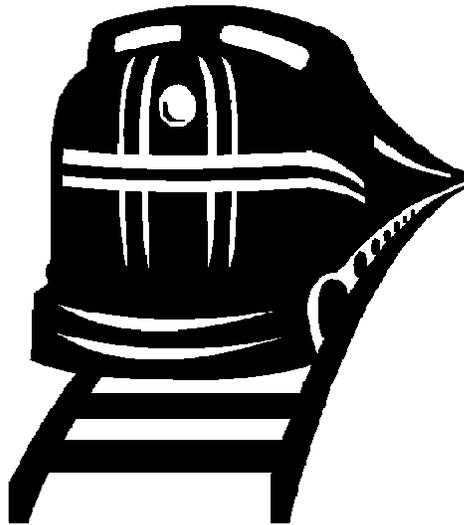


Semiannual Report to the Congress

October 1, 2010 •
March 31, 2011



**Office of Inspector General
for the
Railroad Retirement Board**



UNITED STATES RAILROAD RETIREMENT BOARD

OFFICE OF INSPECTOR GENERAL

April 29, 2011

The Honorable Michael S. Schwartz, Chairman
Railroad Retirement Board
844 North Rush Street
Chicago, Illinois 60611-2092

Dear Mr. Schwartz:

I am pleased to submit our *Semiannual Report to the Congress*. This report provides a descriptive summary of our activities and accomplishments during the period of October 1, 2010 through March 31, 2011. This report is submitted in accordance with Section 5 of the *Inspector General Act of 1978*, as amended. The Act requires that you transmit this report, along with any comments you may wish to make, to the appropriate Congressional committees and subcommittees within 30 days.

During this reporting period, we completed our audit of the RRB's fiscal year 2010 financial statements, issuing an unqualified opinion. In addition we:

- published our "Letter to Management" detailing matters related to internal control identified during the financial statement audit;
- prepared our statement on *Management and Performance Challenges Facing the Railroad Retirement Board*;
- published the results of our annual evaluation of the agency's information security program; and
- reviewed the RRB's Audit and Compliance Division.

Our criminal investigators achieved 38 criminal convictions, 52 indictments and informations, 11 civil judgments, and more than \$98 million in financial accomplishments resulting from OI's investigative work, including joint investigations.

The Office of Inspector General sincerely appreciates the ongoing assistance extended to our staff during the performance of their audits and investigations. We look forward to a continued cooperative relationship.

Sincerely,

Original Signed by

Martin J. Dickman
Inspector General



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INTRODUCTION

Railroad Retirement Board

The Railroad Retirement Board (RRB) is an independent agency in the executive branch of the Federal government. The RRB administers comprehensive disability, retirement-survivor, and unemployment-sickness insurance benefit programs for the nation's railroad workers and their families. These programs are codified under the Railroad Retirement Act (RRA) and the Railroad Unemployment Insurance Act (RUIA), respectively. The agency's central mission is to pay accurate and timely RRA and RUIA benefits.

During fiscal year (FY) 2010, the RRB paid approximately \$10.8 billion, net of recoveries and offsetting collections, in retirement and survivor benefits to roughly 582,000 beneficiaries. The RRB also paid roughly \$136.1 million, net of recoveries and offsetting collections, in unemployment and sickness insurance benefits to almost 22,000 unemployment insurance beneficiaries and 18,000 sickness insurance beneficiaries.

The RRB also has administrative responsibilities for certain benefit payments under the Social Security Act, including the administration of Medicare benefits for qualifying railroad workers and dependents. Pursuant to statutory authority, the RRB, in consultation with the Centers for Medicare and Medicaid Services (CMS), awards and monitors the single nationwide Medicare Part B Services contract. During FY 2010, the Railroad Medicare contractor processed more than 10 million Railroad Medicare Part B claims worth over \$869 million in paid medical insurance benefits on behalf of more than 468,000 Railroad Medicare beneficiaries.

Railroad Retirement Board Members

The Board consists of three members who are appointed, with the advice and consent of the Senate, by the President of the United States. One Board member is appointed upon the recommendation of railroad employers, another member is appointed upon the recommendation of railroad labor organizations, and the third, who is the Chairman, is appointed to represent the public's interest. Board Members' terms are five years in length and expire in staggered years.



EXECUTIVE SUMMARY

Office of Inspector General

The Railroad Retirement Solvency Act of 1983 amended the RRA to provide for an Office of Inspector General (OIG) for the RRB. The 1988 amendments to the Inspector General Act added the RRB to the list of covered agencies.

The Inspector General is a Presidential Appointee, with Senate confirmation, who serves as an independent and objective voice to both the RRB Board Members and the Congress. It is the Inspector General's responsibility to promote economy, efficiency, and effectiveness in the RRB's programs and operations. To that end, the OIG conducts audits/evaluations, management reviews, and inspections of the RRB's programs and operations. As a product of its efforts, the OIG offers recommendations for agency improvement to RRB management. The OIG also identifies and investigates cases of waste, fraud, and abuse in the RRB's programs and operations. The OIG works closely with Federal prosecutors and makes the appropriate referrals for criminal prosecution, civil prosecution, monetary recovery, or administrative sanctions.

