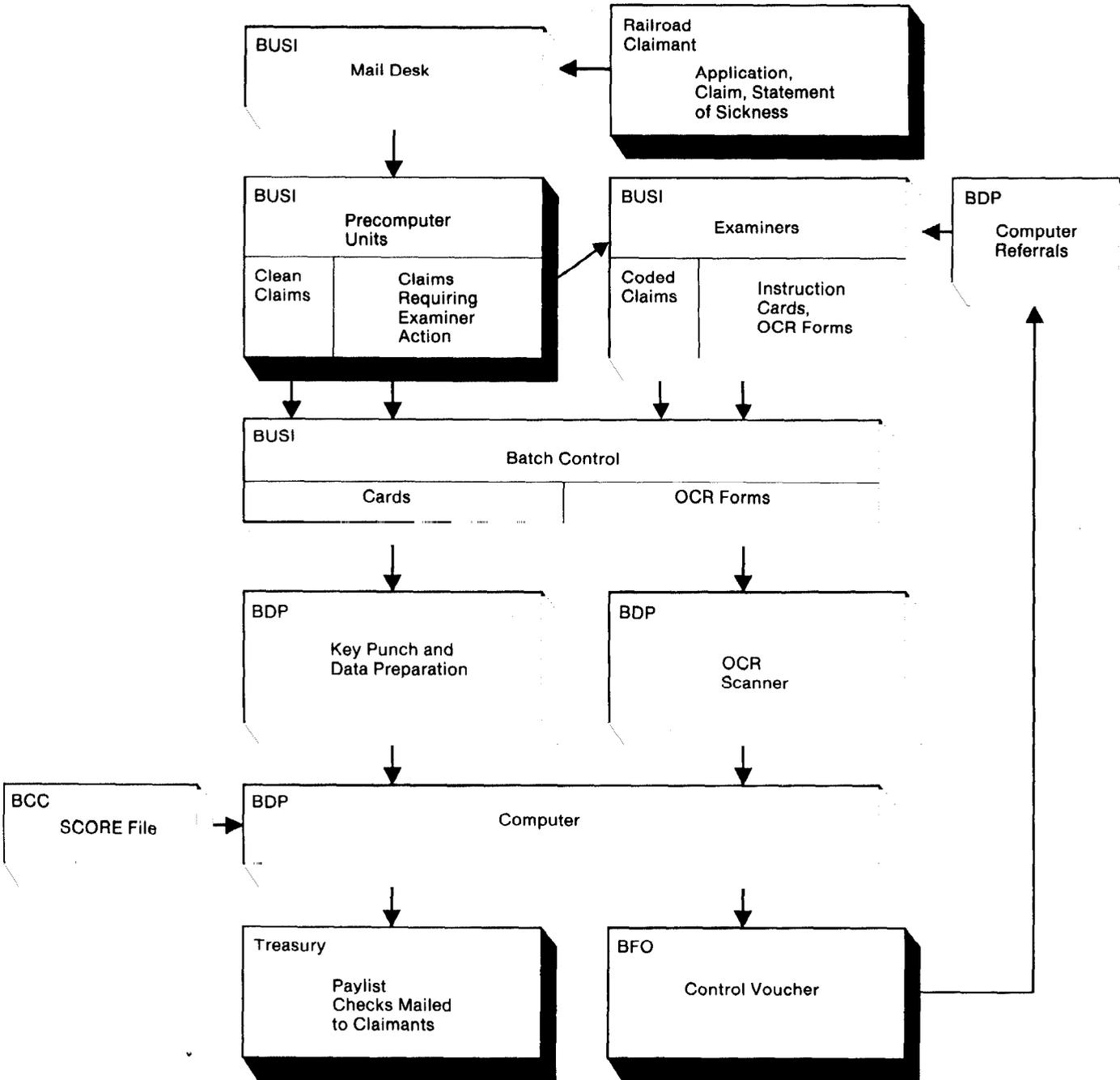
Claims examiners in BUSI review the SI-1a and 1b for completeness, including a diagnosis and physician's signature, and code them for computer processing. One important element of information on the application is the date the physician submits as the "estimated end of inability" (EEI), the date the applicant is expected to return to work. The claims examiner can enter EEI or it can be left blank and EEI will be determined by computer, using Board-developed criteria.

