United States Government Accountability Office

Report to Congressional Requesters

April 2018

RAILROAD RETIREMENT BOARD

Additional Controls and Oversight of Financial Interchange Transfers Needed

Accessible Version

GAO-18-323

GAO Highlights

Highlights of GAO-18-323, a report to congressional requesters

April 2018

RAILROAD RETIREMENT BOARD

Additional Controls and Oversight of Financial Interchange Transfers Needed

Why GAO Did This Study

RRB collects payroll taxes and administers retirement, disability, and Medicare benefits for rail workers and their families. A financial interchange exists between RRB, SSA, and HHS in order to put the trust funds for these benefits in the same financial position as if Social Security covered rail workers. RRB generally transfers to the Social Security and Hospital Insurance trust funds the taxes that would be collected from rail workers and employers, while SSA provides RRB the benefits that would otherwise be paid directly to rail workers. GAO was asked to review the financial interchange calculation process.

This report examines (1) the steps taken to calculate financial interchange amounts, (2) factors that could account for trends in transfers over time, and (3) the extent to which RRB, SSA, and HHS provide oversight to ensure calculations are accurate. GAO reviewed agency policies, procedures, and regulations; observed RRB staff calculating four cases selected for beneficiary type; reviewed data on payment and beneficiary trends; and interviewed agency officials.

What GAO Recommends

GAO makes eight recommendations, including that RRB create formal policies and improve documentation of its processes, work with SSA to obtain data electronically, and that SSA and HHS increase their oversight. RRB and SSA agreed, while HHS did not, asserting that statute limits its authority; however, HHS continues to review this issue. HHS should seek this authority if it determines it necessary.

View GAO-18-323. For more information, contact Elizabeth Curda at (202) 512-7215 or curdae@gao.gov.

What GAO Found

Established in 1937, the Railroad Retirement Board (RRB) administers retirement and disability benefits for rail workers and their families. A financial interchange between RRB and the Social Security Administration (SSA) was created in 1951, which as GAO previously reported, helped finance RRB benefits as they increased over time to keep pace with growing Social Security benefits to individuals. Through its financial interchange calculation, RRB takes steps each year to estimate the amount of funds that would have flowed in and out of Social Security's trust funds if rail beneficiaries were covered by Social Security instead of RRB. Five key steps go into the annual calculation:

- RRB is credited for (1) the estimated amount of benefits it would have paid to beneficiaries under SSA rules, (2) administrative costs, and (3) interest accrued on the financial interchange amount.
- SSA is credited for the revenues it would have received from rail workers if they paid into Social Security; specifically, (4) payroll taxes and (5) income taxes paid on benefits received.

The determined net amounts are transferred between the agencies, which since 1958 have been from SSA to RRB each year. RRB received $4.1 billion in fiscal year 2016, almost one-third of the $12.4 billion in retirement and disability benefits it paid that year. The financial interchange was expanded to Medicare in 1965 to facilitate funding of Medicare benefits to rail workers; RRB transfers Medicare payroll taxes collected, income taxes paid on benefits received, and interest, minus administrative costs to the Department of Health and Human Services (HHS).

A high ratio of beneficiaries to active railroad workers primarily explains the net transfers from Social Security's trust funds to RRB each year since 1958. Rail employment has fallen steadily since World War II, and the number of beneficiaries has exceeded the number of workers since 1961. RRB had 2.7 beneficiaries for every worker in 2015. As a result, RRB has paid out more in benefits than it has collected in payroll taxes and projects this to continue for the foreseeable future.

RRB takes a number of steps each year to ensure the accuracy of its calculations, such as checking that the sample of cases used to estimate benefit payments is complete, reviewing the work of new employees, and using electronic alerts to help prevent staff from entering incorrect information into its computer system. SSA and HHS also conduct high-level reviews of the calculation results to identify any significant changes from one year to the next. However, RRB's process includes manual data entry and its electronic edit checks cannot flag entries that are incorrect but plausible, which could lead to calculation errors. RRB also has limited documentation of its calculation process, and does not have formal policies on how staff should address some potential calculation errors and on how supervisors should review staff work. This is contrary to internal control standards for having quality data and documenting procedures. In terms of SSA and HHS, they do not currently review case-level calculations made by RRB, and cannot reasonably ensure that work used to determine the transfers they made and received is correct.

Contents

Figures

Abbreviations

DI	Disability Insurance
HHS	Department of Health and Human Services
OASI	Old-Age and Survivors Insurance
RRB	Railroad Retirement Board
SSA	Social Security Administration
T&P	total and permanent disability

U.S. GOVERNMENT ACCOUNTABILITY OFFICE
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April 19, 2018

The Honorable Sam Johnson
Chairman
Subcommittee on Social Security
Committee on Ways and Means
House of Representatives

The Honorable Trey Gowdy
Chairman
Committee on Oversight and Government Reform
House of Representatives

The Honorable Mark Meadows
Chairman
Subcommittee on Government Operations
Committee on Oversight and Government Reform
House of Representatives

Established in 1937, the Railroad Retirement Board (RRB) administers retirement and disability benefits for rail workers and their families. After Medicare was enacted in 1965, RRB began administering these benefits for rail employees and their families. For most other workers in the United States, the Social Security Administration (SSA) administers retirement and disability benefits and the Department of Health and Human Services (HHS) administers Medicare benefits.

We previously reported that the 1951 amendments to the Railroad Retirement Act of 1937 substantially increased railroad retirement benefits to bring them in line with benefit increases granted to individuals under Social Security, and that a financial interchange was created between the agencies in 1951 to help pay for these increases.[1] The financial interchange was expanded in 1965 to include HHS. The financial interchange is intended to put the Old-Age and Survivors (OASI), Disability Insurance (DI)—which finance retirement and disability benefits respectively—and Hospital Insurance trust funds in the same position that they would have been had railroad employment been covered under the

[1]GAO, *Railroad Retirement: Federal Financial Involvement*, GAO/HRD-86-88 (Washington, DC.: May 9, 1986).

Social Security Act and the Federal Insurance Contributions Act.[2] Through this financial interchange, RRB typically receives sizable transfers each year from the OASI and DI trust funds and transfers funds to the Hospital Insurance Trust Fund. In fiscal year 2016, RRB reported that it received about $4.1 billion in transfers from the OASI and DI trust funds—about one-third of the $12.4 billion it paid in retirement and disability benefits.[3]

You asked us to review the financial interchange calculation process. This report examines:

1. What steps does RRB take to calculate financial interchange amounts?
2. What factors, if any, account for the trends in transfers between RRB, SSA, and HHS through the financial interchange?
3. To what extent do the agencies provide oversight to ensure that financial interchange transfer amounts are accurate?

To address the first objective we reviewed RRB guidance and documentation to determine the methodology RRB uses for its financial interchange calculations, as well as assessments of the soundness of the methodology. We also observed RRB staff while they conducted calculations on four non-generalizable four cases—selected to provide variation in terms of the type of benefits being received—to determine the steps taken by staff.

To address the second objective, we analyzed data on the amounts of financial interchange transfers from calendar year 1951 to 2015, the number of RRB beneficiaries from fiscal year 1937 to 2016, and the number of rail workers from calendar year 1937 to 2016, the most recent available data. We assessed the reliability of these data by reviewing

[2]The law states that the financial interchange is to place the Old-Age and Survivors Insurance Trust Fund, the Disability Insurance Trust Fund, and the Hospital Insurance Trust Fund in the same position they would have been if (1) service as an employee after December 31, 1936 had been included in the term “employment” as defined in the Social Security Act, and in the Federal Insurance Contributions Act and (2) the Railroad Retirement Act of 1935, as amended, had not been enacted. In this report we refer to this position as one in which the relevant individuals were “covered under Social Security.”

[3]The $4.1 billion RRB reported it received in 2016 differs from the result of the financial interchange calculation. The result of the calculation is determined on a cash basis and the amount received is reported on an accrual basis.

RRB documentation regarding internal controls and interviewing knowledgeable officials. We determined that the data on the number of beneficiaries and workers were sufficiently reliable for our purposes. We determined that the data we report on the amounts of financial interchange transfers were sufficiently reliable for our purposes of discussing trends in transfers over time.

To address the third objective, we reviewed agency policies, procedures, and documentation. We also observed RRB staff demonstrate, on the four illustrative cases described above, the safeguards to prevent errors that are built into the system they use to compute financial interchange amounts. We compared these steps taken by the agencies to criteria for using quality data and documenting agency procedures in standards for internal controls in the federal government.

For all three objectives, we reviewed relevant federal laws and regulations, and interviewed staff at the three agencies to provide additional context.

We conducted this performance audit from January 2017 to April 2018 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Background

The rail industry was one of the first to pioneer private pensions for its employees in the late 19th century, and by the 1930s, these pensions were more developed than in most other industries. However, according to RRB, these private rail pensions had serious defects that were magnified by the effects of the Great Depression. For instance, RRB noted that the plans were generally inadequately financed and that employers could terminate the plans at will. In prior work, we noted that the Railroad Retirement Act of 1937 was enacted at the urging of rail labor and established the national railroad retirement system administered by RRB.[4] The program was to be solely supported by

[4] GAO/HRD-86-88.

employees and employers of the rail industry through payroll taxes. According to RRB, this system was created separately from Social Security for several reasons. For instance, RRB notes that Social Security—created in 1935—would not begin payments for several years or credit workers for work prior to 1937, while the deteriorating state of private rail pensions called for immediate retirement payments based on prior service.

We previously reported that the 1951 amendments to the Railroad Retirement Act of 1937 substantially increased railroad retirement benefits to bring them in line with benefit increases granted to individuals under Social Security, and that a financial interchange was created between the agencies in 1951 to help pay for these increases.[5] RRB annually computes the amounts that SSA would have collected in taxes from rail workers and their employers, and what SSA would have paid in benefits if rail workers had been covered under Social Security, with the net difference transferred between the agencies. The amounts computed under the financial interchange do not necessarily represent the actual RRB benefits paid to rail workers and their beneficiaries. RRB determined that it was due a net transfer from SSA each year since 1958.

Financial interchange transfers make up a significant portion of the financing for RRB's retirement, disability, and survivors benefits. In fiscal year 2016, RRB paid about $12.4 billion in these benefits and collected $5.9 billion in payroll taxes from rail employees and employers. RRB reported that the remainder of its funding for these benefits came from the financial interchange ($4.1 billion), transfers from the National Railroad Retirement Investment Trust ($1.4 billion),[6] income taxes collected on RRB benefits ($758 million), and other funding sources, such as appropriations. The interchange also serves as a vehicle to fund Medicare Part A (Hospital Insurance) benefits for rail workers.

The benefits provided by RRB consist of a core-level of benefits that are similar to those available to most workers covered under Social Security, including Medicare. Rail workers also receive a second level of retirement

[5] GAO/HRD-86-88.

