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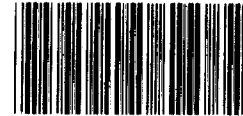
UNITED STATES GENERAL ACCOUNTING OFFICE  
WASHINGTON, D.C. 20548

HUMAN RESOURCES  
DIVISION

B-211212

FEBRUARY 27, 1985

The Honorable Robert Gielow  
Chairman  
Railroad Retirement Board



126303

Dear Mr. Gielow:

Subject: Need 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)

We have completed our assessment of the Railroad Retirement Board's controls for preventing and detecting fraud and abuse in its unemployment and sickness insurance program. This program has paid out about \$1.4 billion in benefits during the last 5 years to 1 million qualified rail workers who become unemployed or are absent from work due to sickness.

Rail employees who claim unemployment or sickness benefits while they are working, either in the rail industry or elsewhere, may be guilty of fraud or abuse. In deciding whether fraud was involved, the Board considers, among other things, whether the applicant knew what was required and intended to deceive. If knowledge of the requirements and intent to defraud the program cannot be proved, the Board does not classify the case as fraudulent but does move to collect the overpayment. Such cases are generally considered abuses of the program in that they are caused by claimants and result in improper payments.

Our review did not include all possible aspects of control over fraud and abuse in the Board's unemployment and sickness insurance program. Rather, we limited our review to the possibility of persons (1) working in rail or nonrail employment while collecting unemployment and sickness benefits, (2) committing fraud by claiming benefits on the basis of another bona fide rail employee's work record, or (3) submitting sickness insurance applications containing false doctors' certifications. We identified opportunities for the Board to improve its controls for preventing and detecting fraud and abuse in such situations.

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### WORKING WHILE COLLECTING BENEFITS

We determined whether beneficiaries were working in the rail industry or elsewhere while receiving benefits. Because there is a greater potential for beneficiaries to find employment in nonrail work, our review was directed primarily toward controls for detecting nonrail employment.

We found that although 38 states currently collect wage records against which the Board could make computerized comparisons to uncover instances of persons working in nonrail employment while collecting unemployment or sickness benefits from the Board, no such computerized matches are made by the Board. A comparison by our staff of Board beneficiaries' records with nonrail employment wage records maintained by Pennsylvania's Department of Labor and Industry for July 1980 through September 1981 uncovered instances of apparent fraud.

Our effort involved a systematic computerized match of the records of about 23,000 rail workers receiving Board unemployment and sickness benefits and having Pennsylvania addresses with nonrailroad wage data supplied by the state's Department of Labor and Industry. We referred 80 cases to your staff for further investigation because they appeared to represent beneficiaries who were working in nonrail jobs at the same time that they were claiming and receiving unemployment and sickness benefits. Seventy-five of these case investigations have been completed.

Board officials told us that 26 of these cases have been designated fraudulent claims. In addition, at least 11 of the remaining 44 overpayment cases that were not classified as fraudulent represent benefit overpayments and associated penalties in excess of \$1,000 each to claimants who were employed. In total, the Board staff's investigation of these 75 cases identified \$126,200 in possible recoveries--\$96,500 in overpayments and \$29,700 in associated penalties. Your staff told us that based on additional information supplied by claimants, 5 other cases we referred were determined not to involve overpayments. When we adjusted this 15-month total by eliminating one quarter of data so that the data would reflect benefit year 1981 only, the expected recoveries totaled \$90,600--consisting of \$70,800 in overpayments and \$19,800 in associated penalties. The expected recoveries from this one match in one state for benefit year 1981 are equal to about 24 percent of the \$371,569 the Board identified in recoverable amounts from unemployment and sickness insurance claimants nationwide during benefit year 1981.

Matching beneficiaries' records to state employer wage records is a procedure that the Board does manually and subjectively on a sample basis. We believe that the systematic computerized matching of such data for all claimants would provide a more objective selection process and more comprehensive results in identifying overpayments as shown by our test in Pennsylvania. We have not, however, determined the cost effectiveness of computer matching the Board's records to the wage records of all states that maintain records of nonrail employment.

Our limited review of a sample of 25 beneficiaries to determine whether they worked for their rail employer while collecting benefits disclosed no instances of such employment. We found, however, that the Board does not have procedures to routinely notify a rail employer that a claimant has filed for unemployment benefits. Thus, it is possible for a person to collect unemployment benefits while actually working for a railroad. This can occur if the railroad agent who accepts the claim does not know the claimant's employment status. We found that a 1981 internal study by the Board's staff recommended that rail employers be notified of employees who have filed claims for unemployment benefits and that state unemployment agencies used this procedure in their programs. We believe that the Board would have better controls for detecting possible fraud and abuse if it adopted such a procedure.