The Board contacts beneficiaries as the EEI date approaches. If a beneficiary is unable to return to work on the EEI date, he/she must obtain a

supplemental physician's certificate, form SI-7, and submit it to the Board.

If the beneficiary did not report returning to work on his/her application, the Board mails a computer-generated form SI-3, Claim for Sickness Benefits, to the applicant. The SI-3 requests the claimant's name, address, Social Security number, and the beginning and ending dates of the 2-week claim period, starting with the first date the claimant was off from work. The claimant indicates on the claim whether he/she (1) is reporting sickness for the entire 2-week period or (2) worked any intervening dates or received other income or benefits for any of the days. The claimant then mails the claim back to the Board where claims examiners review it, code it for any dates not reported sick, and route clean claims to keypunching for entry into the computer system. The computer system then processes SI-1a, 1b, 3, and 7. The processing of sickness benefits is shown in figure IV.3.

Figure IV.3: Processing of Sickness Insurance Benefits



At Board headquarters for 1 day, we observed applications and claims processing for sickness benefits. Claims examiners generally followed Board procedures for processing these transactions. For example, we found

- properly signed applications with physician certificates and
- that examiners contacted applicants to resolve problems when applications were received without certificates or vice versa.

In addition, on the date of our observations, unit supervisors were reviewing all transactions before releasing them for computer processing. Supervisors periodically review transactions to assess staff performance.

At BUSI, the Board has a separate quality assurance unit that reviews sickness transactions. Each day, before documents are transported to the computer center, the unit selects at least five applications, claims, and physicians' supplemental certificates for each of BUSI's four claims-processing units, a total of 60 transactions a day. To pinpoint training needs to improve performance, the quality assurance unit examines the transactions for errors. The claims-processing units make needed corrections. For 1988, the error rates were 18 percent for applications and 6 percent for claims. No Board unit does similar quality assurance reviews of unemployment transactions submitted by the field offices.

Computer Processing

The Board has a batch-controlled computer-processing system. With batch controls, transactions of a similar nature are grouped; record counts are made; and predetermined totals are computed to assure that no documents are added, lost, or changed, and that all transactions are processed. If transactions from a batch are not processed because of some error, they are rejected and reintroduced after corrections have been made.

District offices and headquarters send all applications and claims to a batch control unit where they are counted, logged, and hand-carried to the computer center. Computer personnel log in the batches, send pre-punched cards directly to computer processing, and send the rest to keypunching. Since the Board contracts for outside keypunching service, messengers pick up the batches of documents for keypunching each evening and return them the next evening for processing.

BCC maintains the Board's master wage record, the file for the service and compensation of railroad employees (SCORE). BCC updates this file annually and corrects it periodically using compensation data supplied by railroad employers covered by RUIA. Initial computer processing of applications includes comparing them with SCORE to determine that for the base year, there is a valid wage record and sufficient creditable compensation.² This is the primary criterion for benefit eligibility. A "successful certification" results in establishing the applicant's unemployment or sickness insurance master record. In addition, the Board notifies railroad employers—for both the current and base years—to give them the opportunity to challenge the claim for benefits. For example, in recent years railroad companies have paid large severance allowances to current and former employees who relinquished their railroad employment rights (former employees are not entitled to unemployment benefits under such circumstances).

Computer processing of claims subsequently submitted under the application determines the amount payable for each 2-week registration period. As part of computer processing, each claim is tested to ensure that

- a valid application has been processed;
- no duplicate claims exist; and
- from what is known about the claim, no disqualifying factors exist, such as, voluntary quit, unavailable for work, or exceeding work limitations.

Under the 1988 amendments to RUIA, all employers must be notified of all claims received so that they have an opportunity to challenge benefit entitlement. This is necessary because, beginning in calendar year 1991, employer tax rates to support the unemployment-sickness benefits program will be affected by the amount of benefits paid to company employees.