[6] The National Railroad Retirement Investment Trust (NRRIT) was established in 2002 to manage and invest railroad retirement assets. RRB generally draws on this trust to pay for Tier II retirement benefits, which are benefits above and beyond Social Security equivalent retirement benefits.

benefits that approximate payments from private pension plans (see table 1).

Table 1: Comparison of Benefits Eligibility for Rail and Other Workers

Benefit Type	Railroad Retirement Board (RRB) Benefit	Equivalent Benefit for Workers Covered Under Social Security	RRB Benefit Included in Financial Interchange?
Disability Benefits	**Total and Permanent Disability (T&P):** Provides payments to individuals who have been determined to have a physical or mental impairment that lasts one year or is expected to result in death or last at least one year and prevents them from engaging in substantial gainful activity.	**Social Security Disability Insurance (DI):** Same disability criteria as T&P; generally pays the same benefits. Both are financed by payroll taxes at the same rates, which are levied on employees and employers.	Yes.
Disability Benefits	**Occupational Disability:** Provides payments to individuals whose physical or mental condition makes them unable to perform their specific railroad job. Benefits are paid at the same rate as T&P.	No equivalent.	Sometimes. According to RRB, although there is no equivalent benefit under the Social Security Act, SSA reviews Occupational Disability claims to determine if the individuals would qualify under DI rules. Those that do are included in the interchange calculation.
Retirement Benefits	**Tier I Retirement:** Provides benefits to retirees, spouses, and survivors.	**Old Age and Survivors Insurance (OASI):** Generally pays benefits at the same rate as Tier I. Both are financed by payroll taxes at the same rates, which are levied on employees and employers.	Yes.
Retirement Benefits	**Tier II Retirement:** Paid in addition to Tier I retirement for some workers; resembles a comparable private defined benefit pension. Financed by additional payroll taxes on railroad employees and employers, and by withdrawals from the National Railroad Retirement Investment Trust.	No equivalent.	No.
Medicare	**Medicare:** Identical to benefits available to other workers.	**Medicare:** Identical to benefits available to rail workers.	Yes, Medicare Hospital Insurance payroll taxes are included.

Source: GAO analysis of relevant federal laws and regulations, and SSA and RRB documents and interview with knowledgeable RRB officials. | GAO-18-323

For non-rail workers, Social Security and Medicare benefits are paid from their respective trust funds:

- Retirement benefits are paid from SSA's OASI Trust Fund;
- Disability benefits are paid from SSA's DI Trust Fund; and

- Medicare Part A benefits are paid from the Hospital Insurance Trust Fund.[7]

RRB Calculates Financial Interchange Amounts by Approximating Key Flows In and Out of SSA and HHS Trust Funds

The financial interchange is intended to place Social Security's OASI and DI Trust Funds and HHS's Hospital Insurance Trust Fund on the same financial footing as if rail workers and beneficiaries were covered under Social Security instead of by RRB.[8] Regarding Social Security, RRB is credited for what it paid beneficiaries, administrative costs involved with paying benefits, and interest for the time between the determination of the interchange amount and its actual transfer.[9] SSA is credited for the amount of payroll and income taxes it would have collected from rail workers and for income taxes that would have been paid by RRB beneficiaries on Social Security equivalent benefits. The net of the five amounts is the amount that is transferred (see fig. 1). A net transfer from SSA to RRB means that rail workers would have been a net draw on SSA's trust funds if covered under Social Security. RRB calculates the financial interchange amount each year, which is done on a retrospective basis, i.e., the amount is determined for the previous fiscal year. By law, the agencies must complete their determination by June of each year.[10]

[7]The Hospital Insurance Trust Fund helps pay for services covered under Medicare Part A, such as hospital care. It is funded primarily through payroll taxes. Medicare Parts B and D, which help pay for services such as doctor visits and prescription drugs, respectively, are paid for by the Supplementary Medical Insurance Trust Fund. It is financed primarily by transfers from the general fund and by monthly premiums paid by beneficiaries. Only Medicare Part A is part of the financial interchange.

[8]The law states that the financial interchange is to place the Old-Age and Survivors Insurance Trust Fund, the Disability Insurance Trust Fund, and the Hospital Insurance Trust Fund in the same position they would have been if (1) service as an employee after December 31, 1936 had been included in the term "employment" as defined in the Social Security Act, and in the Federal Insurance Contributions Act and (2) the Railroad Retirement Act of 1935, as amended, had not been enacted. In this report we refer to this position as one in which the relevant individuals were "covered under Social Security."

[9]The methodology used to compute the interchange is documented in an annual financial interchange report produced by RRB.

[10]45 U.S.C. § 231f(c)(2).

Figure 1: Social Security Financial Interchange Calculation, Fiscal Year 2016

Expenses had rail beneficiaries been covered under Social Security (credited to RRB)

Revenues had rail workers been covered under Social Security (credited to SSA)

$7.2 billion Benefits to beneficiaries + **$22 million** Administrative costs + **$163 million** Interest on financial interchange transfer – **$2.4 billion** Payroll taxes – **$296 million** Income taxes = **$4.5 billion Net credit to RRB**

SSA – Social Security Administration

Source: GAO analysis of Railroad Retirement Board (RRB) documents. | GAO-18-323

Note: The 2016 determination also included a $230 million adjustment for pre-1957 military service in which military service performed by rail workers was credited to RRB, but the individuals did not accrue the benefits necessary to earn a railroad retirement annuity. The amount was credited to SSA. According to RRB, the $4.5 billion shown above is calculated on a cash basis and the amount transferred, as reported in RRB's annual report ($4.1 billion), is reported on an accrual basis.

Benefits

In keeping with the purpose of keeping the OASI and DI trust funds in the same place as if rail workers were covered under Social Security, RRB determines the retirement and disability benefits that rail workers and dependents would have received if they were covered under Social Security. Specifically, RRB uses railroad earnings data provided by employers to replicate SSA's benefits calculations.[11] Although the basic retirement and disability benefits that SSA and RRB pay to their beneficiaries are based on the same formulas, there are several eligibility differences between the two programs.[12] For instance, a rail worker may receive unreduced retirement benefits at age 60 after 30 years of work, whereas the earliest most workers covered under Social Security can

[11]Employers are required to provide data on gross earnings to RRB on an ongoing basis.

[12]Specifically, we are referring to Tier I retirement benefits and total and permanent disability benefits, which are similar to OASI and DI benefits, respectively. According to RRB officials, occupational disability benefits are sometimes included in the financial interchange calculation. Occupational benefits are paid to individuals who are no longer able to perform their specific job, as opposed to total and permanent benefits, which are paid to individuals determined unable to engage in any substantial gainful activity. For RRB-approved occupational disability cases, RRB will ask SSA to review the cases and determine if the individuals would have qualified for benefits under DI eligibility rules. If SSA determines that the individual would have qualified for benefits under SSA rules, those benefits are potentially included in the financial interchange if they fall within the benefits sample. Tier II retirement benefits are not considered in the financial interchange calculation.

begin receiving retirement benefits is at age 62.[13] According to RRB officials, even though a 60-year-old railroad worker may be receiving RRB retirement benefits, RRB would not receive credit through the interchange for that individual. Once that individual turns 62, RRB determines the amount of reduced Social Security retirement benefits for which he or she would have been eligible, given the person's earnings history and Social Security's benefits rules.[14] According to RRB officials, the agency receives a credit through the interchange for this amount even though the individual is receiving full RRB retirement benefits.

To account for these potential differences, RRB officials said that the agency must make calculations for individual RRB cases. Additionally, RRB officials said that in light of the number of RRB cases—nearly 400,000—it is not practical to make these calculations annually for each case.[15] Instead, RRB uses SSA rules to calculate benefits for a subset of RRB cases in which the worker's Social Security number ends in 30, which approximates a 1-percent sample.[16] The sample size was about 4,000 for fiscal year 2016. Once RRB completes its benefit calculation for each of those cases, it aggregates the result and produces an estimated amount for its entire population of cases[17] (see fig. 2).

[13]Social Security recipients receive a reduced benefit if they retire and begin receiving benefits at age 62.

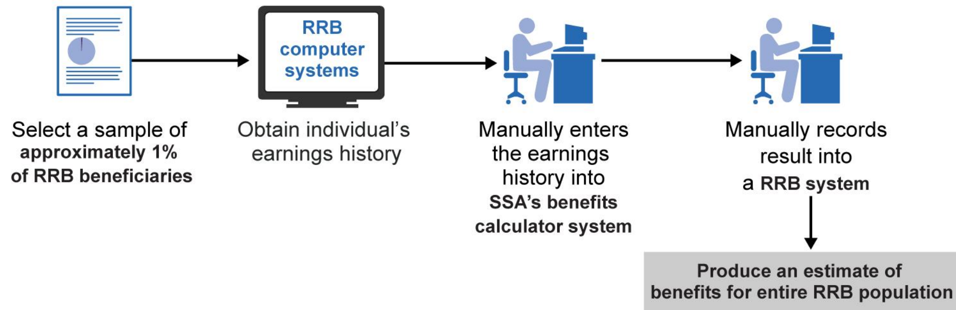
[14]Social Security retirement benefits are based on the average of the highest 35 years of an individual's earnings, indexed for wage growth. Benefits are progressive in that they replace a higher percentage of earnings for individuals with lower lifetime earnings amounts. Disability Insurance benefits are also based on average lifetime earnings.

[15]RRB officials said that the number of cases in the universe of RRB beneficiaries differs from the number of beneficiaries receiving RRB benefits. Cases are selected for the financial interchange on the basis of the original rail worker whose Social Security number ended in 30. There may be a number of beneficiaries, such as spouses and children, associated with each worker.

[16]The last two digits of a Social Security number range from 01 to 99 and are assigned randomly. As such, any combination of the last two digits should account for about 1 percent of all Social Security numbers. RRB stratifies its sample on the basis of different factors—such as the individual's age, whether a spouse annuity was payable, or the type of benefit received—to improve the accuracy of its estimate.

[17]This is the process RRB follows for calculating benefits for individuals who are joining the sample in that year. In most cases, RRB officials told us that they adjust a previously calculated benefit by any cost of living increase for the year. Because the calculation is based on a sample that is determined in the same way each year—with a Social Security number ending in 30—an individual will be part of the sample until he or she leaves the rolls or dies.

Figure 2: Process for Railroad Retirement Board Staff to Calculate the Benefits Portion of the Financial Interchange with the Social Security Administration (SSA)



Source: Railroad Retirement Board (RRB) documents and GAO observation of the calculation process. | GAO-18-323

RRB reported in its annual financial interchange determination report that it was credited $7.2 billion dollars in fiscal year 2016 for the estimated amount beneficiaries would have been paid under Social Security.[18]

Administrative Expenses

These expenses represent those that SSA would have incurred to administer benefits had rail workers been covered under Social Security (as opposed to the actual amount RRB spent to administer its programs). These expenses, which SSA would have funded out of its trust funds, include the cost to enroll individuals in its programs and maintain its benefit rolls. RRB calculates the amount of administrative expenses based on unit-cost data provided by SSA. RRB reported that it was credited about $22 million in administrative costs for fiscal year 2016.