#### CLAIMING BENEFITS USING ANOTHER PERSON'S RECORD

In addition to rail employees working while collecting unemployment or sickness benefits, fraud can be perpetrated by anyone who (1) files a claim in the name of, and pretends to be, a rail worker who would be eligible if not working and (2) submits an address change so that a check paid in the qualified worker's name would be sent to the fraudulent applicant. Although we found no evidence of such fraud in 38 cases we reviewed, we found that the Board's internal control system is not designed to detect such actions.

Presently, a person with sufficient knowledge of a rail worker's current employment status and who knows that the worker had sufficient prior earnings to qualify for benefits can apply for benefits in that worker's name or, for that matter, under the names of a number of qualified rail workers. The key to the success of such a scheme is the claimant's ability to direct that the benefit check be mailed to an address other than that of the eligible worker. We found that the Board does not have procedures for verifying changes in address or investigating multiple benefit checks going to the same address, although in

1982, the Board's internal auditors had concluded that improved internal controls over address changes were needed. We also noted that state unemployment agencies verify reported address changes by mailing nonforwardable, computer-processed letters to the old address. We believe that systematically verifying reported changes of address and periodically reviewing the validity of multiple benefit checks being sent to the same address would strengthen controls over this type of fraud and abuse.

SUBMITTING FALSE  
SICKNESS CERTIFICATIONS

Our review of 37 sickness applications to determine whether a physician certified the illness or injury disclosed no evidence of fraud. However, we found that the Board's internal controls over sickness insurance claims are vulnerable to fraud and abuse. Because sickness insurance claims are submitted directly to the Board by the claimants, anyone could sign the doctor certification and supply a diagnosis on the sickness insurance application. A successful penetration of the Board's system in 1978 by its own internal auditors and criticisms by prior studies demonstrate the program's vulnerability. We believe the Board's controls in this area would be enhanced by requiring some form of doctor identification--such as the inclusion of the doctor's tax identification number.

BOARD COMMENTS AND OUR RECOMMENDATIONS

We have discussed our findings and proposed recommendations with you and your staff. Enclosure I presents our findings in greater detail, and enclosure II describes our objectives, scope, and methodology.

You generally concurred with our recommendations and said actions had been or were being initiated to implement them. According to you, these prior recommendations or other controls were not implemented primarily because of the need for additional staff. We advised you that while our proposed recommendations could require some additional staff time and other resources, we believe most could be implemented through the initiation of automated processes by existing staff.

We believe the Board should assess its capacity for implementing our proposed recommendations through computerized internal controls and determine whether such controls would be cost beneficial. If the Board finds that implementation is feasible and cost beneficial, we recommend that it:

1. Improve its procedures for detecting persons receiving unemployment or sickness insurance benefits while working by
  - initiating more systematic wage checks for nonrail employment, including the regular use of computerized wage checks of beneficiaries with state employer wage records in those states that maintain such records and where such computerized wage checks are found to be cost beneficial, and
  - regularly notifying rail employers of employees who have applied for unemployment benefits.
2. Improve its procedures for identifying persons committing fraud by illegally claiming benefits on the basis of another bona fide rail employee's record by
  - systematically verifying reported changes of address and
  - periodically reviewing the validity of multiple benefit checks being sent to the same address.
3. Better ensure the validity of doctors' certifications on sickness applications by requiring, as a minimum, some form of additional control. This could include requiring doctors to provide identification that would not be known to claimants, such as the doctor's tax identification number, when the doctor certifies sickness claims.

Copies of this report are being sent to cognizant congressional committees. As you know, 31 U.S.C. 720 requires the head of a federal agency to submit a written statement on actions taken on our recommendations to the House Committee on Government Operations and the Senate Committee on Governmental Affairs not later than 60 days after the date of the report and to the House and Senate Committees on Appropriations with the agency's first request for appropriations made more than 60 days after the date of the report.

Sincerely yours,



Richard L. Fogel  
Director

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NEED TO IMPROVE INTERNAL CONTROLS TO CURTAILPOSSIBLE FRAUD AND ABUSE IN THE RAILROADRETIREMENT BOARD'S UNEMPLOYMENT ANDSICKNESS INSURANCE PROGRAM

In fiscal year 1983, the Railroad Retirement Board paid \$378 million in unemployment and \$56 million in sickness insurance benefits to about 240,000 rail workers who were laid off or who did not work due to injury or illness. Such benefits, up to \$25 per day, are paid to unemployed or sick rail workers who had sufficient earnings in a preceding period to qualify.