Another important control built into claims processing is the control for a beneficiary's changes of address. One way of obtaining fraudulent benefits is diverting payments from a valid address. To prevent this, when a beneficiary reports a move to another location, a change-of-address notice is sent to the old address, to be returned if undeliverable. Notices returned provide evidence that the beneficiary no longer resides at the old address. If the beneficiary still resides at the address, he/she

²The base year is the calendar year preceding the benefit year, which extends from July 1 through June 30. Thus, calendar year 1987 was the base year for the benefit year beginning July 1, 1988.

alerts the Board to the error or possible fraud. Only address changes on claims, however, are verified. The original address on the application is not verified, possibly permitting a fraudulent address to be established when the application is first submitted.

Many controls for computer operations have been implemented, including (1) edit checks of the reasonableness and completeness of information and (2) nonduplication and validity of Social Security numbers. The computer system stops payment when the beneficiary has exhausted normal benefits for the year, that is, on reaching the 130-day maximum or the amount of the beneficiary's base-year earnings. The system also determines eligibility for extended benefits.

Applications or claims rejected by the computer are sent ("referred") to headquarters claims examiners. These examiners also receive notifications to take other actions. For example, the examiners notify sickness beneficiaries (1) before the EEI date that benefits will cease or an additional physician certificate must be submitted and (2) when benefits have been exhausted.

During our review, examiners resolved referred transactions by using hard-copy documents that were entered into the computer process through an optical character reader (OCR), a device that reads handwritten characters on a document. The batch control procedures also controlled the OCR transactions. About the time we completed our field work, the Board introduced a new computer system, called Keymaster, to resolve referrals by direct entry, using remote computer terminals, to computer processing.

The final product of computer processing is a daily payment tape sent to the Department of the Treasury, which issues and mails benefit checks.

We sampled 10 percent of the benefit payments made for 1 day—241 transactions—to trace them through the Board's payment system. Of these 241 transactions, 8 concerned resolving a referral. We found this system correctly identified

- a wage record for each beneficiary,
- a signed application on file,
- a signed claim, and
- adjustments to benefit amounts.

In several instances, the amount paid was the final amount due for exhausted benefits. During our visits to the district offices, we found instances in which employers had returned the notices sent at the time the applications were initially processed. These returns indicated that the control to assure the validity of applications is working. We also noted that the system was sending out notifications of changes of address for unemployment beneficiaries in accordance with Board procedures.

Computer System Controls

In June 1988, BDP analyzed its computer security. A principal deficiency noted in this analysis was a lack of physical security for the computer centers; this has been corrected. BDP has a computer security officer and established physical security procedures. Systems analysts, programmers, and operators fulfill separate computer duties. Computer positions are considered sensitive and most, but not all, computer personnel have received in-depth background checks. New and revised computer programs require authorization before they can be developed, tested, and used. BDP documents the functions of the computer-based systems and programs.

Postpayment Checks

An unemployment or sickness insurance beneficiary cannot work and receive benefits at the same time. To discourage false claims and detect beneficiaries who are employed, the Board has implemented postpayment verification procedures with railroad and state employment offices. Through agreements with three major railroad companies, the Board receives computerized wage data to match against benefit records. A fourth major railroad company has authorized district office employees to directly access wage data for train and engine crews. For computer matches of employment records, the Board has contracts with nine states and is negotiating with three additional ones.

District office employees are also required to intermittently visit railroad payroll offices to (1) manually check beneficiary records against wage data and (2) do selected manual matches with state agencies in those states without computer matches.

As a result of our 1985 review, the Board, to determine potential fraud, developed a test of benefit records for multiple beneficiaries located at the same address. The Board also developed a method to match Board

Appendix IV
Processing Procedures and Internal Controls

employee data against benefit records to determine if fraudulent benefits were being paid. The Board only ran these tests, however, once, about 5 years ago.

Comments From the Railroad Retirement Board

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

JAN 16 1990

BOARD MEMBERS

-F.J. SIMON (CHAIRMAN)-
C.J. CHAMBERLAIN (LABOR)
J.D. CRAWFORD (MANAGEMENT)

Ms. Linda G. Morra
Director, Intergovernmental
and Management Issues
U. S. General Accounting Office
Washington, D.C. 20548

Dear Ms. Morra:

This is in reply to your draft of a proposed report on the Railroad Retirement Board's (RRB's) internal controls to safeguard against fraud and payment errors in the railroad unemployment and sickness insurance program (GAO/HRD-90-42).