Interest Charges

SSA credits RRB for interest that accrues on the annual financial interchange transfer from the period in time for which it is calculated (the end of the fiscal year on September 30) until the amount is transferred to RRB in June of each year. The interest rates are equal to those SSA earns on its trust funds. RRB reported that it was credited about $163 million in interest for fiscal year 2016.

[18]For the purpose of clarity in this report, we present the sum result of the OASI and DI amounts calculated. OASI and DI amounts are calculated separately.

Payroll Taxes

This amount represents the payroll taxes rail employees and employers would have paid into Social Security's trust funds had workers been covered under Social Security. SSA and RRB generally levy payroll taxes on earnings at the same rate, and RRB officials told us they use payroll data from employers to determine this amount. RRB reported that it credited SSA $2.4 billion for fiscal year 2016.

Income Taxes

Some RRB beneficiaries pay income taxes on the benefits they receive, and that tax revenue is credited to SSA's trust funds through the financial interchange. To put the OASI and DI trust funds in the same place as if rail workers were covered under Social Security, RRB credits SSA for the amount of income tax railroad beneficiaries paid on Social Security equivalent benefits.[19] RRB computes this amount using tax data from the Department of the Treasury, and credited about $296 million to SSA for fiscal year 2016.

RRB also may adjust calculations on transfers from prior years; for instance, if new income was reported for individuals or if benefit overpayments are discovered for individuals in the sample.

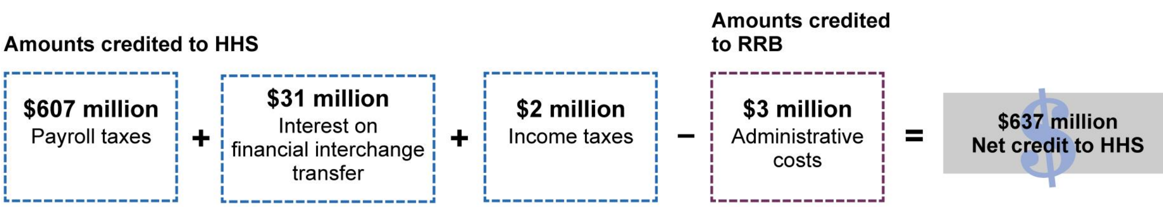
Medicare Transfers

The process for determining the financial interchange transfer with HHS—which helps finance Medicare benefits for rail workers—has fewer components than for retirement and disability benefits. Generally, RRB determines the Medicare payroll taxes and income taxes paid by rail workers and transfers this amount, less administrative expenses, to HHS (see fig. 3). RRB estimates how much it collects in Medicare payroll taxes by using payroll data provided by employers for workers whose Social

[19]Individuals usually only have to pay federal income taxes on their Social Security benefits if they have a certain level of income, such as wages, in addition to the Social Security benefits they receive. The amount of Social Security benefits that is taxable depends on the individual's combined income, but at most, 85 percent of the benefits may be taxable.

Security numbers end in 30.[20] RRB credited HHS for about $637 million for fiscal year 2016.

Figure 3: Medicare Financial Interchange Calculation for HHS and RRB, Fiscal Year 2016



HHS – U.S. Department of Health and Human Services

Source: GAO analysis of Railroad Retirement Board (RRB) documents. | GAO-18-323

Overall, the procedures we observed, and which RRB explained and demonstrated, for calculating the financial interchange are consistent with the methodology agreed to by RRB, SSA, and HHS. An annual determination report produced by the three agencies documents this methodology. Additionally, several audits conducted for the RRB Office of Inspector General determined that the methodology is appropriate for achieving the purpose of the financial interchange. Specifically, the audits concluded that the sample used in calculating benefits was representative of RRB's population of beneficiaries, the formulas used to project the results of the sample on the entire population of beneficiaries were consistent with RRB's design, and that assumptions made by RRB when carrying out calculations were reasonable.

[20]RRB officials said that it is necessary to estimate the amount of Medicare payroll taxes collected from rail workers because it does not receive reports for all rail workers on the amounts collected. Specifically, RRB does not have data on amount of payroll taxes paid on wages in excess of SSA's maximum taxable wage (which is $128,400 in 2018) except for active workers who are part of the 1-percent financial interchange sample. Officials told us that RRB only collects payroll taxes on the portion of individuals' earnings below that amount, adding RBB does not collect amounts exceeding the maximum taxable wage (except for the 1-percent sample). It does not have data on these payroll taxes because this information is not needed to administer its programs.

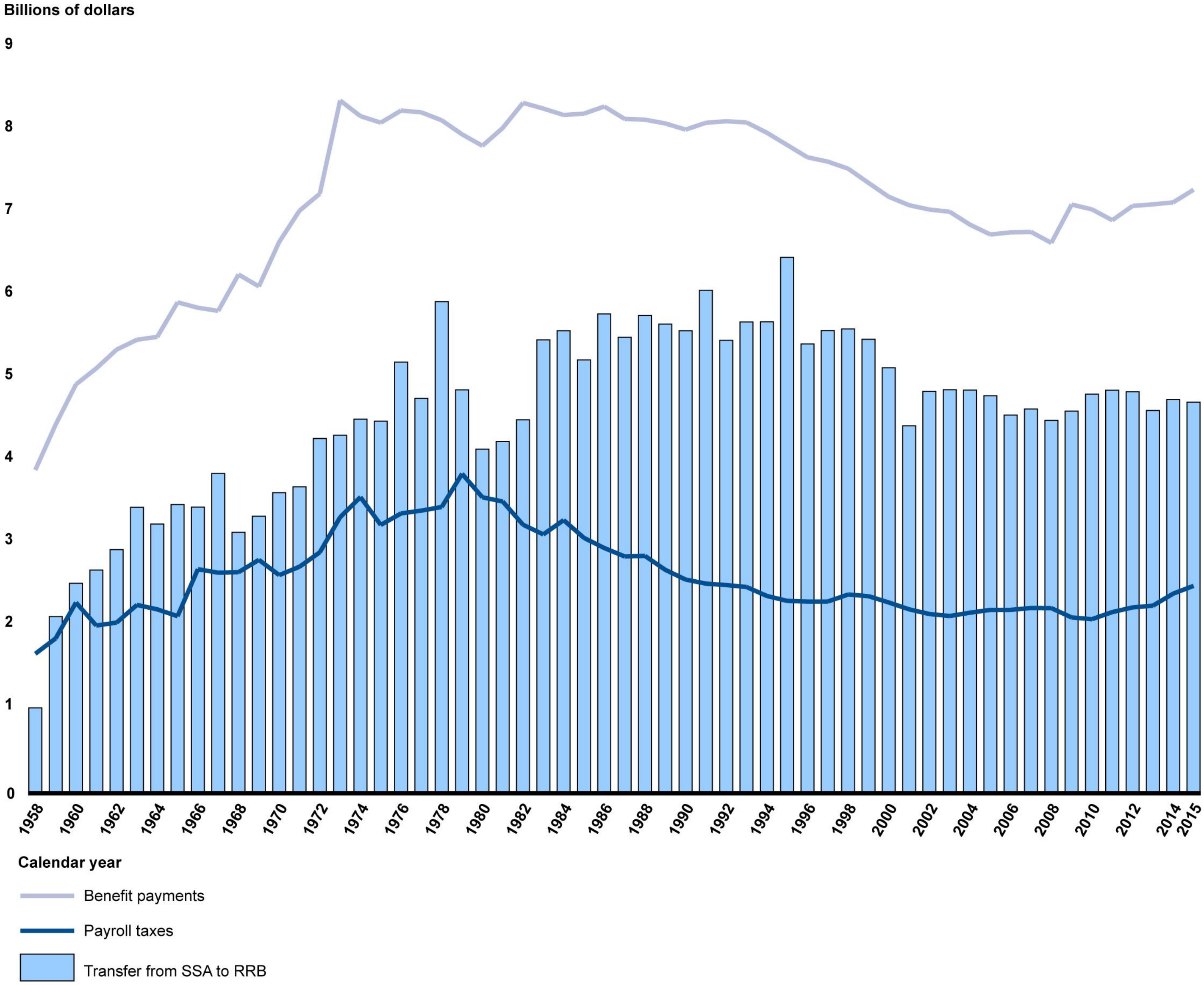
High Ratio of Beneficiaries to Rail Workers Has Resulted in Transfers From SSA to RRB Each Year Since 1958

SSA has made a net transfer to RRB through the financial interchange each year since 1958.[21] The cumulative net transfer from the Social Security trust funds to RRB through 2015 was approximately $266 billion in 2016 dollars. Of this amount, transfers related to retirement and survivor benefits comprised about $256 billion and disability benefits accounted for about $10 billion.[22] This trend in transfers is primarily caused by RRB benefit payments exceeding payroll taxes collected as calculated by the interchange, which has been the case each year of the financial interchange, resulting in a net amount owed to RRB from SSA each year (see fig. 4).

[21]When it was introduced, the financial interchange was made retroactive to 1937. The first determination covered the period from 1937 through 1952 and determined that RRB owed Social Security's trust funds a balance of about $488 million. Only interest was paid on that amount until the debt was liquidated as of 1958 by subsequent offsets from determinations made in favor of RRB. Since 1958, a transfer has been made from SSA to RRB each year, with the exception of four transfers from RRB to SSA to the Disability Insurance Trust Fund in 1959, 1960, 1977, and 1980.

[22]Transfers to the OASI and DI trust funds are made separately. There were four years in which a transfer was made to the DI trust fund: 1959, 1960, 1977, and 1980. In this report, we present the net of the OASI and DI transfers.

