GAO Highlights

Highlights of GAO-14-312, a report to congressional requesters.

May 2014

RETIREMENT SECURITY

Oversight of the National Railroad Retirement Investment Trust

Why GAO Did This Study

The Trust was established by federal statute effective in 2002 to manage a portion of the assets the Board uses to pay benefits to retired railroad workers, and managed about $25 billion in assets as of 2013. The Trust invests assets in stocks, bonds, and other investment vehicles in a manner similar to that of defined benefit plans. To insulate the Trust from political influence over its investment decisions, the Trust was established independent of the federal government. It is exempted from the federal law that governs the financial operations of the U.S. government and which establishes the duties and powers of the GAO. GAO assessed (1) the performance audit policies and practices that exist for oversight of the Trust; (2) the performance audit policies that apply to comparable organizations, such as large state public pension plans; and (3) what options, if any, could be pursued to improve Trust performance audit policies and what tradeoffs stakeholders believe such options entail.

GAO reviewed applicable federal laws, Trust policies and procedures, and relevant reports such as state, federal, and Trust-commissioned performance audit reports. GAO also interviewed officials of the Board, state and federal pension plans, the state Auditors General, and private plan fiduciary experts.

What GAO Recommends

This report makes no recommendations.

View GAO-14-312. For more information, contact Charles A. Jeszeck (202) 512-7215 or jeszeckc@gao.gov.

What GAO Found

Oversight of the National Railroad Retirement Investment Trust (Trust) includes both regular reporting and communications with the Railroad Retirement Board (Board), and periodic performance audits that the Trust has opted to commission; however, no written requirement for such audits exists. The Trust's mandatory annual management report includes financial and descriptive information, including a discussion of the evolution, current status and performance of the Trust's investment portfolio and administrative costs, including investment manager fees. The Trust has also commissioned four external performance audits since its creation—the first in 2004 and the most recent in 2012. These reviews have encompassed a wide range of issues, including the accuracy of monthly reports, compliance with Trust investment manager hiring policies, processes to ensure accuracy of financial recordkeeping and internal controls, adequacy of due diligence procedures, and the role of non-traditional investments.

Performance audit practices of comparable entities can differ from the Trust in scope and frequency. The large majority of state pension plans and two federal programs GAO reviewed that manage investment assets are subject to performance audits that can be initiated and conducted by an external entity, and some of these audits have addressed issues Trust-commissioned audits have not included. Forty-two of the 50 state plans GAO contacted are subject to performance audits that can be initiated and conducted by an external auditor, such as state Auditors General or equivalent, or by offices of internal audit. In some cases, the external auditor reviews the plan annually, while in others, plans are audited less frequently. Both federal programs—the Pension Benefit Guaranty Corporation's single-employer insurance program and the Thrift Savings Plan—are also subject to externally initiated and conducted performance audits. State and federal audits varied in subject and scope, and in some cases, examined issues that Trust-commissioned reviews have not yet included, such as ethics and conflict of interest policies. Experts told GAO that Trust performance audit practices are comparable to those of large private sector plans governed by the Employee Retirement Income Security Act of 1974.

Based on our review of oversight models that apply to state plans and other information, GAO developed several options to enhance the Trust's performance audit practices, and stakeholders identified potential advantages and limitations pertaining to them. For example, the Board's Office of Inspector General (OIG) could be granted authority to conduct performance audits, which would help ensure these reviews are initiated and performed independent of the Trust. However, both Board and Trust officials had reservations about this option, stating that the OIG lacks sufficient expertise in aspects of the Trust investment program, and expressing concerns about what they perceive as an unconstructive working relationship. The Trust's practice of commissioning periodic performance audits could be established as a formal requirement, either through a memorandum of agreement between the key parties, or through a statutory amendment, with external input on subject and scope of the audits. Trust and Board officials stated that this would be a reasonable option, and in early 2014 developed an initial proposal to implement such an agreement.