To qualify for benefits, an individual must have earned at least \$1,500 while working in at least 3 months in the calendar year preceding the benefit year, which starts July 1. For new entrants into the system, \$1,500 in earnings and 5 months of service is required. To obtain benefits for unemployment, the claimant must be available for work and actively seeking employment and cannot earn more than \$10 a day in employment outside the rail industry. To receive sickness benefits, claimants must have a certification from an attending physician attesting to their condition and dates of sickness. The benefits are financed by payroll tax contributions by all rail employers. In recent years, the unemployment insurance account, from which unemployment and sickness insurance benefits are paid, has had insufficient reserves to pay benefits. Since October 1980, borrowing from the railroad retirement account has resulted in a \$694 million indebtedness to that account by the unemployment insurance account as of December 1984.

According to the Board's estimates, the Board's unemployment and sickness insurance program has identified overpayments that involve from \$300,000 to \$500,000 in potential recoveries annually in benefit years 1978 through 1982. The likelihood that such estimates accurately represent all erroneous payments depends on the quality of the control systems used to identify improper claims and payments.

Past internal Board reports and studies by outside experts have cited weaknesses in the Board's controls for safeguarding the benefit payment system from fraud and abuse.

For these three reasons--sizable benefits, continuing reported losses, and cited control weaknesses--we assessed the

Board's controls for curtailing overpayments due to fraud and abuse. (See enc. II for details on our objectives, scope, and methodology.)

BOARD CONTROLS FOR PREVENTING AND  
DETECTING FRAUD AND ABUSE

The Board has a number of controls in its unemployment and sickness insurance program to prevent and detect possible fraud and abuse. These controls are designed to lessen the possibility that someone having knowledge of eligibility for benefits of any rail employee can claim to be that employee and file for benefits on the basis of unemployment or sickness. These controls, however, have certain shortcomings. Procedures that would correct these shortcomings either are being used by state unemployment insurance agencies and/or have been recommended to the Board over the past several years by its own internal reviews and by studies commissioned by the Board, but have not yet been implemented. Board officials said they have been unable to implement these past recommendations because they lack sufficient staff.

Some of the Board's existing prepayment controls include having:

- An agent who personally knows the claimant review the claim to determine if the claimant is the person he/she claims to be.
- A doctor sign the sickness application providing diagnosis and establish an expected-back-to-work date.
- The Board's computer verify that the stated claimant is a rail worker with sufficient rail earnings and unused benefit entitlement to qualify for benefits.

To obtain unemployment benefits, the claimant files an application and biweekly claims with an unemployment claims agent (UCA).<sup>1</sup> The application requires the claimant's name, social security number, mailing address, date of birth, base year<sup>2</sup>

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<sup>1</sup>Employees designated by the railroad to accept applications and claims. The Board pays the railroad 50 cents a claim for this service.

<sup>2</sup>The base year is that completed calendar year preceding the benefit year, which runs from July 1 through June 30.



wages, and days of unemployment claimed. The UCA stamps a claim with the identifying UCA number. The claimant and the UCA sign the claim. The claimant reports to the UCA every 7 days if still unemployed and indicates on a claim card the days not worked.

The UCA sends the claim to the appropriate Board field office. The field office establishes a file for the claimant and checks the application for completeness and for disqualifying factors, such as voluntary termination of employment and nonavailability for rail work.

For sickness benefits, the claimant submits an initial application and subsequent claims directly to the Board's headquarters, along with a doctor's certification of illness or injury. The certification made on the Board's sickness insurance application form includes the date the employee became sick or injured, the date the doctor examined the employee, the diagnosis and finding, and the date the employee is expected to return to work. The doctor provides his or her name and address and signs the certification.

Both unemployment and sickness insurance claims are then subjected to computer verification at the Board's headquarters in Chicago. To determine if there is a wage record for the claimant with appropriate base year earnings, computer processing compares the claimant's name, social security number, and birth date with wage records previously supplied by rail employers. The computer verifies that duplicate days are not claimed and then calculates benefit amounts. Computer processing also checks for disqualifying factors that may have been noted on the application, such as termination of employment or invalid UCA numbers.

The Board also has certain procedures to detect fraud and abuse after it has occurred. For example, it requires the claimant for unemployment benefits to have an interview with a Board field office staff member before receiving benefits for the fourth consecutive benefit period. The purpose of this interview is to ask the claimant whether he is actually available for work and making an effort to find rail employment and thus still qualified for benefits. Although the interviewer may not require evidence from the claimant, the situation does require a claimant to meet the Board interviewer and answer questions in order to receive continued benefits. However, the Board's main effort to detect fraud and abuse centers on tests of selected unemployment claims to check for possible rail or nonrail employment during the period unemployment benefits were paid.