Figure 4: Benefits Paid, Payroll Taxes as Calculated in the Financial Interchange, and Funds Transferred from the Social Security Administration (SSA) to the Railroad Retirement Board (RRB), Calendar Years 1958 through 2015 (in constant 2016 billions of dollars)



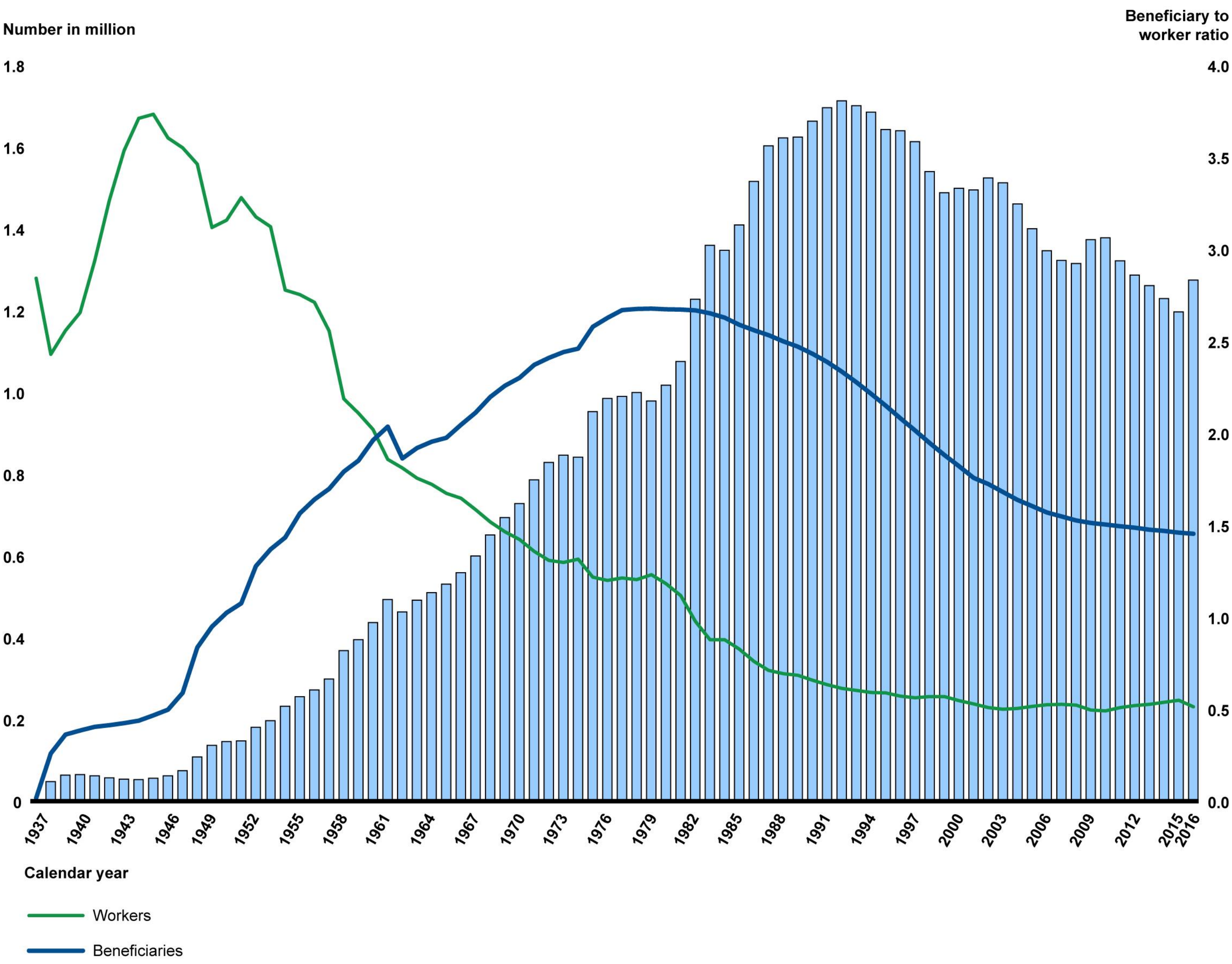
Source: GAO analysis of RRB data. | GAO-18-323

Note: The financial interchange calculation includes other elements, such as administrative costs and interest paid, which are not displayed in this figure.

Based on the data RRB reported, the continuing flow of funds to RRB from SSA has largely been driven by a steadily shrinking number of active workers in the rail industry paying payroll taxes in support of a larger population of beneficiaries. According to RRB data, the number of workers in the rail industry peaked at the end of World War II, when there were almost 1.7 million workers. Since then, this number declined steadily to about 231,000 in 2016. Additionally, the number of beneficiaries has exceeded the number of active workers since 1961. According to RRB data, there was about 1 beneficiary for every 10 workers in 1938; the ratio had increased to 3 beneficiaries for every 10 rail workers in 1951, when the financial interchange was created. By 2016, there were 28 beneficiaries for every 10 workers.[23] Furthermore, RRB officials noted that another factor causing increased fund transfers from SSA to RRB was a series of successive amendments to the Social Security Act which raised benefits immediately while deferring tax increases to pay for the increased benefits. As a result of these two factors, the payroll taxes paid by rail workers have not been sufficient to pay for all of the benefits paid by RRB. Hence, the financial interchange has consistently transferred money from SSA to RRB (see fig 5).

[23]In comparison, there were 3.6 Social Security beneficiaries for every 10 covered workers in 2016; however, Social Security also paid more benefits than it collected in payroll taxes.

Figure 5: Rail Workers Compared to Beneficiaries Calendar Years 1937 through 2016



Source: GAO analysis of RRB data. | GAO-18-323

Note: Available Railroad Retirement Board data present the number of beneficiaries according to fiscal year and the average number of workers by calendar year.

According to SSA actuarial estimates, the flow of funds to RRB from SSA is projected to continue. Social Security's 2017 trustees report projects that the amount of transfers to RRB will continue to grow though at least

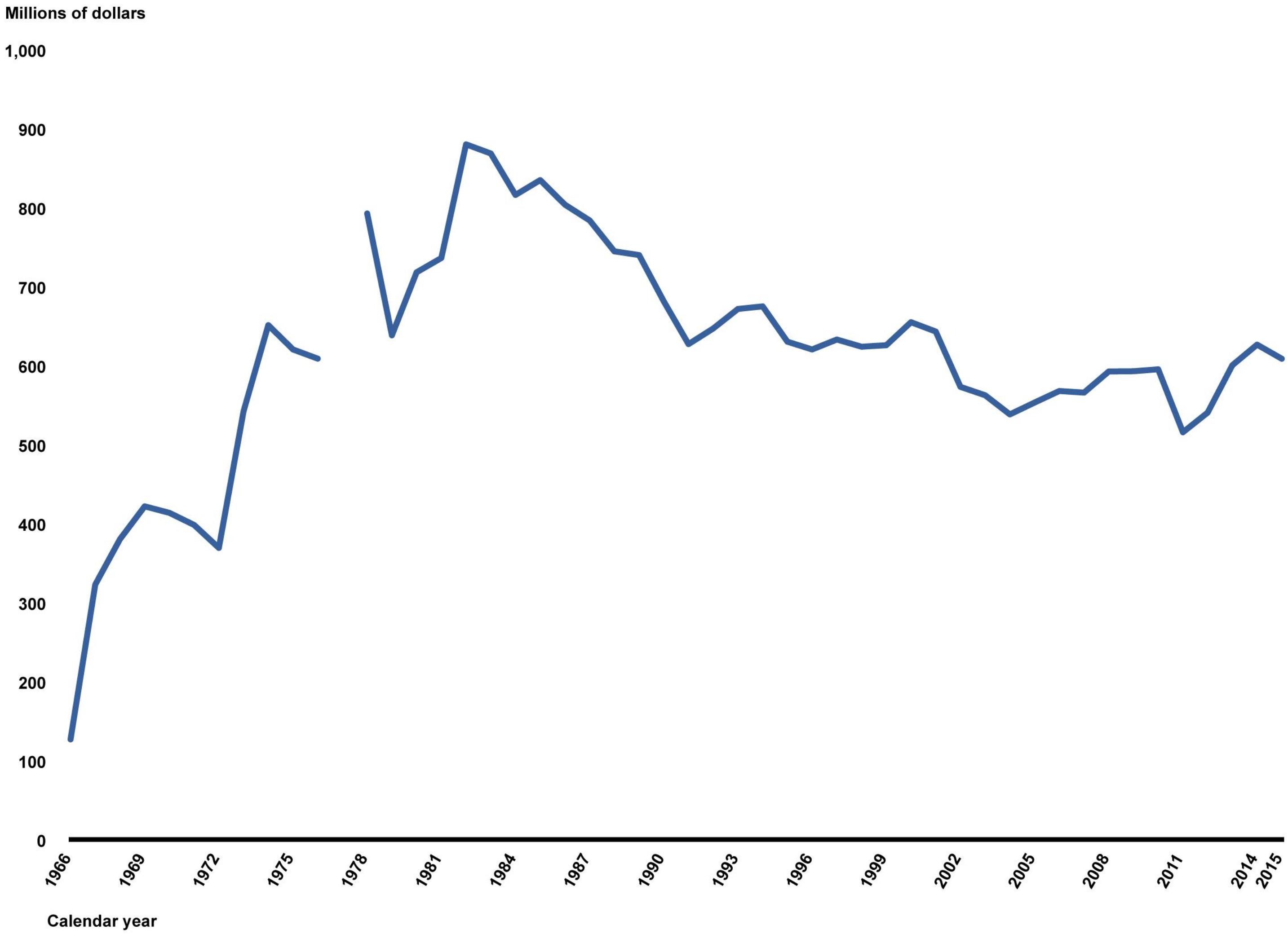
2026.[24] Moreover, RRB's most recent actuarial valuation report estimates that under three employment assumptions—optimistic, moderate, and pessimistic—the number of beneficiaries will continue to exceed the number of rail workers through at least 2088.[25]

RRB has collected payroll taxes for HHS since 1966. From 1966 through 2016, RRB reported that it transferred a total of $30 billion in 2016 dollars through the financial interchange to the Hospital Insurance Trust Fund (see fig. 6).

[24]The Board of Trustees, *The 2017 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Funds* (Washington, D.C.: July 2017).

[25]RRB's optimistic and moderate employment scenarios assume stable passenger rail employment and different rates of decline in freight employment; the pessimistic scenario follows the structure of the other two scenarios, except that it assumes a decline in passenger rail employment and steeper declines in freight employment. For more information on the three employment assumptions, see RRB, *Twenty-Sixth Actuarial Valuation of the Assets and Liabilities Under the Railroad Retirement Acts as of December 31, 2013 with Technical Supplement*, (Chicago, IL: September 2015).

Figure 6: Net Financial Interchange Transfers from the Railroad Retirement Board (RRB) to the Department of Health and Human Services (HHS), Calendar Years 1966 through 2015, (in constant 2016 millions of dollars)



Source: GAO analysis of RRB data. | GAO-18-323

Note: No funds were transferred from RRB to HHS in 1977. In that year, RRB changed the timing of its financial interchange calculation. Funds for 1977 were included in the 1978 transfer.