The OIG has approximately 50 employees assigned to three operational components: the immediate Office of the Inspector General, the Office of Audit, and the Office of Investigations. The OIG conducts operations from several locations: the RRB headquarters in Chicago, Illinois; an investigative field office in Philadelphia, Pennsylvania; and domicile investigative offices in Arlington, Virginia; Houston, Texas; Miami, Florida; New York, New York; and San Diego, California. These domicile offices provide increased investigative presence and aide in the effective and efficient coordination of joint investigations with other Inspector General offices and law enforcement agencies.

Office of Audit

The Office of Audit (OA) conducts financial, performance, and compliance audits and evaluations of the RRB's programs and operations. During this reporting period, the OA:

- published the results of their annual evaluation of the agency's information security program;
- completed its annual audit of the RRB's comparative financial statements for the fiscal years ended September 30, 2010 and 2009 along with the related reports on internal control and compliance;



- prepared the Inspector General's statement of *Management and Performance Challenges Facing the Railroad Retirement Board*;
- published a "Letter to Management" detailing matters related to internal control identified during the financial statement audit; and
- reviewed the RRB's Audit and Compliance Division.

All audits completed during this reporting period are discussed in further detail on pages 4 through 11. All reports/evaluations are available on our website at www.rrb.gov/oig.

Office of Investigations

The Office of Investigations (OI) focuses its efforts on identifying, investigating, and presenting RRB benefit fraud cases for prosecution. OI conducts investigations throughout the United States relating to:

- the fraudulent receipt of RRB disability, unemployment-sickness, and retirement-survivor benefits;
- Railroad Medicare fraud;
- false reporting by railroad employers; and
- criminal violations and misconduct by RRB personnel.

Investigative efforts can result in criminal convictions; civil judgments and penalties; administrative recovery of program benefit funds; and/or administrative sanctions. From October 1, 2010 through March 31, 2011, OI achieved:

- 6 arrests;
- 52 indictments and informations;
- 38 convictions;
- 11 civil judgments;
- 43 referrals to the Department of Justice; and
- more than \$98 million¹ in financial accomplishments.

Defendants, in the aggregate, were sentenced to more than 91 years of jail, 91 years of probation, 3 years of suspended sentences, and 520 hours of community service. Additional details regarding OI's activities are discussed on pages 12 through 21.

¹ The total amount of financial accomplishments reflect fraud amounts related to programs administered exclusively by the RRB and fraud amounts from other Federal programs such as Medicare or Social Security which were included in the disposition resulting from the investigation.



OCTOBER 1, 2010 – MARCH 31, 2011 ACCOMPLISHMENTS

Office of Audit

Congress established the OIG to provide independent oversight of the RRB. Within the OIG, the mission of OA is to promote economy, efficiency, and effectiveness in the administration of the RRB's programs and operations; and to detect and prevent fraud, waste, and abuse. Through the Inspector General, OA keeps Board Members and the Congress informed of current and potential problems and deficiencies in the RRB's operations. OA also tracks the agency's progress towards corrective action.

Brief summaries of all audits completed during this semiannual reporting period follow.

Fiscal Year 2010 Evaluation of Information Security at the Railroad Retirement Board

OA's report entitled *Fiscal Year 2010 Evaluation of Information Security at the Railroad Retirement Board* was published on November 5, 2010. The objective of this evaluation was to fulfill the requirements of the Federal Information Security Management Act of 2002 (FISMA). FISMA mandates that agencies develop, document, and implement an agency wide information security program and establishes minimum requirements for the management of information security.

The RRB has made significant progress in implementing an information security program that meets the requirements of FISMA; yet a fully effective program has not been achieved. For example, the RRB has taken action to address their significant deficiency in access controls; but a significant deficiency remains in internal control over the certification and accreditation review process of contractor deliverables.

During FY 2010, OA observed that: (1) the RRB's program for ensuring agency servers comply with required configuration settings is not fully effective and (2) the agency did not complete external reports of all Category 1 security incidents.

The RRB continues to address open audit recommendations pertaining to previously identified weaknesses in the following areas:

- security plans;
- information security and privacy training;
- periodic testing and evaluation;
- an effective remedial action process;



- continuity of operations;
- access controls;
- the inventory of systems;
- risk assessment; and
- privacy.

An abstract summary of this audit report is posted in the library section of OIG's website at www.rrb.gov/oig. The full report includes information protected from disclosure and has been designated for limited distribution pursuant to 5 U.S.C. § 552.