Before March 1983, the Board did not require that applicants for unemployment provide proof of identification. In March 1983, the Board instructed UCAs that unless they are acquainted with the claimants, specific identification (such as a driver's license, social security card, or employee identification) should be obtained. The Board's operating staff acknowledged that there has probably been little effort to monitor compliance with the directive. New instructions were issued in December 1984 to UCAs and field offices reemphasizing the need for positive identification and the procedures to be followed if appropriate identification is not provided.

The Board's actions to obtain specific identification from unemployment claimants are positive measures toward strengthening controls over possible fraud and abuse. We believe, however, that more needs to be done to prevent and detect persons (1) working in rail or nonrail employment while collecting unemployment and sickness benefits, (2) committing fraud by claiming benefits on the basis of another bona fide rail employee's work record, and (3) submitting sickness insurance applications containing false doctors' certifications.

#### WORKING WHILE COLLECTING BENEFITS

Two procedures to detect illegal employment by beneficiaries receiving unemployment or sickness insurance benefits are (1) making checks against state unemployment insurance agencies' and railroad employers' wage records to ensure that beneficiaries were not receiving wages at the time they claimed benefits and (2) verifying that the claimant is not currently working for a rail employer by notifying the claimant's employer of the application for benefits. Because there is a greater potential for beneficiaries to find employment in nonrail work, our review was directed primarily toward controls for detecting nonrail employment.

#### Making wage checks for nonrail employment

Board field offices make, on the basis of a manually selected sample, checks to ensure that the beneficiary did not have rail or nonrail employment at the time he/she claimed to be unemployed or sick. To determine if the claimant worked for his rail employer on the days for which benefits were claimed, the Board's field offices, after subjectively selecting cases for review, contact the claimant's last rail employer either in person, by letter, or by telephone. To check nonrail employment, the field office contacts the state employment agency in the claimant's home state (if that state collects wage data from

employers in the state<sup>3</sup>) to determine if the claimant had non-rail wages. If the state's response suggests that the claimant could have been employed during calendar quarters when benefits were paid, the Board's field office contacts the nonrail employer to obtain specific dates the claimant worked. If rail or nonrail days worked coincide with the benefit days claimed, and the nonrail wages exceed \$10 on such days, an overpayment exists. For the states<sup>4</sup> in which state employment agencies do not maintain wage records, the Board is unable to perform non-rail wage checks.

A major weakness with the Board's present wage check system lies in the case selection method. The Board has no specific criteria for case selections. Presently, case selection criteria, sample size, and time of testing vary widely among the field offices. Case selection is left to field office personnel--who also approve applications and claims. This is an inadequate separation of responsibility that allows the claims approved by one examiner to go unchecked by another.

To discover possible fraud or abuse that the Board's manual subjective case selection process of wage checks may not have identified, we used a computer to match Pennsylvania Department of Labor and Industry employment records (wage information submitted by employers in Pennsylvania for their employees) with the Board's unemployment and sickness records for about 23,000 railroad beneficiaries residing in that state during July 1980 through September 1981. This methodology eliminated judgment and selective acceptance or rejection of particular cases for further review because it identified each beneficiary who had nonrail wages during the period.

The match produced 1,988 cases in which the beneficiary earned nonrail wages at some time during a 15-month period. Because most such cases could be proper--the beneficiary worked

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<sup>3</sup>Currently 38 states, the District of Columbia, Puerto Rico, and the Virgin Islands routinely collect wage data from employers, but as a result of the Deficit Reduction Act of 1984, all states are required to do so by 1988. By matching benefit records with wage data, an agency could check for various forms of fraud, such as collecting unemployment while actually working or obtaining public assistance although not qualified for it.

<sup>4</sup>The nonwage reporting states are Hawaii, Massachusetts, Michigan, Minnesota, Nebraska, New Jersey, New York, Ohio, Rhode Island, Utah, Vermont, and Wisconsin.

in nonrail employment during the quarter but not on days when drawing benefits--we decided to review only cases in which beneficiaries had 60 or more days of unemployment benefits or sickness insurance benefits and at least 5 weeks or \$1,000 of non-rail earnings in the same quarter. This criteria ensured that any matches reviewed would have some benefits and wages on the same day and/or some daily wages which exceeded \$10. We found 187 such cases. We eliminated 21 cases for which the Board had identified overpayments through its subjective manual wage checks. The other 166 cases had not been previously selected for wage checks under the Board's normal procedures.

We contacted employers by visit, telephone, or questionnaire to obtain the specific days when wages were paid in excess of \$10. At this time, we also obtained data on six other beneficiaries who had fewer than 60 benefit days but were employed by the same firms that we visited. Wage information resulting from our contacts disclosed that 80 of the 172 claimants earned in excess of \$10 on days benefits were paid. We turned the 80 cases over to the Board for investigation.