RRB Takes Measures to Oversee the Financial Interchange Calculation, but Shortcomings Increase the Risk of Errors

RRB Takes Oversight Steps, but Manual Data Entry and Systems Limitations May Prevent RRB from Detecting Mistakes

RRB takes a number of steps to ensure that the financial interchange amount is accurately calculated each year. For example:

- **Sample verification:** To make sure that the financial interchange sample is up to date, RRB staff told us that they query their beneficiary database at the beginning and end of the annual financial interchange calculation to ensure that all beneficiaries who should be part of its sample—those with a Social Security number ending in 30—are included. Those included in the sample can change from year to year, for instance, when new beneficiaries join the retirement rolls or when beneficiaries die.
- **Supervisory review:** RRB officials told us that the work of a new employee who calculates the financial interchange is reviewed by another employee until the new employee is determined to be proficient.
- **Error checks:** Electronic error checks built into the system RRB uses to calculate the financial interchange help prevent mistakes by flagging erroneous values. These checks alert employees in real time that an incorrect value may have been entered (for example, a benefit amount that exceeds what beneficiaries can receive). Officials also told us that they run similar checks in batches throughout the year to sweep for any potential errors that were not addressed by employees. They noted that they will work with staff to address all potential errors before the financial interchange calculation is finalized. However, RRB's error checks do not cover all potential erroneous values.
- **High-level review:** RRB officials told us that the Chief of Benefit and Employment Analysis and his staff review the results of the interchange calculations and determine if the end result is reasonable compared to projections made earlier in the year, based on actual payroll and beneficiary data.

Despite these steps, limitations in RRB's error checks and its reliance on manual data entry are potential sources of mistakes in financial interchange calculations. The process RRB staff follow in computing benefit amounts for the financial interchange involves manual data entry of earnings data and SSA-equivalent benefits. RRB's error checks will help identify values that are impossible—such as a benefit amount that exceeds the maximum a beneficiary can receive—but not values that are incorrect but still within the range of possibility. RRB staff demonstrated this scenario for us and acknowledged this as a limitation in their internal controls.

Any data entry errors have the potential to result in larger errors in the financial interchange determination. The benefits portion of the financial interchange determination is based on a sample of all cases. Should any errors occur in the sample, they will be magnified when RRB inflates the estimate to arrive at an amount for the entire population of beneficiaries. Additionally, RRB's process could result in incorrect transfers for years. The sample is chosen in the same way each year—individuals with Social Security numbers ending in 30—so the same cases will remain part of the sample until the individuals leave the rolls. RRB officials told us that they generally only have to do a full set of calculations for new cases or cases in which additional income is detected that affects benefit amounts. RRB officials estimated that about 20 percent of cases in the financial interchange sample each year require a full calculation. For the remainder of cases in the interchange sample, officials said that no annual recomputation is needed. Instead, the previous year's results are adjusted according to any cost of living increase. If a data entry error is made in one of these cases, RRB may not discover it until the individual leaves the rolls or dies, at which point RRB staff told us they recalculate the individual's benefit amount.[26]

Data sharing between RRB and SSA could reduce the potential for data entry errors, but the two agencies have not recently pursued this option. RRB officials told us that prior to 2008 they used computer code to automatically save data from SSA databases into spreadsheets, where the data could be used for calculating the financial interchange. However, SSA instructed RRB to stop using this method in 2008 because of

[26]RRB officials told us that staff will recompute an individual's benefits when he or she dies. If any error is uncovered, staff will retroactively adjust past financial interchange results to correct the mistake. However, it could potentially take years for a mistake to be discovered.

security concerns about saving this information outside of SSA systems. RRB officials added that this constraint prevents them from developing a more efficient method of data collection that would improve the accuracy and timeliness of benefit calculations for the financial interchange. However, RRB officials said that they have not formally approached SSA in the last several years to discuss potential alternatives for gaining greater access to data. SSA officials said that RRB should follow SSA's procedures for requesting a data exchange if RRB wishes to revisit this topic. Federal internal control standards state that agencies should use quality information to achieve their objectives.[27] By taking additional steps to obtain data from SSA electronically, RRB can better position itself to ensure that data entered into its systems are correct and that its calculations are free of errors.

Limited Documentation and Formal Policies Increase the Risk for Errors in Key Aspects of the Financial Interchange Process

RRB has limited documentation and does not have formal policies to guide several key aspects of the financial interchange calculation. While we did not identify any actual errors in its calculations, these shortcomings in its controls increase the risk of calculations being carried out inconsistently or incorrectly.

Limited Documentation of the Financial Interchange Process

The broad steps that RRB takes to determine the amounts of the financial interchange are documented in an annual determination report produced by RRB. They include, for example, the factors used to calculate administrative costs, discussion of adjustments made to calculations from prior years, and descriptions of the formulas used to project the results of RRB's benefit sample to the population of railroad beneficiaries. However, the agency does not have clear documentation of the detailed steps used by staff to calculate the interchange amounts. A 2010 audit of the financial interchange process conducted for the RRB Office of Inspector General found that documentation of the financial interchange process was insufficient for a knowledgeable third party to replicate without verbal

[27] *Standards for Internal Control in the Federal Government*, GAO-14-704G (Washington, D.C.: September 2014).

explanation from RRB staff.[28] In response, RRB officials told us that they produced some documentation such as charts showing the workflows for different portions of the process, such as for calculating benefits, payroll taxes, and financial projection—and instructions for staff in RRB's Bureau of the Actuary for high-level review of the formulas and entries for the final calculation results.

However, the documentation did not provide enough detail about the steps staff must take when conducting financial interchange calculations so the process can be followed without additional explanation. For instance, the documentation did not discuss the process by which staff obtain earnings data and enter it into SSA's benefit calculator, manually enter the results into RRB's system, or the different alerts that notify staff of potential mistakes and how staff deal with them. Federal internal control standards state that effective documentation provides a means to retain organizational knowledge and mitigate the risk of having knowledge limited to a few personnel, as well as a means to communicate that knowledge as needed to external parities, such as auditors.[29] Written documentation with specific steps for carrying out the financial interchange calculation and using its data system would help RRB ensure that its staff and others could carry out and replicate its process consistently.

Limited Documentation of RRB's Computer System

RRB does not have current or complete documentation related to the computer system it uses to compute the financial interchange. Specifically, RRB officials said that they do not have current documentation such as a manual or data dictionary that would provide information on the data elements in the system, their definitions, descriptions, and range of potential values. They said a data dictionary is not necessary because data are contained in a format in which rows and columns are labeled according to fields and years. However, such labeling does not include documentation, for example, about whether values entered in those fields are allowable. Federal internal control standards state that effective documentation is needed to retain

[28] *Review of the Technical Approach and Methodology Used to Determine the Annual Financial Interchange Amount for the Year Ended September 30, 2008*, Report No. 10-07 (Chicago, IL: May 19, 2010).

[29] GAO-14-704G.

knowledge and prevent knowledge from being limited to a few staff. Even if the data system is relatively uncomplicated, without such documentation, it is difficult for RRB staff and others to fully understand all elements in the system, and it could complicate efforts to make any changes in the future or bring new staff up to speed on the system.

No Written Documentation on Procedures for Overriding Potential Errors

RRB does not have written procedures for how to address instances in which staff do not correct potential errors flagged by its computer system. As noted earlier, RRB's system for calculating the financial interchange will alert staff to potential data entry errors. RRB officials said this system has the ability to allow staff to override the alert in some cases, generally in complex cases, such as when RRB benefits are offset by other public pensions. In these cases, the system does not distinguish between an actual error and instances in which additional work and review are needed because of complex benefit calculations. Staff can override the alert in these cases where there is no actual error, but officials noted that a report of potential errors that is generated by the system would still include these cases, which may be referred back to staff for clarification or correction.[30] If implemented correctly, these procedures could help staff take appropriate action on these complex cases. However, current procedures are not formally documented and officials said they have not considered producing written procedures because they believe the process for addressing alerts is clear. Federal internal control standards indicate that effective documentation assists in management's design of internal controls and can mitigate the risk that knowledge is limited to a few staff. RRB's lack of written procedures can make it difficult for staff or reviewers to know if procedures are carried out consistently—such as whether staff appropriately override an error alert—and can create challenges if there is staff turnover. It is important to ensure that all potential errors are addressed correctly given that mistakes in the financial interchange sample can be multiplied when estimating benefit payments for the universe of RRB beneficiaries.

[30]Officials said that such cases account for fewer than 1 percent of all the cases in the financial interchange sample.

No Formal Policy on Supervisory Review

According to RRB officials, new employees will have their calculations reviewed until the employees are deemed to be proficient, and calculations by any staff member are subject to review and periodically reviewed for accuracy. Federal internal control standards call for documenting agency procedures. However, RRB does not have a minimum or maximum time established for which it will review the work of new staff, and does not have an overall policy for reviewing staff members' work after they have been deemed proficient. Officials told us they had not considered setting a policy regarding supervisory review. They added that individualized, on-the-job training is more appropriate for new staff than a formalized process. In the case of current employees, any potential errors would be identified when the case is terminated, at which time all cases are reviewed and recomputed. Additionally, officials said that a formal policy would not increase the number of cases reviewed and potentially constrain their ability to correct new errors as they occur. Nonetheless, without formal policies on supervisory review, RRB cannot reasonably ensure that the work performed by staff is adequately or consistently reviewed for quality.

SSA and HHS Do Not Review the Results of Case-Level Calculations

SSA and HHS provide some oversight of the financial interchange process, but do not review case-level calculations. Both agencies approve the results of the financial interchange calculations, but officials from SSA and HHS told us that their oversight is limited to high-level reviews of RRB's calculations to determine whether results significantly vary from previous years. For instance, staff from SSA's Office of the Chief Actuary told us that they examine RRB's payments and revenues against SSA's benefits paid and payroll taxes collected to determine if there are large or inexplicable changes from year to year, in which case they will ask RRB for additional information to understand the changes. Additionally, RRB officials told us that formulas used in their spreadsheets to calculate the results of the interchange have been reviewed by SSA actuaries.

While these actions could help identify larger errors, the agencies will not be able to detect whether errors are made on complex, case-level calculations or if SSA rules are being correctly followed. In response to prior errors in financial interchange calculations, RRB officials told us that

SSA reviewed case-level calculations from the 1990s until 2002. SSA officials told us that they have not reviewed cases since then because of resource constraints. A 2009 SSA Office of the Inspector General report recommended that the agency consider increasing its oversight of the process, such as setting a schedule for review of individual cases given the importance of reviews in verifying transfers.[31] However, SSA has not taken action on this recommendation. HHS officials told us that the financial interchange is one of a number of relatively small funding streams and the agency has never had cause to suspect mistakes and has never examined case-level calculations. Federal internal control standards state that agencies should establish and operate monitoring activities to evaluate the results of activities.[32] Without monitoring how calculations are made, SSA cannot reasonably ensure that the transfers it makes or receives with RRB are accurate. In commenting on a draft of this report, HHS raised questions about whether it has the authority to review case-level calculations, but noted in follow-up communication that this issue is currently undergoing legal review at HHS. As a result, HHS officials told us that they would not be able to provide additional clarification at this time. We continue to believe that HHS would be better positioned to ensure that transfers it makes and receives are calculated correctly if it reviews case-level calculations.