The RRB recognizes the importance of strong internal controls to prevent fraud and payment errors in the benefit programs it administers. We appreciate that the U. S. General Accounting Office (GAO) acknowledged the effectiveness of the controls already in place in the unemployment and sickness insurance program, and our efforts to strengthen those controls based on recommendations contained in the 1985 GAO report (GAO/HRD-85-37, February 27, 1985). We believe that to a great extent these measures are responsible for controlling the number of erroneous benefit payments in the program. In the benefit year that ended June 30, 1988, benefits found to be erroneously paid amounted to less than 1 percent of the total benefits paid to claimants under the Railroad Unemployment Insurance Act (RUIA).

The RRB recently implemented a system to notify each claimant's railroad employer of each unemployment application, unemployment claim and sickness claim filed by the employee. This prepayment claims notification system provides the employer an opportunity to submit information relevant to the employee's eligibility prior to a decision to pay or deny benefits. We expect this system to significantly reduce payment errors and fraud associated with employment in the railroad industry.

**Appendix V
Comments From the Railroad
Retirement Board**

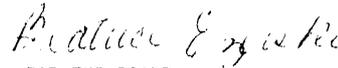
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We generally agree with each of the recommendations contained in the draft report. Our comments and a description of the actions planned or already taken to implement the recommendations are enclosed. In addition, we also intend to look into a number of other issues/ideas mentioned in the draft report, but not specifically covered by the recommendations. These include the following.

- We will review the sensitivity of those positions that certify benefit payments to ensure that background checks are required as appropriate.
- We will review those areas where we have opportunities to establish or maintain computer access to railroad payroll records to ensure that we make the most effective use of that information in doing post-payment employment checks.
- We will consider ways to create further separation of duties in the area of post-payment wage checks or to make a sample review of these transactions to safeguard against possible fraud or abuse.
- We intend to schedule an annual computer match between the unemployment and sickness insurance benefit payment records and our own payroll data as an additional security measure.

We appreciate GAO bringing these areas of possible improvement to our attention. Thank you for the opportunity to provide our comments on the draft report.

Sincerely,



FOR THE BOARD
Beatrice Ezerski
Secretary to the Board

Enclosure

**Appendix V
Comments From the Railroad
Retirement Board**

Enclosure

Alter procedures to ensure adequate separation of claims processing and payment authorization.

Although additional control could be realized with the implementation of procedures for review and authorization of claims processing transactions, such procedures have not been implemented because of the significant burden that would be placed on the agency's limited personnel resources by the authorization of every unemployment and sickness insurance transaction -- approximately 1 million each year. Such procedures would require a significant amount of staff time to be diverted from workloads which already have large backlogs. In the field service, the review process would be further exacerbated because most field offices have only four or five employees.

In view of GAO's guidance that permits review of processing transactions on a sampling basis when payment amounts are less than \$1,000, we will develop procedures to conduct quality assurance reviews of a sample of both unemployment and sickness insurance transactions using a statistically valid sampling technique. The director of unemployment and sickness insurance has been requested to provide, by March 30, 1990, a target date and milestones for development of the methodology necessary for such reviews. In the interim, supervisors in the bureaus of unemployment and sickness insurance and field service will be instructed to periodically review claims processing transactions to test for fraud and payment errors. We will also develop by March 30, 1990, procedure requiring separate authorization for all payments of over \$1,000 resulting from the payment of multiple claims on the same day.

Provide better control over documents of original entry, so they cannot be lost or manipulated.

Effective January 31, 1990, most documents, including sickness insurance claims, will be entered by claims examiners through either the Railroad Unemployment Claims System (RUCS) or Keymaster. Original documents, including unemployment insurance applications and claims and sickness insurance claims, are always within the control of agency personnel, and secure from loss and manipulation. The only unemployment and sickness insurance documents that will be batched for processing are (1) sickness insurance applications, Form SI-1a; (2) statements of sickness, Form SI-1b; (3) supplemental doctor's statements, Form SI-7; (4) change of name transactions, Form CU-13; and (5) various compensation and pay rate details, Forms UI-1e, UI-1f and UI-41a.