As of October 1984, the Board had confirmed that an overpayment had occurred in 70 cases. We were told by Board staff that based on additional information supplied by claimants, five of the cases we referred were determined not to involve overpayments and that five of the cases were still under investigation. Board officials told us that they classified 26 of the overpayments as fraudulent. The following are examples of cases classified as fraudulent by the Board's field office personnel who reviewed the cases we had turned over to the internal auditors.

--In one case, the Board reviewer found that the claimant was employed by a security company 5 days a week for 13 months while collecting \$4,875 in unemployment insurance benefits. The reviewer reported that the claimant maintained he was unaware he had to report outside employment. He noted that the claimant was interviewed by a Board representative 2 months after benefits began but did not disclose his employment when asked. Since the claimant had a college education, the Board reviewer concluded that the claimant knew his actions were fraudulent.

--In another case, the Board reviewer found that a claimant filed for sickness insurance benefits for 105 days while working for a steel company and received \$2,625 in benefits. He reported that the claimant, knowing that the regulations under the Railroad Unemployment Insurance Act

prohibited the payment of such benefits, simply stated that he "got greedy."

--In a third case, the Board reviewer found that a claimant claimed and received \$2,200 in sickness insurance benefits while working for a firm of attorneys over a 5-month period. The reviewer reported that the claimant withheld from the Board information regarding her employment and vacation pay which she knew or should have known would preclude payment of sickness insurance benefits, and it appeared that she had sufficient intelligence to understand the written instructions. The Board reviewer concluded that the claimant knowingly withheld this information and fraudulently submitted these forms to receive sickness insurance benefits while she was regularly employed.

In classifying the 26 cases mentioned above as fraudulent, the Board's staff took into consideration such factors as whether the claimant was advised of his or her responsibilities for statements made in connection with the claim, the claimant's general level of intelligence and education, the existence of an intention to deceive, and the number of days claimed and the amount of benefits involved. Of the remaining 44 overpayment cases not classified as fraudulent on the basis of one or more of the above reasons, 11 involved overpayments and associated penalties in excess of \$1,000.

As a result of the Board's investigation, the Board concluded that 70 of the cases we referred involved expected recoveries of over \$126,200--including \$96,500 in overpayments and \$29,700 in associated penalties. When we adjusted this 15-month total by eliminating one quarter of data so that the data would reflect benefit year 1981 only, the expected recoveries totaled \$90,600--consisting of \$70,800 in overpayments and \$19,800 in associated penalties. The expected recoveries from this one match in one state for benefit year 1981 are equal to about 24 percent of the \$371,569 the Board identified in recoverable amounts from unemployment and sickness insurance claimants nationwide during benefit year 1981.

We were unable to determine what portion of the \$371,569 represented Pennsylvania cases because of the way the Board keeps its records. Thus, we could not directly compare our results with those of the Board's field offices for the same period. However, we note that the level of benefit payments to Pennsylvania rail workers represented less than 10 percent of the national total in benefit year 1981. As a result of the

computer match of Pennsylvania records, the Board could realize about 24 percent more nationwide in recoveries from benefit year 1981 overpayments and associated penalties.

We believe that the case selection procedure we used to analyze Pennsylvania nonrail wage data is more effective than that used by the Board's field offices because it results in:

- A more objective and systematic approach than the judgmental manual selection process being used by the Board. It would increase the possibility of detecting fraudulent claims by persons having ready access to rail employee eligibility data if one organization was responsible for selecting the cases and another for reviewing them. It would cover all persons who filed a claim for benefits in a given benefit year.

- A higher rate of identification of overpayments than under the Board's present selection system.

States using a systematic postpayment wage check system to monitor their state unemployment programs said that they periodically match all claimants' records with earnings records supplied by employers. This is a complete computer match that goes beyond the selective subjective manual matching done without a computer. We have not assessed the cost effectiveness of the Board attempting to match all its beneficiaries against the wage records of all the states that maintain such records. However, based on our experience in matching Pennsylvania wage records and the Board's experience in following up on these matches, we believe such matching could be done in some states without incurring substantial additional administrative costs.

Notifying rail employers that  
workers claimed unemployment benefits

Our limited review of a sample of 25 beneficiaries to determine whether they worked for their rail employer while collecting benefits disclosed no instances of such employment. We found, however, that the Board does not have procedures to routinely notify a rail employer that a claimant has filed for unemployment. A person could file a fraudulent unemployment claim with the UCA from one railroad without anyone verifying that the claimant was no longer working for his or her last rail employer for the period claimed. The Board considers the receipt of an application for unemployment compensation as prima facia evidence that the person is unemployed.