Conclusions

The financial interchange provides RRB with a significant portion of its funding, and trends in the number of beneficiaries and workers suggest this will continue to be the case in the future. RRB developed a process to calculate the financial interchange amount, and the accuracy of the calculations depends in large part on correct data being manually entered into RRB's computer system. However, RRB's current controls do not address some potential sources of error. Having the ability to electronically obtain data from SSA could help reduce the risk posed by data entry errors.

[31]Social Security Administration Office of the Inspector General, *Quick Response Evaluation: Processing of Railroad Worker Disability Claims*, A-05-09-29119 (Baltimore, MD.: May 2009).

[32]GAO-14-704G.

Further, RRB has limited written documentation for carrying out aspects of the financial interchange calculation, such as how its computer system is structured, how to address instances when staff override error alerts, and how staff work is reviewed. Without such documentation, RRB puts itself at risk of staff carrying out actions inconsistently, losing operational knowledge when staff leave or retire, and complicating oversight of its operations.

Lastly, SSA and HHS increase the risk of errors by not performing case-level reviews of financial interchange calculations. This is especially true for the SSA portion of the interchange, which involves complex calculations performed according to SSA rules. In its role as the administrator of the OASI and DI programs, SSA is best positioned to determine if its rules are properly being applied to financial interchange calculations. The large sums SSA transfers through the interchange—over $4 billion annually—warrant additional oversight to ensure that transfer amounts are correct.

Recommendations for Executive Action

We are making a total of eight recommendations, including five to RRB (The Board), two to the Commissioner of SSA, and one to the Secretary of HHS.

- The Board should work with SSA to explore options for obtaining data electronically and limiting the reliance of the financial interchange process on manual data entry. (Recommendation 1)
- The Board should produce written documentation on the financial interchange process such that a knowledgeable third party could carry out and replicate its process consistently without further explanation. (Recommendation 2)
- The Board should produce written documentation of its computer system and its structure, such as a manual for the computer system, and data dictionary to provide information on the data elements in the system, their definitions, descriptions, and range of potential values. (Recommendation 3)
- The Board should produce written documentation of its procedures for instances when staff override error alerts generated by its computer system. (Recommendation 4)

- The Board should produce formal policies on how the work of staff performing the financial interchange is reviewed. (Recommendation 5)
- The Commissioner of SSA should work with RRB to explore options for electronically sharing data and limiting the reliance of the financial interchange process on manual data entry. (Recommendation 6)
- The Commissioner of SSA should take additional steps to provide oversight of financial interchange calculations at the individual-case level. This could include periodically reviewing a subset of these cases. (Recommendation 7)
- The Secretary of HHS should, consistent with its existing statutory authority, take additional steps to provide oversight of financial interchange calculations at the individual-case level. If the Secretary concludes that there are limitations in its authority in this area, the Secretary should seek to obtain the necessary additional authority. (Recommendation 8)

Agency Comments and Our Evaluation

We provided a draft of this report to RRB, SSA, and HHS for review and comment. In written comments, both RRB and SSA agreed with the recommendations. RRB noted that it will devote the resources needed to improve the written documentation of its procedures and computer system. RRB and SSA also provided technical comments which we incorporated as appropriate. Copies of their written comments are reproduced in appendixes I and II.

In written comments, which are reproduced in appendix III, HHS disagreed with the recommendation that it take additional steps to provide oversight of financial interchange calculations at the individual-case level. HHS noted that while in theory it may be a good idea to incorporate such review into the process, it is limited by statute in its ability to oversee how RRB calculates transfers between HHS and RRB. HHS went on to describe a section of the Social Security Act that they noted “pertains more to Supplemental Medical Insurance trust fund draws for administrative costs.” Notably, with respect to HHS, our report does not involve that trust fund, but rather addresses the Hospital Insurance Trust Fund. Although HHS’s comments did not clarify why it believes that this section of law would limit its authority with respect to the Hospital Insurance Trust Fund, it nevertheless asserted that it does apply in this scenario. We reached out to HHS to seek clarification of its comments. For example, we inquired about the applicability of a separate provision of law that would appear to establish a role for HHS to work with RRB to determine financial interchange amounts.[33] Ultimately, HHS did not provide the clarification we sought, instead indicating via email that this recommendation is currently undergoing legal review and that HHS is unable to provide a response to our questions at this time. HHS further stated that it will continue to work on this issue to provide GAO with updates in the future. In light of the uncertainty surrounding HHS's authority in this area and the fact that HHS declined to respond to our requests for clarification of its legal authority, we have modified our recommendation to reflect the fact that HHS may need to seek additional statutory authority to implement our recommendation, should HHS determine it to be necessary.

As agreed with your offices, unless you publicly announce the contents of this report earlier, we plan no further distribution until 30 days from the report date. At that time, we will send copies of this report to the appropriate congressional committees, the Railroad Retirement Board, the Commissioner of the Social Security Administration, and the Secretary of the Department of Health and Human Services. In addition, the report will be available at no charge on the GAO website at http://www.gao.gov.

If you or your staff have any questions, please contact me at (202) 512-7215 or curdae@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff who made significant contributions to this report are listed in Appendix IV.

Elizabeth H. Curda
Director
Education, Workforce, and Income Security

[33]See 45 U.S.C. § 231f(c)(2).

Appendix I: Comments from the Railroad Retirement Board

UNITED STATES GOVERNMENT

MEMORANDUM

FORM G-115f (1-92)

RAILROAD RETIREMENT BOARD

February 15, 2018

TO: Elizabeth H. Curda
Director, Education, Workforce, and Income Security Issues

FROM: Daniel Fadden DANIEL FADDEN Digitally signed by DANIEL FADDEN DN: c=US, o=U.S. Government, ou=Railroad Retirement Board, cn=DANIEL FADDEN, 0.9.2342.19200300.100.1.1=60001000082118 Date: 2018.02.15 13:50:08 -06'00'
Director of Field Service/Senior Executive Officer

SUBJECT: GAO Draft Report, RRB Additional Controls and Oversight of Financial Interchange Transfers Needed – Management Response

Thank you for the opportunity to review and comment on your report to the Congress, "Railroad Retirement Board Additional Controls and Oversight of Financial Interchange Transfers Needed." The Railroad Retirement Board concurs with findings and recommendations cited in the report and agrees that the agency should devote the resources needed to improve this mission critical process. Responses to specific recommendations follow.

Recommendation 1: The RRB should work with SSA to explore options for obtaining data electronically and limiting the reliance of the financial interchange process on manual data entry.

We agree to work with SSA to explore options for obtaining data electronically in order to make the financial interchange benefit calculation process more accurate and efficient.

Recommendation 2: The RRB should produce written guidance of the financial interchange process such that a knowledgeable third party could carry out and replicate its process consistently without further explanation.

We agree to devote the resources needed to document the steps that the staff must take in preparing the financial interchange calculations in sufficient detail so that a knowledgeable third party could replicate the process. We assume that a knowledgeable third party may lack knowledge of the Financial Interchange, but would know the benefit provisions of the Railroad Retirement Act and the Social Security Act and how to use the computer systems of both agencies.

Recommendation 3: The RRB should produce written documentation of its computer system and its structure, such as a manual for the computer system and data dictionary to provide information on the data elements in the system, their definitions, descriptions, and range of potential values.

We agree to devote the resources needed to improve the written documentation of the financial interchange computer system.

<u>Recommendation 4:</u> The RRB should produce written documentation of its procedure for instances when staff override error alerts generated by its computer system.

We agree to devote the resources needed to produce written documentation on our procedure for overriding error alerts. Our documentation will explain in more detail the cases in which it is necessary to override these alerts.

<u>Recommendation 5</u>: The RRB should produce formal policies on how the work of staff performing the financial interchange is reviewed.

We agree to devote the resources needed to produce formal policies for the review of benefit calculation casework performed by the financial interchange staff.

CC: Frank Buzzi – Chief Actuary
Shawna Weekly – Deputy Chief Financial Officer
Jeff Baer – Director of Audit Affairs and Compliance

2

Appendix II: Comments from the Social Security Administration

SOCIAL SECURITY
Office of the Commissioner

March 2, 2018

Ms. Elizabeth H. Curda
Director, Education, Workforce,
and Income Security Issues
United States Government Accountability Office
441 G Street, NW
Washington, DC 20548

Dear Ms. Curda:

Thank you for the opportunity to review the draft report, "RAILROAD RETIREMENT BOARD: Additional Controls and Oversight of Financial Interchange Transfers Needed" (GAO-18-323). Please see our attached comments.

If you have any questions, please contact Gary S. Hatcher, Senior Advisor for the Audit Liaison Staff, at (410) 965-0680.

Sincerely,

Stephanie Hall

Stephanie Hall
Acting Deputy Chief of Staff

Attachment

SOCIAL SECURITY ADMINISTRATION BALTIMORE, MD 21235-0001

COMMENTS ON THE OFFICE OF THE GOVERNMENT ACCOUNTABIOITY OFFICE'S (GAO) DRAFT REPORT, "RAILROAD RETIREMENT BOARD: ADDITIONAL CONTROLS AND OVERSIGHT OF FINANCIAL INTERCHANGE TRANSFERS NEEDED" (GAO-18-323)

The Social Security Administration (SSA) and the Railroad Retirement Board (RRB) have conducted a financial interchange every year since 1951. The interchange is designed to place the Old-Age, Retirement, and Survivors (OASI) Trust Fund, the Disability Insurance (DI) Trust Fund, and the Department of Health and Human Services Hospital Insurance (HI) Trust Fund in the same financial position they would be in if rail workers and beneficiaries were covered by Social Security, rather than the Railroad Retirement program. RRB calculates the interchange using Social Security's benefit rules. Since 1958, with only a very few exceptions, the result of the financial interchange calculation has resulted in a transfer from the OASI and DI trust funds to the RRB.

Below are our responses to the recommendations, and we provided some technical comments at the staff level.

SSA's Recommendation 1 – GAO's Recommendation 6

Work with RRB to explore options for electronically sharing data and limiting the reliance of the financial interchange process on manual data entry.

Response

We agree.

SSA's Recommendation 2 – GAO's Recommendation 7

Take additional steps to provide oversight of financial interchange calculations at the individual-case level. This could include periodically reviewing a subset of these cases.

Response

We agree.

Appendix III: Comments from the Department of Health and Human Services

DEPARTMENT OF HEALTH & HUMAN SERVICES

OFFICE OF THE SECRETARY

Assistant Secretary for Legislation
Washington, DC 20201

MAR 20 2018

Elizabeth H. Curda
Director, Education, Workforce, and Income Security Issues
U.S. Government Accountability Office
441 G Street NW
Washington, DC 20548

Dear Ms. Curda:

Attached are comments on the U.S. Government Accountability Office's (GAO) report entitled, "*Railroad Retirement Board: Additional Controls and Oversight of Financial Interchange Transfers Needed*" (GAO-18-323).