At the time of the audit, RRB personnel were observed estimating rather than counting documents to be batched. Also, discrepancies in batch counts were not reconciled after the documents were processed in our computer system. As pointed out in the draft report, when this situation was brought to the attention of RRB officials, the GAO auditors were advised that no procedure existed to permit tolerance levels or estimates of batched items. Agreement was reached to correct this deficiency. All batched documents are now being reviewed to ensure that documents are combined by type and accurate record counts are obtained. Also, we will perform reconciliations of discrepancies on a sample basis.

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In addition, procedures are being developed to periodically select a random batch of documents sent to outside contractors for keying. These documents will be photocopied prior to release to the contractor and will be compared to the keyed documents returned by the contractor. This approach was recommended by GAO and addresses internal control weaknesses involving documents sent to an outside contractor for keying. Quarterly reviews will be conducted with the first review scheduled before March 30, 1990.

The RRB initiated a special study of the railroad sickness insurance program on January 2, 1990, to evaluate current operations and procedures. The study team consists of representatives from the bureaus of unemployment and sickness insurance, field service and data processing. We expect the team to make recommendations to revise the application, medical and claim documents used in the program. The form changes, combined with our intention to eliminate processing delays associated with vendor keying of data and improve control of original documents, will lead to changes in the method of data input for the automated processing of sickness insurance applications and medical statements. The program study team will be directed to consider this recommendation in formulating alternatives to the current procedures. Within 120 days after completion of the study, we will determine the method of data entry to be used and establish a target date for implementation of the new procedures. The special study is scheduled to be completed in July 1990.

We will develop procedures to better control change of name and compensation/pay rate transactions by December 31, 1990. The new procedures will utilize Keymaster for entry of these details.

Strengthen controls to ensure that only properly authorized computer programs are used, the computer facility is secure, and all computer personnel receive background security checks.

By September 30, 1990, a software package (LCS/GMF) is scheduled to be installed that will automatically keep source and load modules in proper synchronization. In addition to solving problems associated with source documentation, the software process will ensure that only personnel in the quality assurance section of our bureau of data processing are authorized to catalog programs for production use.

At the time of the audit, the doors to the central computer processing room were open to provide sufficient air conditioned ventilation to this room because of compressor failure on one of the air conditioning units inside the room. As soon as the compressor was replaced, the doors were closed and are kept closed. The door to the tape library which was malfunctioning on the day of the audit, has been repaired and is also kept closed. We have established a procedure whereby our building maintenance contract personnel tour the computer center daily checking various pieces of equipment, including the doors, for proper operation. During this past summer, supplemental air conditioning was installed for the mainframe in the central processing room to help eliminate future problems with insufficient air conditioning.

A complete fire sprinkler system was installed in the cafeteria and in the mezzanine area above the cafeteria in December 1989, so the risk to the computer center from a cafeteria fire has been significantly reduced. The cafeteria is a limited-service operation, which further reduces the risk of a cafeteria fire.

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The security access system for the computer facility is now fully operational. The system allows entry to authorized personnel who have access cards, and provides immediate alarm notification for any unauthorized entry. This corrects the material weakness in the physical security of the computer center, as previously reported by the RRB under the Federal Managers' Financial Integrity Act.

The process of designating sensitivity levels for all RRB positions was begun in late 1984. In early 1985, the designation process was completed and background investigations were initiated only for employees being reassigned or promoted into sensitive positions. It was not until fiscal year 1987 that we started to initiate background investigations on personnel already in positions designated as sensitive. Because of the substantial costs involved, we did not initiate background investigations on the 220 employees who were already assigned to sensitive positions, but rather developed a plan for conducting such investigations in the future. The plan, which was approved by the RRB's Office of Inspector General, called for initiating investigations on these employees over a 3-year period (fiscal years 1987, 1988, and 1989), dividing the number of investigations equally among the 3 years. These security investigations are being conducted in seniority date order with the most junior employees being investigated first. We have completed 156 of the original 220 investigations, and continue to initiate investigations on all new employees hired into the agency and on all present employees who are promoted or reassigned into a sensitive position. Because priority was given to investigations of newly hired and newly promoted or reassigned employees, we have not yet completed the investigations of the most senior computer employees.

