Reference
OIG Document Control # 96-19

REINVENTION PROPOSALS
PHASE IV

September 27, 1996

OFFICE OF INSPECTOR GENERAL
RAILROAD RETIREMENT BOARD

INTRODUCTION

The Office of Inspector General (OIG) has issued reinvention proposals that recommended changes to the organizational structure and organizational culture of the Railroad Retirement Board (RRB). More recently, the OIG has also proposed a realignment of program responsibilities between the RRB and the Social Security Administration (SSA). Each of the recommendations submitted to the Board will enable the agency to focus its resources on meeting the needs of all of its customers.

Arthur Andersen LLP identified the internal control environment of the RRB as a material control weakness at the conclusion of its financial statement audits for three fiscal years. It was specifically noted in the most recent report that the three-member Board structure may preclude the efficient operation of the RRB. The inability of the Board Members to focus on major issues will hamper the development and implementation of a realistic strategic plan as required by the Government Performance and Results Act of 1993 (GPRA) and preclude them from effectively pursuing the most efficient manner of reinventing the agency for the future.

Based on continued analysis and the report of the external auditors, the OIG is recommending that the Board request a change in its status from an independent agency to a government corporation under the direction of an independent Commissioner who will function as the Chief Executive Officer (CEO). The new status will enable the agency to most efficiently address its short term operational needs and concentrate its long term strategy and efforts on those programs that are unique to the railroad industry. Streamlining the senior management structure is also consistent with downsizing initiatives which have begun within the agency and the OIG proposal to transfer the RRB's Tier I responsibility to the SSA.

BACKGROUND

As originally created by legislation in the 1930s, the Board structure of the RRB consists of three individuals who are responsible for representing railroad management, railroad labor organizations and the public interest. Rather than acting as a strategic and policy setting function as most Boards of Directors, the RRB's Board operates more like a management committee and is involved in the daily administration of RRB program activities. The focus of the RRB's leadership should be strategic in nature and oriented toward the long term.

The concept of a CEO was recommended by the Commission on Railroad Retirement in its report issued in 1972 although the term used in the report was for the appointment of a "strong chairman" to function in that capacity. Similarly, the concept of a private corporation was considered in the 1983 budget proposal of President Reagan. These proposals were consistent with the recommendations made by the President's Private Sector Survey On Cost Control issued in 1983 and generally referred to as the Grace Commission.

The continued involvement of any Board Member in the routine administrative processes represents an additional administrative burden on the senior managers of the RRB. The different perspective of each Member also increases the potential for conflict in the resolution of routine matters. As noted, this situation represents a material weakness in the internal control environment of the agency and the lack of a single CEO was cited by the external auditors as an impediment to resolving significant issues on a timely basis.

OIG PROPOSAL

The OIG believes that the RRB should become a government corporation effective with the start of the 1998 fiscal year. The OIG has previously recommended the transfer of certain program responsibilities to SSA which is compatible with this proposal. The government corporation represents a structure that will enable the RRB to enter into a transitional period. The agency could identify and begin to separate its inherently governmental responsibilities from those which are typically private sector functions and are applicable only to the railroad industry.

Within the government corporation structure, the focus of the RRB could ultimately shift from that of an independent governmental agency to an organization that will depend on its competitive advantage to remain in business. Program coordination problems could be minimized and the duplication of administrative processes eliminated. Efficiencies to be gained would benefit program beneficiaries through faster service and lower cost. As noted earlier, the RRB should be able to complete the transfer of its Tier I responsibilities within three years.

The suggested timeframe would allow the agency, its customers and Congress to best address all of the nuances of the programs and to provide a greater degree of accuracy in measuring the financial impact of demographic changes in the industry. The establishment of a government corporation is an administrative consideration that provides a framework within which roles can be defined while maintaining stated customer service goals. Both the collective bargaining process with respect to benefit changes and the legislative process providing for the structure of the benefit programs would remain unchanged.

As an independent government corporation with reduced operations, the RRB would realize administrative efficiencies in the budgetary process. Although financial reporting under the Government Corporation Control Act (GCCA) would be necessary, many of the requirements are similar to those of GPRA.