The Department appreciates the opportunity to review this report prior to publication.

Sincerely,

Matthew D. Bassett
Assistant Secretary for Legislation

Attachment

GENERAL COMMENTS FROM THE DEPARTMENT OF HEALTH AND HUMAN SERVICES ON THE GOVERNMENT ACCOUNTABILITY OFFICE'S DRAFT REPORT ENTITLED - RAILROAD RETIREMENT BOARD: ADDITIONAL CONTROLS AND OVERSIGHT OF FINANCIAL INTERCHANGE TRANSFERS NEEDED (GAO-18-323)

The U.S. Department of Health and Human Services (HHS) appreciates the opportunity from the Government Accountability Office (GAO) to review and comment on this draft report.

Recommendation 8

The Secretary of HHS should take additional steps to provide oversight of financial interchange calculations at the individual-case level. This could include periodically reviewing a subset of these cases.

HHS Response

HHS non-concurs with GAO's recommendation.

While we think this may, in theory, be a good idea to incorporate such review into the process, HHS is limited in its ability to oversee how the U.S. Railroad Retirement Board (RRB) calculates transfers between HHS and RRB by statute. The following information pertains more to Supplemental Medical Insurance trust fund draws for administrative costs, but we believe that they apply in this scenario as well.

Pursuant to section 1841(i) of the Social Security Act, the RRB is responsible for certifying the amount of its actual costs, and such certified amount, and only such certified amount, shall be the basis for the amount of costs that the Secretary of HHS is required to certify to the Managing Trustee (who is ultimately responsible for transferring the funds to the RRB). HHS has no real discretionary authority to question or audit RRB's cost; rather, the RRB is responsible for determining its actual costs, and the amount it certifies to be its actual incurred costs is the amount that HHS must certify to the Managing Trustee. Thus, it would follow as a corollary to this fact that HHS does not have the right to dictate to RRB how it is to calculate its own actual costs, whether under the terms of an interagency agreement or otherwise.

Due to the information above, HHS believes that this recommendation is not feasible for the Department to undertake, especially with regard to reviewing case-level data as suggested.

Page **1** of **1**

Appendix IV: GAO Contact and Staff Acknowledgments

GAO Contact

Elizabeth Curda, (202) 512-7215, or curdae@gao.gov

Staff Acknowledgments

In addition to the contact named above, Mark Glickman (Assistant Director), Daniel R. Concepcion (Analyst-in-Charge), and Randy DeLeon made key contributions to this report. Additional contributors include David Ballard, Carl Barden, William Boutboul, James Cosgrove, Alexander Galuten, Jennifer Gregory, Sheila McCoy, Jean McSween, Mimi Nguyen, Joseph Silvestri, Almeta Spencer, and Kate van Gelder.

Appendix V: Accessible Data

Data Tables

Data Table for Figure 4: Benefits Paid, Payroll Taxes as Calculated in the Financial Interchange, and Funds Transferred from the Social Security Administration (SSA) to the Railroad Retirement Board (RRB), Calendar Years 1958 through 2015 (in constant 2016 billions of dollars)

Calendar year	Benefit payments	Payroll taxes	Transfer from SSA to RRB
1958	3.915823325	1.689488289	1.033803951
1959	4.465073094	1.875610642	2.140732075
1960	4.951884185	2.309635366	2.543276035
1961	5.145859313	2.030732189	2.70336206
1962	5.373229254	2.066626636	2.949603775
1963	5.492262535	2.280738408	3.463807799
1964	5.527308163	2.227007206	3.260864371
1965	5.945351663	2.144437341	3.495653628
1966	5.879958717	2.713429095	3.465147261
1967	5.842196602	2.670841726	3.873223892
1968	6.282429594	2.677293209	3.159495722
1969	6.138385565	2.826457647	3.35510991
1970	6.676759563	2.641661002	3.64085769
1971	7.055196538	2.743226418	3.71257485
1972	7.261036799	2.918077961	4.297031977
1973	8.390059427	3.343057807	4.335494327
1974	8.200311466	3.586237103	4.530367919
1975	8.121376973	3.24979934	4.505038794
1976	8.268201172	3.388980228	5.22195523
1977	8.245961356	3.422949002	4.781042129
1978	8.149946658	3.466872678	5.954088953
1979	7.979961643	3.868791747	4.885258911
1980	7.841223598	3.584268026	4.16576839
1981	8.057117217	3.533138016	4.260828252
1982	8.361552423	3.25203252	4.524253499
1983	8.291918729	3.134896725	5.491793401
1984	8.214252725	3.307777573	5.601330131

Calendar year	Benefit payments	Payroll taxes	Transfer from SSA to RRB
1985	8.230728051	3.092433976	5.248260171
1986	8.317397107	2.97004573	5.804432969
1987	8.167011703	2.867886265	5.522413283
1988	8.157430143	2.874449563	5.786034619
1989	8.112122386	2.706041828	5.680673896
1990	8.037436397	2.588218005	5.601131542
1991	8.119822329	2.538689322	6.092819121
1992	8.138556278	2.521040027	5.484775915
1993	8.124293973	2.498172636	5.706857599
1994	7.999611386	2.389326079	5.708734091
1995	7.850719	2.329464019	6.489266195
1996	7.701782572	2.321322011	5.441511744
1997	7.649626961	2.321815708	5.6026195
1998	7.564415913	2.406725758	5.622957095
1999	7.392337949	2.386790958	5.498004524
2000	7.223461195	2.31043711	5.153880464
2001	7.1219413	2.227614722	4.450349082
2002	7.068799872	2.170478503	4.866163166
2003	7.042288427	2.146509444	4.888083064
2004	6.885616639	2.186408162	4.883177273
2005	6.767005089	2.221047715	4.814769291
2006	6.792650544	2.221150526	4.58007359
2007	6.798472045	2.243315199	4.653084848
2008	6.665477332	2.241598466	4.515643467
2009	7.129913421	2.129018546	4.627955883
2010	7.071162862	2.108031961	4.833263631
2011	6.939838231	2.194122543	4.881020979
2012	7.113227469	2.250436455	4.862163773
2013	7.131715057	2.271528364	4.635372664
2014	7.156342841	2.417590217	4.766433793
2015	7.308818019	2.511418762	4.736229125

Data Table for Figure 5: Rail Workers Compared to Beneficiaries Calendar Years 1937 through 2016

Calendar Year	Workers	Beneficiaries	Beneficiary to Worker Ratio
1937	1,279,000	8,000	0.006254887
1938	1,093,000	117,000	0.107044831
1939	1,151,000	163,000	0.141615986
1940	1,195,000	173,000	0.144769874
1941	1,322,000	182,000	0.137670197
1942	1,470,000	186,000	0.126530612
1943	1,591,000	191,000	0.120050283
1944	1,670,000	197,000	0.117964072
1945	1,680,000	210,000	0.125
1946	1,622,000	224,000	0.13810111
1947	1,598,000	265,000	0.16583229
1948	1,558,000	376,000	0.241335045
1949	1,403,000	427,000	0.304347826
1950	1,421,000	461,000	0.324419423
1951	1,476,000	484,000	0.327913279
1952	1,429,000	575,000	0.402379286
1953	1,405,000	616,000	0.438434164
1954	1,250,000	645,000	0.516
1955	1,239,000	704,000	0.568200161
1956	1,220,000	738,000	0.604918033
1957	1,150,000	764,000	0.664347826
1958	984,000	806,000	0.819105691
1959	949,000	833,000	0.87776607
1960	909,000	883,000	0.97139714
1961	836,000	916,000	1.09569378
1962	815,000	838,361	1.028663804
1963	790,000	863,830	1.093455696
1964	775,000	879,212	1.134467097
1965	753,000	888,770	1.180305445
1966	741,000	920,584	1.242353576
1967	713,000	950,420	1.332987377
1968	683,000	988,573	1.447398243
1969	659,000	1,016,124	1.541918058
1970	640,000	1,035,511	1.617985938

Calendar Year	Workers	Beneficiaries	Beneficiary to Worker Ratio
1971	611,000	1,067,121	1.746515548
1972	589,000	1,084,241	1.840816638
1973	584,000	1,098,454	1.880914384
1974	592,000	1,106,832	1.869648649
1975	548,000	1,160,312	2.117357664
1976	540,000	1,182,028	2.188940741
1977	546,000	1,201,055	2.199734432
1978	542,000	1,203,895	2.221208487
1979	554,000	1,204,719	2.174583032
1980	532,000	1,203,006	2.261289474
1981	503,000	1,202,364	2.390385686
1982	440,000	1,200,427	2.728243182
1983	395,000	1,193,226	3.020825316
1984	395,000	1,182,606	2.993939241
1985	372,000	1,165,202	3.132263441
1986	342,000	1,151,861	3.36801462
1987	320,000	1,139,782	3.56181875
1988	312,000	1,124,645	3.60463141
1989	308,000	1,111,630	3.609188312
1990	296,000	1,094,112	3.696324324
1991	285,000	1,074,199	3.769119298
1992	276,000	1,050,546	3.806326087
1993	271,000	1,024,439	3.780217712
1994	266,000	996,280	3.745413534
1995	265,000	967,175	3.649716981
1996	257,000	936,428	3.643688716
1997	253,000	906,741	3.583956522
1998	256,000	875,905	3.421503906
1999	256,000	846,687	3.307371094
2000	246,000	819,327	3.330597561
2001	238,000	790,711	3.322315126
2002	229,000	775,638	3.387065502
2003	225,000	756,176	3.360782222
2004	227,000	736,787	3.245757709
2005	232,000	721,659	3.110599138
2006	236,000	706,158	2.992194915

Calendar Year	Workers	Beneficiaries	Beneficiary to Worker Ratio
2007	237,000	696,472	2.938700422
2008	235,000	686,636	2.921855319
2009	223,000	680,534	3.051721973
2010	221,000	676,653	3.061778281
2011	229,000	672,484	2.936611354
2012	234,000	668,957	2.858790598
2013	237,000	664,055	2.801919831
2014	242,000	661,069	2.731690083
2015	247,000	656,847	2.659299595
2016	231,000	654,127	2.831718615

Data Table for Figure 6: Net Financial Interchange Transfers from the Railroad Retirement Board (RRB) to the Department of Health and Human Services (HHS), Calendar Years 1966 through 2015, (in constant 2016 millions of dollars)

Calendar year	Millions of dollars
1966	120,481.87
1967	316,416.36
1968	373,896.66
1969	415,463.10
1970	407,217.45
1971	391,889.49
1972	362,822.21
1973	535,926.53
1974	644,831.61
1975	614,019.44
1976	602,419.80
1977	
1978	786,153.11
1979	631,902.65
1980	711,726.15
1981	729,801.78
1982	873,672.96
1983	862,114.68
1984	809,624.98
1985	828,426.12
1986	797,321.84
1987	777,388.14

Calendar year	Millions of dollars
1988	738,245.50
1989	733,539.89
1990	674,883.81
1991	620,791.77
1992	640,608.96
1993	665,326.60
1994	668,577.35
1995	623,867.95
1996	614,031.06
1997	626,616.63
1998	617,509.35
1999	619,389.98
2000	648,555.98
2001	636,751.85
2002	566,704.92
2003	556,062.82
2004	531,832.45
2005	546,842.35
2006	561,449.89
2007	559,439.75
2008	586,156.14
2009	586,478.44
2010	588,915.06
2011	509,208.87
2012	534,095.78
2013	594,077.77
2014	620,139.32
2015	602,282.74

Agency Comment Letter

Text of Appendix III: Comments from the Department of Health and Human Services

Page 1

Dear Ms. Harris:

This is the Department of Defense response to the Government Accountability Office (GAO) draft report GAO-18-130, "DEFENSE BUSINESS SYSTEMS: DoD Needs to Continue Improving Guidance and Plans for Effectively Managing Investments" dated December 18, 2017 (GAO Code 101359). The Department concurs with three and partially concurs with three of the six recommendations.