In 1978, the Board conducted a study with three railroads in an attempt to verify the validity of applications for unemployment compensation. For this study, the Board developed a special application form and asked that the three railroads use it exclusively. The form included a portion to be forwarded to a railroad official for verification. The railroad official was to advise the Board field office if the application appeared questionable. Information supplied by the employers involved in the test resulted in 2 percent of the claims being changed.

We contacted officials of the three railroads involved in the test. One said he did not know why the procedure was discontinued. Another said that employer notifications are an excellent idea since he believes improper benefit applications occur frequently. Officials of another railroad advised us that the railroad had adopted its own procedure to continue to require that management be advised by UCAs of all claims for unemployment benefits forwarded to the Board, but that statistics on the results of this procedure were not being maintained.

In October 1981, a Board internal quality control study recommended that rail employers be notified of applications and claims submitted by claimants for unemployment benefits. State unemployment agencies advise an employer that a claimant has filed for unemployment benefits so that the employer may have an opportunity to contest the claim--which affects the unemployment tax the employer pays.

#### CLAIMING BENEFITS ON THE BASIS OF ANOTHER EMPLOYEE'S RECORDS

Verifying address changes is also an important control because fraudulent claimants applying for benefits on an eligible worker's wage record would have to have the benefit check addressed to somewhere other than the eligible worker's residence. Verifying address changes would also help detect attempts by one person to obtain multiple fraudulent benefits based on the records of several rail workers.

We conducted a limited test of 23 instances in which an address change had been entered during an unemployment insurance transaction and 15 instances in which eight or more beneficiaries were receiving benefits at the same address during a 6-month period. Although we found no evidence of fraud in the cases we reviewed, we found that the Board's internal control system is not designed to detect such actions.

To apply for benefits, one need supply only the name, social security number, and birth date of a railroad employee who had earnings in the base year and who is not currently collecting benefits. At any stage of the application process, UCAs and Board field office and headquarters personnel have access to enough information to know which workers can qualify for benefits, as well as their social security numbers and dates of birth. However, current Board procedures and controls, which depend on the integrity of railroad and Board employees, may not prevent fraudulent claims.

For example, a dishonest UCA, who may also be a time-keeper, could get enough information about other railroad employees to submit a claim in their name while changing the mailing address to direct the check to the UCA who is perpetrating the fraud. Such actions could not be readily identified because the Board supplies the UCAs with computer-produced claim forms to be used by unemployed workers.

The Board does not have procedures for verifying changes in address or investigating instances of multiple benefit checks going to the same address. A person with sufficient knowledge of a rail worker's employment status and payroll records can apply for benefits in the worker's name. The fraudulent claimant would have to have the benefits sent to some location other than the rail worker's address, necessitating a change of address transaction in the worker's record. And since the Board maintains a number of address lists for various purposes, the fact that the mailing address for a particular rail employee was changed to divert the benefit check to another address would not be noticed by that employee since he would still be receiving other Board material.

If a fraudulent claimant were receiving benefits on his own behalf and/or on the record of several different employees, it could result in several benefit checks being sent to the same address. Officials of several state unemployment insurance programs said they periodically check multiple benefits sent to the same address and follow up on those that appear suspicious.

A May 1982 review of the Board's Bureau of Unemployment and Sickness Insurance program's change of address procedures by its Bureau of Audits and Investigations found no internal control over address changes. Changes were frequently made, there was no control over input into the computer, and no approval of changes by claims examiners was required. The Bureau of Audits and Investigations concluded that improvements were needed to control address changes. These recommended improvements were



based in part on a MITRE Corporation computer security risks analysis that questioned the indiscriminate acceptance of address changes in the Board's unemployment and sickness insurance program. According to Board officials, they did not implement these prior recommendations primarily because they lacked sufficient staff.

As a method of internal control, state unemployment agencies said that all address changes are immediately verified by sending computer-processed letters acknowledging the change to the old address. The acknowledgements are sent in envelopes that are not to be forwarded but returned if undeliverable to the addressee at the old address. A returned, undeliverable verification is accepted as evidence of a bona-fide change-of-address. If the postal service forwards the verification anyway, a response from the recipient will verify the validity of the change. In addition, officials in three states told us computer runs are made to determine instances of multiple benefits being sent to one address. One state unemployment program official said that verifying the validity of multiple benefits sent to an address is a useful control and, once the system is in place, requires minimal computer efforts.

#### SUBMITTING FALSIFIED DOCTOR'S CERTIFICATIONS ON SICKNESS CLAIMS

Our review of 37 sickness applications disclosed no evidence that the illness or injury was not certified by a physician. However, we found that the Board's internal controls over sickness insurance claims are vulnerable to fraud and abuse.