Our ability to conduct security investigations has recently been complicated by a lawsuit filed against the agency and the Office of Personnel Management (OPM) by the American Federation of Government Employees on behalf of some agency employees in the United States District Court for the Northern District of Illinois. The lawsuit challenges the use of Standard Form (SF) 86, Questionnaire for Sensitive Positions, which OPM requires to be completed in order to conduct the full background investigation. As a result of the lawsuit, the RRB is not requiring the completion of the SF-86 by any bargaining unit employee pending the outcome of litigation.

We are still able to obtain security investigations of non-bargaining unit (supervisory and managerial) employees, and we will schedule 13 senior non-bargaining unit employees, including the chief of computer services, for investigations during fiscal year 1990.

Improve control over the validity of physician certifications of applicants' sickness by implementing prior GAO recommendation that physicians supply their tax identification number with the certificate and provide this directly to the Board rather than through claimants.

Development of a system that will check the validity of tax identification numbers furnished by physicians on medical statements has been delayed by the implementation of amendments to the Railroad Unemployment Insurance Act and other high priority activities. Analysis for the automated system is now scheduled to begin later this month. Approximately 9 months will be required to complete the project.

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For the following reasons, we do not plan to alter procedures to require physicians to submit medical statements directly to the RRB. We will, however, develop alternative procedures to increase direct communications between the RRB and claimants' physicians. Our reasons for continuing to require claimants to obtain and submit medical statements include the following:

- The current system recognizes and reinforces the responsibility of the claimant to submit all documentation, including medical evidence, in support of his or her claims. Direct communications between physicians and the RRB would remove the claimant from the process, and could result in delays in benefit payments. Claimants have been an effective means of checking with physicians and ensuring the timely submission of medical statements. The absence of claimant involvement in this process could result in sickness insurance forms requiring a physician's signature being "buried" among the other "insurance" forms which the physician must complete.
- Responsibility for the payment for services rendered by a claimant's physician is less clear if the RRB directly solicits the physician for completion of a medical statement.
- Claimants are often referred to medical specialists during the course of an illness or injury. As a result, attempting to identify the physician with the most current and/or pertinent medical knowledge of a claimant could be a problem for the agency if the RRB were responsible for obtaining additional medical information to support payment of benefits beyond the estimated end of inability. Failure to properly identify the treating physician could result in benefit payment delays.
- Forms SI-1b and SI-7 are often completed in conjunction with a personal visit by the claimant to his or her treating physician, resulting in the submission of the most up-to-date medical information possible for the claimant. Direct solicitation of medical information by the RRB would either require the physician to schedule an appointment for the claimant, thereby resulting in a delay in receipt of medical information, or completion of the statement based on out-of-date medical records.

We will determine by December 31, 1990, how to best incorporate an increased level of direct communication between the RRB and physicians into our claims processing routines.

Appendix V
Comments From the Railroad
Retirement Board

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Increase the priority for resolving discrepancies disclosed by computer matches of benefit payments with state employment records and increase the number of manual matches in states where computer matches have not been negotiated. However, a cost/benefit analysis should be performed to assure that the benefits derived exceed the costs incurred.

By March 31, 1990, the RRB will issue guidance to all field service offices concerning the prescribed time periods for investigating assignments from State wage computer matching programs. In addition, we will request all regional directors to review the status of manual wage checking in the areas under their jurisdiction, and make arrangements to conduct checks in States in which computer matching programs do not exist, and manual checks are not currently conducted.

Also, we will develop automated programs to select cases to be manually checked against State wage records. In addition to providing some separation of duties in this area, such automated programs will allow checking of cases involving sickness insurance benefit payments. The director of unemployment and sickness insurance, in association with the director of data processing, has been requested to provide a target date, by April 6, 1990, for development and implementation of such programs.

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