The Department appreciates the opportunity to respond to your draft report. We look forward to your continued cooperation and dialog toward our common goal of effectively managing investments within the Department of Defense business operations. Should you have any questions, please contact Monica Prince, (571) 372-3087, monica.r.prince.civ@mail.mil.

Sincerely,

David Tillotson III
Assistant Chief Management Officer

Page 2

"DEFENSE BUSINESS SYSTEMS: DOD NEEDS TO CONTINUE IMPROVING GUIDANCE AND PLANS FOR EFFECTIVELY MANAGING INVESTMENTS"

DoD COMMENTS TO THE GAO RECOMMENDATIONS

Recommendation One:

The Secretary of Defense should define a specific time frame for finalizing, and ensure the issuance of (1) policy requiring full consideration of sustainability and technological refreshment requirements for its defense business system investments; and (2) policy requiring that best systems engineering practices are used in the procurement and deployment of commercial systems, modified commercial systems, and defense-unique systems to meet DoD mission.

DoD RESPONSE:

Concur. The Department concurs and has complied by publishing Defense Business Systems Investment Management Guidance, Version 4.0 in April 2017. The guidance identifies the DoD Financial Management Regulation Volume 2B, Chapter 18 "Information Technology" and supporting IT budget policy and guidance which addresses the requirement for sustainability and technological refreshment requirements for its defense business system investments. Also identified, is the DoD Instruction 5000.75 “Business Systems Requirements and Acquisition” and supporting acquisition policy and guidance.

Recommendation Two:

The Secretary of the Air Force should define a specific time frame for finalizing, and ensure the issuance of guidance for certifying the department’s business systems on the basis of (1) having an acquisition strategy designed to eliminate or reduce the need to tailor commercial off-the-shelf systems to meet unique requirements, incorporate unique requirements, or incorporate unique interfaces to the maximum extent practicable; and (2) being in compliance with DoD’s auditability requirements.

DoD RESPONSE:

Concur. The Department of the Air Force concurs and has complied with the recommendation. The AFMAN 63-144 details the consideration of using existing commercial solutions without modification or tailoring. This includes COTS products. In addition, the AFMAN 63-144 addresses compliance with auditability. The AFMAN 63-144 is currently in re-publishing to account for changes in DoDi 5000.75; however, can be provided to demonstrate full compliance.

Recommendation Three:

The Secretary of the Navy should define a specific time frame for finalizing, and ensure the issuance of guidance for certifying the department’s business systems on the basis of (1) having a viable plan to implement the system’s requirements; (2) having an acquisition strategy designed to eliminate or reduce the need to tailor commercial off-the-shelf systems to meet unique requirements, incorporate unique requirements, or incorporate unique interfaces to the maximum extent practicable; and (3) being in compliance with DOD’s auditability requirements.

DoD RESPONSE:

Partially concur. Department of the Navy (DON) agrees and has a Defense Business Systems Investment Certification Manual. The manual has been revised to incorporate the FY16 NDAA, DoD Instruction

5000.75, and the OCMO Defense Business Systems Investment Management Guidance dated April 2017. The current publication date for the revised manual is February 2018. DON disagrees with the recommendation as written and recommends GAO revise the recommendation from “the Secretary of the Navy should define a specific time frame for finalizing, and ensure the issuance of guidance for certifying the department’s business systems…” to “The Secretary of the Navy should ensure guidance is issued according to established timeline for certifying the department’s business systems…” This recommended change would support alignment with the timeline for certifying the department’s business systems driven by the CMO investment review timeline. DON agrees with guidance being issued but not for DON to specify a “specific time frame”.

Page 3

Recommendation Four:

The Secretary of the Army should define a specific time frame for finalizing, and ensure the issuance of guidance for certifying the department’s business systems on the basis of (1) being reengineered to be as streamlined and efficient as practicable, and determining that implementation of the system will maximize the elimination of unique software requirements and unique interfaces; (2) being in compliance with the business enterprise architecture; (3) having valid, achievable requirements and a viable plan to implement the requirements; (4) having an acquisition strategy designed to eliminate or reduce the need to tailor commercial off-the-shelf systems to meet unique requirements, incorporate unique requirements, or incorporate unique interfaces to the maximum extent practicable; and (5) being in compliance with DOD’s auditability requirements.

DoD RESPONSE:

Concur. Department of the Army agrees and has developed a draft policy to strengthen the use of the business capability acquisition cycle for Defense Business System requirements and acquisition. The draft policy implements a process to record achieving statutory requirements for the acquisition and sustainment strategies, requirements documentation and auditability compliance. The draft policy provides authoritative direction for business process reengineering focusing on eliminating or reducing COTS customization and limiting incorporation of unique interfaces. The plan is to have the draft policy signed by February 28, 2018. This draft policy is the Army's implementation and execution of the DoDI 5000.75.

The Army's annual Portfolio Review (Organizational Execution Plan) process implements title 10 U.S.C. § 2222 and involves an approval of funds certification. This process enables the management of a well-defined IT investment portfolio for the Business Mission Area (BMA) through enforcement of the business enterprise architecture (BEA), business process reengineering (BPR), and portfolio management.

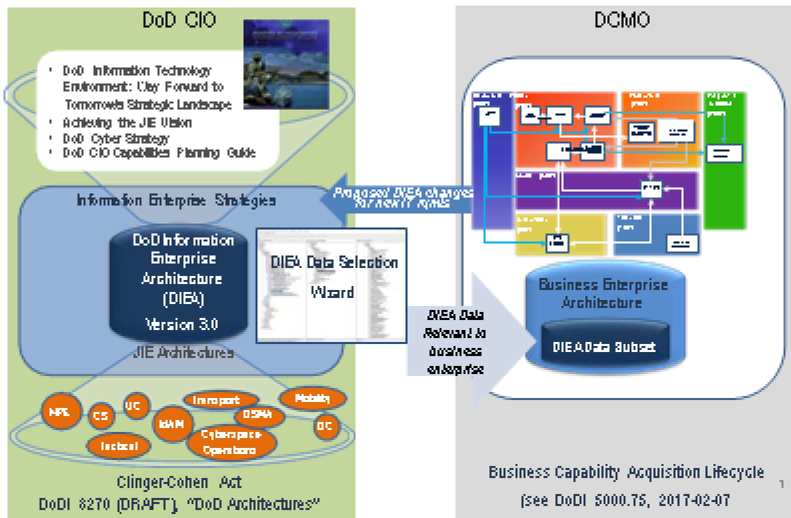
Recommendation Five:

The Secretary of Defense should ensure that the DOD CIO develops an IT enterprise architecture which includes a transition plan that provides a road map for improving the department's IT and computing infrastructure, including for each of its business processes.

Page 4

DoD RESPONSE:

Partially concur. The DoD agrees the DoD CIO should develop a DoD Information Enterprise Architecture (DIEA) that enables improving the department's IT and computing infrastructure for each of its business processes. The DoDs plan and ongoing activities to make such improvements occur are shown in the figure below. It shows the DoD CIO and DoD's business capability organization, CMO, have interacting processes and architecture relationships. The processes are those associated with Clinger-Cohen Act such as those required by DoDI 8270 (DRAFT) and the Business Capability Acquisition Lifecycle (BCAC) described in DoDI 5000.75.



They are supported by the DoD CIO's Enterprise Architecture and Services Board (EASB) and BEA Configuration Control Board (CCB), respectively. The EASB is the configuration management body for architectures related to the Information Enterprise (IE) while the configuration management for the business architectures is within the purview of the Defense Business Council as delegated to the BEA CCB BEA Improvement Project. At the core of both are the DoD IE Architecture (DIEA) and the Business Enterprise Architecture (BEA). As can be seen, the DIEA incorporates strategic guidance (top-down) as well as detailed architectures for improving the department's IT and computing infrastructure via the Joint Information Environment (JIE) initiative (bottom-up). The BEA supports the BCAC via an ongoing BEA improvement project by providing business reference models needed by the BCAC processes.

Because the IE supports the business enterprise, DIEA architecture data that is relevant to the business enterprise is accessed via the DIEA Data Selection Wizard and imported into the BEA. Subsequently, if any of the BCAC processes indicate a need to improve IT or computing infrastructure, e.g., to achieve Performance Measures to achieve Mission Outcomes, the CMO has a protocol to initiate a proposal to change the DIEA via their membership in the EASB. Encoding IT and computing infrastructure improvements in the DIEA via strategic guidance, JIE, and EASB configuration management direction and then embedding relevant DIEA structure and data into mission area architectures such as the BEA provides a comprehensive way to promulgate improvement architectures that is consistent and leads to interoperability and cybersecurity within and across mission areas. This demonstrates that GAOs Recommendation 5 is not needed due to the goal already being accomplished by a set of processes, organizations, protocols, and architecture data that is appropriate for the DoD.

Page 5

Recommendation Six:

The Secretary of Defense should ensure that the CIO and CMO work together to define a specific time frame for when the department plans to integrate its business and IT architectures and ensure that the architectures are integrated.

DoD RESPONSE:

Partially concur. The DoD agrees the DoD CIO and CMO should work together to establish a timeframe and ensure coordination and consistency of the IT and business architectures. The DoD disagrees with the use and intent of the term “integrate” in the recommendation. The DoD proposes to change the recommendation to read “The GAO recommends the Secretary of Defense ensure the DoD CIO and CMO work together to define a specific timeline for coordinating its business and IT architectures to achieve better enterprise alignment among the architectures. Maintaining consistency dictates the IT architecture evolves with full consideration of business architecture requirements and business architectures incorporate IT architecture capabilities and services.”

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