The sickness insurance portion of the Board's program lacks the face-to-face contact that exists under the unemployment portion since the claimant sends the sickness application directly to headquarters. The UCA does not become involved in sickness insurance claims. Currently, anyone could sign the doctor certification and supply a diagnosis on the sickness insurance application.

The vulnerability of the existing controls was demonstrated in a January 1978 test by the Board's internal auditors. Information obtained from files readily available to Board employees and a fraudulent address and doctor certification were forwarded through normal processing. The result: Two checks totaling \$500 were issued to the "fraudulent" claimant.

A Board-commissioned evaluation of the unemployment and sickness insurance program by Thomas L. Jacobs and Associates

also completed that year pointed to the lack of controls in the sickness insurance program, including problems with the doctor's certification.

We believe that the successful penetration of the system by the Board's internal auditors and prior criticisms demonstrate the system's vulnerability. We believe that, as a minimum, some form of additional control--such as requiring the submission of the doctor's tax identification number on the application--should be implemented by the Board.

Even these controls fall short of precluding a claimant from learning a doctor's identification number and using it on a false claim. However, no action short of requiring doctors to submit certifications directly to the Board using a code known only to the Board and the doctor can prevent the submission of falsified doctor's certifications under the Board's existing sickness insurance procedures. Such a procedure, however, might be impractical and costly.

#### AGENCY COMMENTS

In orally commenting on our proposals for implementing a systematic procedure for periodic computerized wage checks of beneficiaries, the Board said it plans to make such computerized wage checks in all states having significant rail employment. To separate responsibilities, the Board's headquarters staff will make the case selections and the field office staff will make the investigations. The Bureau of Unemployment and Sickness Insurance will be responsible for implementing the procedures after receiving a final report from the Board's internal auditors who are performing systematic tests in Illinois and California. The Bureau of Audit and Investigation will develop a methodology and guidelines for these wage checks, including the criteria for deciding which matches are more likely to involve fraud or abuse and should be pursued.

In regard to notifying an employer that a claimant has filed an application or a claim, Board members said they are setting up procedures to provide employers with such notification. Board members said that they have agreements with one major railroad and are negotiating with three others to perform rail employment wage checks to verify the unemployment of their employees who are applying for benefits.

In our discussions with the Board concerning address changes, we suggested that the Board study the feasibility and cost of verifying changes of address and identifying instances of multiple benefit checks being sent to the same address.

Board members, however, said they did not believe a full cost-benefit study was necessary. Rather, they will modify their existing program to identify instances of multiple checks going to the same address and will set up procedures for verifying address changes. The latter will include checks on the frequency of address changes. When this is completed, the possible implementation costs should be evident, and the Bureau of Unemployment and Sickness Insurance will make its recommendations to the Board on the cost effectiveness of implementing these verification procedures.

Board members said that they will require the use of tax identification numbers on the doctor's certification portion of sickness applications. They said they will search for a suitable source for doctor's tax identification numbers, such as the Internal Revenue Service, the Department of Health and Human Services, or the American Medical Association. According to Board members, use of such a procedure would require the concurrence of the Office of Management and Budget, but the procedure would be implemented as soon as possible after such concurrence was obtained. Board members also agreed with our suggestions for detecting possible fraud and abuse by those on the rolls.

The Board members advised us that although they have agreed to implement our proposed measures, their ability to fully do so depends partly on the availability of additional staff.

We advised Board officials that while the recommendations we were making could require some additional staff, it appeared that most of our suggested control improvements could be automated and carried out by staff now having related responsibilities. For example, verification of sickness certifications, address changes, and multiple checks going to the same address could be automated to screen for validation. Only those cases in which such screening results in questionable cases would be pursued and that could be done by the persons who normally check out potentially erroneous payments. Similarly, routine notification of rail employers of applicants' claimed benefit periods also could be computer generated. When employers respond indicating the claimant had rail employment during a benefit period, the case could be checked out by personnel who currently investigate such situations. Finally, the computer matching of benefit records to individual state wage files could be accomplished once proper formats are developed. Matches identified could be verified by field offices in lieu of cases they now manually select for review.

RECOMMENDATIONS

We believe the Board should assess its capacity for implementing our proposed recommendations through computerized internal controls and determine whether such controls would be cost beneficial. If the Board finds that implementation is feasible and cost beneficial, we recommend that it:

- Initiate more systematic wage checks for nonrail employment by beneficiaries, including the regular use of computerized wage checks of beneficiaries with state employer wage records in those states which maintain such records and where computerized wage checks are found to be cost beneficial.
- Notify rail employers after a claimant has filed for unemployment benefits.
- Systematically verify reported changes of address.
- Periodically review the validity of multiple benefit checks being sent to the same address.
- Require, as a minimum, some form of additional control to verify sickness claims. This could include requiring doctors to provide identification that would not be known to claimants, such as the doctor's tax identification number, when they certify sickness claims.