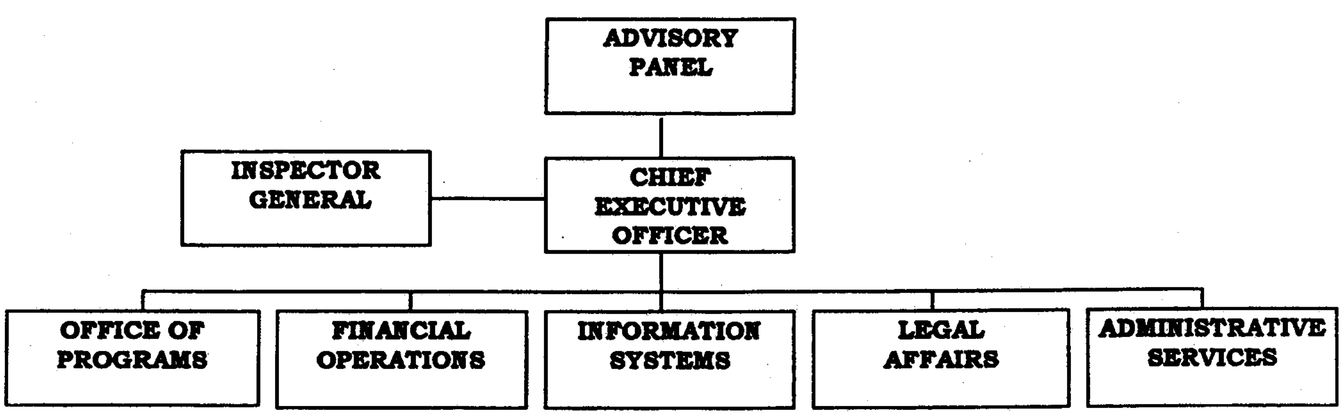
Standards for becoming a government corporation, drafted by the Office of Management and Budget, suggested that an entity be placed under the head of an existing department or agency and be responsive to policy instruction from the President and/or the agency head. Coordination and oversight would not include day-to-day operational control and direction. The standards specifically stated that: "While there should be no provision for a governing Board of Directors, it may be useful to have an advisory board if input from business advisors in business operations is desired."

In the case of the RRB, it is recommended that the agency become a government corporation headed by an independent CEO. It is not recommended that the RRB report to the head of an existing agency because its responsibilities resemble a private sector service provider for several of the programs it administers. The CEO would be responsible for the design and implementation of the RRB's strategic plan as well as complete responsibility and authority for its operations.

The internal structure of the RRB would be organized according to functional expertise as described in the OIG's original reinvention proposal. The CEO and senior managers would be compensated in accordance with their achieving established financial and performance goals similar to the type of compensation targets established in private sector businesses.