OBJECTIVES, SCOPE, AND METHODOLOGY

We sought to examine selected potential weaknesses in the Railroad Retirement Board's system to control fraud and abuse in its unemployment and sickness insurance program and to bring any deficiencies detected to the Board's attention. Our focus was limited to examining specific vulnerabilities that could be corrected by strengthening present controls or by adopting controls found in agencies and organizations performing similar functions.

Our audit was performed in accordance with generally accepted government audit standards. We reviewed the history of the program, including the laws and regulations authorizing the Board to administer the program. We also studied Board policies and procedures related to implementing controls. To determine how the system of controls worked, we spoke with Board headquarters and field office personnel, reviewed prior audit reports and ongoing investigations of the internal auditors, and examined prior Board and consultant studies.

We spoke with personnel from the Department of Labor and six state unemployment agencies--California, Illinois, Indiana, Kentucky, New York, and Wisconsin--to learn of their controls over unemployment benefit payments. These discussions enabled us to learn the techniques used for detecting fraud and abuse in some of this country's largest state unemployment programs. Our discussions suggested tests we could perform to assess the vulnerability of unemployment and sickness insurance program controls.

From a computer list of claimants with address changes entered on two separate days of unemployment insurance transactions, we selected 23 claimants. For these claimants, we determined if they still had a telephone at the old address. No telephone at the old address indicated to us that the claimant had moved and the address change was bona fide. If there was a telephone at the old address, we called there to verify the change.

Because a prior Board study had demonstrated the vulnerability of the program's controls to the submission of fraudulent sickness claims, we selected a judgment sample of 37 sickness applications that represented claimants from 23 states to verify the doctor's certification of illness or injury. We chose applications that appeared questionable; for example, those based on a very limited diagnosis or where the doctor's signature was rubber stamped. The validity test was conducted by telephone conversations and personal visits with doctors.

We asked the Board to produce a list of all beneficiaries who received multiple benefits at one address from April to September 1982. This match was made on the basis of zip codes and the first 6 digits of the address. This matching method sometimes inadvertently associated different addresses as the same address and different forms of the same address as different addresses. Consequently, visual inspection was required. The matched addresses that we wished to consider involved three or more beneficiaries at the same location. Two persons receiving benefits at the same location was not considered extraordinary because it is not unusual to find two members of a family receiving benefits at the same address.

From 431 instances in which three or more beneficiaries resided at the same address during the 6-month period, we eliminated Indian reservations because it is common for rail employees residing on a reservation to use a trading post and box numbers as mailing addresses. We further narrowed the universe to 15 addresses where 8 to 19 beneficiaries resided at the same location to provide a manageable sample. Presumably, a claim submitted following an address change by an imposter on a rail worker's record would have a different signature from one on a claim submitted before the address change. Therefore, to test the validity of the multiple beneficiaries, we compared the signatures and addresses appearing on benefit claims before and after the address changes.

We also tested for workers employed in the rail industry or in nonrail employment while receiving benefits. Using computer-matching techniques, we matched wage information submissions by Pennsylvania employers for their employees with the Board's unemployment beneficiary records of employees residing in Pennsylvania for benefit year 1981. The matching procedure identified beneficiaries who worked some time during a 15-month period. Our computer-generated reports contained benefit days allowed per quarter and wage data, including number of weeks worked per quarter, gross earnings per quarter, employer identification number, and employer name and address. We used this information to select cases in our tests for rail and nonrail employment.

In our test for nonrail employment, we selected beneficiaries who:

- had 60 or more days of benefits and at least 5 weeks or \$1,000 of nonrail earnings in one quarter.

--had a beneficiary record that indicated no evidence the Board had taken action to correct the benefit payment at some time between when it was paid and the time of our test.

We contacted employers of these beneficiaries by personal visit, telephone, or questionnaire. We also obtained data on six other beneficiaries who had fewer benefit days, but were employed by the same firms we visited. We did not assess the cost effectiveness of the Board attempting to match all its beneficiaries against the wage records of all states which maintain such records.

In our test for instances of persons claiming benefits while employed in the rail industry, we judgmentally selected a sample of 25 beneficiaries from among the first 200 benefit records within the universe of 23,000 beneficiaries. Large and small railroads were represented. From the large railroads, beneficiaries with short- and/or long-term benefit periods were included. We contacted by telephone or letter the employer of each sampled employee and requested information as to days worked in the test period. For each sampled employee, we compared benefit days claimed with rail employment days to determine whether benefits were claimed on a day of rail employment.