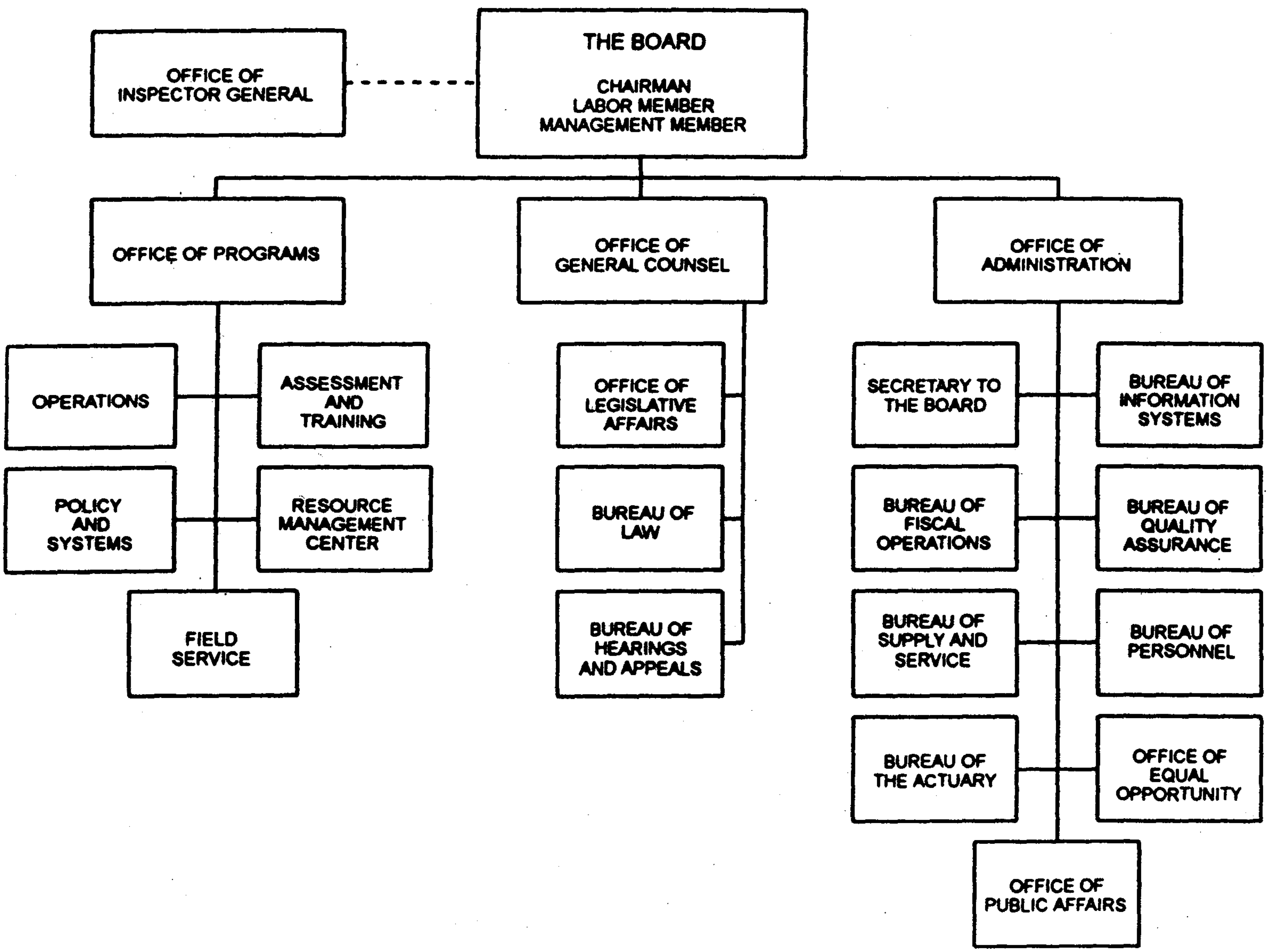
The present Board structure should be abolished and replaced by an advisory panel that would continue to represent the public interest, railway labor and railroad management. The advisory panel would meet periodically to represent its constituency and submit long term strategic recommendations to the RRB.

PROPOSED AGENCY STRUCTURE



The functional assignment of responsibilities as previously recommended by the OIG and incorporated in the redesign of the Office of Programs should be adopted on an agency-wide basis. The OIG continues to recommend that significant reductions in the field service be made beyond the plan submitted by the RRB's Reinvention Task Force. Reducing the size of the field service staff is also consistent with the recommendation to transfer the Tier I responsibilities to the SSA.

EXISTING AGENCY STRUCTURE



Abolishing the existing Board would eliminate the potential for conflict between the viewpoints of individual Board members and senior managers while retaining appropriate representation through the advisory panel. The public member of the panel would not be a chairman in the historical sense of the RRB but would facilitate the logistics of arranging meetings and presenting the panel's recommendations. The panel should require minimal funding since it would not be involved in the daily administration of the corporation.

Establishing an advisory panel would result in initial savings to the corporation since minimal staff would be allocated to the panel. The appeals function, coverage decisions and waiver determinations which currently require Board action could be modified or assigned to other executives within the RRB. Most of the decisions rendered by the Board involve a review of specific circumstances or issues of law and regulations. It would seem reasonable that the Office of General Counsel could assume these responsibilities. Eliminating the routine operating responsibilities of the Board represents an aspect of the proposal which requires enabling legislation but streamlines the overall operations.

CONCLUSION

The current operating environment requires that Federal agencies like the RRB scrutinize all aspects of their operations and consider major structural changes. The OIG believes this proposal is consistent with Administration directives to provide better service at lower cost. By narrowing the scope of its activities and adjusting its structure to match its revised program responsibilities, the RRB will be able to provide the best possible service to program participants, the railroad industry and the public.

Office of Inspector General
U.S. Railroad Retirement Board
844 N. Rush Street
Chicago, Illinois 60611

Telephone: 312-751-4690