Opinion on the Financial Statements

During this reporting period, OA completed its annual audit of the RRB's comparative financial statements for the fiscal years ended September 30, 2010 and 2009. The OIG offered an unqualified opinion on the financial statements, concluding that the financial statements, including accompanying notes, presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles, the financial position of the RRB, its consolidated net cost of operations and changes in net position, and combined budgetary resources as of and for the fiscal years ended September 30, 2010 and 2009 and the financial condition of the Railroad Retirement program as of January 1, 2010, 2009, 2008, 2007, and 2006.

Report on Internal Control

In planning and performing the audit of the agency's financial statements, OA considered the RRB's internal control over financial reporting and compliance. OA considered internal control to determine its procedures for auditing the financial statements and to comply with Office of Management and Budget (OMB) audit guidance, and not to express an opinion on internal control. OA reported the following:

- With respect to previously reported control deficiencies, the RRB has made progress strengthening its information security program but this effort is not yet complete and remains an area of material weakness.
- The agency has corrected the previously cited material weakness over financial reporting by demonstrating improved controls in this area.
- The previously reported material weakness for non-integrated subsystems continues to exist because agency efforts are not yet complete.



Report on Compliance with Laws and Regulations

The OA's audit of the RRB's financial statements included tests of compliance with selected provisions of laws and regulations, including laws governing the use of budget authority, and other laws and regulations that could have a direct and material impact on the RRB's basic financial statements.

The OA's tests of compliance with selected provisions of laws and regulations disclosed no instances of non-compliance that are reportable under U.S. generally accepted government auditing standards or OMB guidance. However, the objective of the audit was not to provide an opinion on overall compliance with laws and regulations and they did not express an opinion.

Management and Performance Challenges Facing the Railroad Retirement Board

OA's *Management and Performance Challenges Facing the Railroad Retirement Board* is published in RRB's annual *Performance and Accountability Report*. This statement is prepared pursuant to the Reports Consolidation Act of 2000 and the requirements of OMB Circular A-136. This Circular requires OIGs to identify the most serious management challenges facing their parent agency and to briefly assess the agency's progress in addressing those challenges.

The following section summarizes each management and performance challenge discussed in this statement.

Providing Oversight of Invested Assets of the Railroad Retirement Act Program

The Railroad Retirement and Survivor's Improvement Act of 2001 (RRSIA) created the National Railroad Retirement Investment Trust (NRRIT), independent of the RRB, to manage and invest railroad retirement assets in a diversified investment portfolio in the same manner as those of private sector retirement plans. Although, the RRB maintains a reserve to pay benefits as they come due, approximately 80% of the agency's total assets, \$23.8 billion, were entrusted to the NRRIT at the end of FY 2010.

Subsequent to the enactment of legislation and creation of the NRRIT, an agreement was reached on a Memorandum of Understanding (MOU) calling for the NRRIT to provide additional financial reports to the RRB and other entities on a monthly basis. This interagency MOU is currently being revised to require additional financial information for the annual audit of the NRRIT financial statements. However, we believe that an annual financial statement audit is not adequate to protect the Railroad



Retirement program and a more active oversight role is warranted which would include performance audits.

Disability Program Integrity

Each year the RRB sends Disability Reminder Notices to disabled annuitants under age 65. Due to the substantial amount of non-reporting of work/earnings by disability annuitants in the past, the OIG believes that the “reminder” notice does not go far enough to prevent non-eligible disability annuitants from receiving benefits.

Previously, we recommended a number of oversight improvement including amending the current disability reminder notice process to allow the RRB to annually assess benefit eligibility. In response to our concerns, the RRB’s three-member Board directed agency officials to establish a working group to propose revisions to agency processes, forms, procedures, or systems. The RRB’s Disability Working Group identified opportunities to strengthen program integrity in the disability program by building on existing processes and developing new initiatives; however, they did not endorse the implementation of the OIG’s recommendation for a universal reporting requirement. We stand by our original recommendation for a universal reporting requirement.

Railroad Medicare Program Integrity

In order to establish an effective partnership in the fight against Medicare fraud, the RRB is challenged to ensure that the Railroad Medicare program data is compatible with the fraud prevention technology of the 21st century. As the Federal government moves toward real-time data review, the RRB should initiate an open dialogue with CMS to overcome potential data compatibility issues that may preclude full participation in real-time analysis fraud prevention technology. This new technology brings greater transparency to the Medicare program and would be a vast improvement of the current system of after-the-fact analysis. We also recommend that the Railroad Medicare Part B carrier work with the RRB and CMS to resolve data deficiencies identified by our September 30, 2010 audit entitled *Railroad Medicare Services Billed with Dates of Service after the Beneficiaries’ Dates of Death*.

Additional details regarding our commitment to Railroad Medicare program integrity are discussed on pages 23 through 25 of this report.

Information Technology Security

The OIG evaluated information security pursuant to the provisions of FISMA and concluded that the RRB has not yet achieved an effective FISMA-compliant security program. Although agency managers are working to strengthen controls, management action in response to internal control over certification and accreditation had either not



been completed as of the end of the current reporting period, or had not been in place long enough to permit evaluation. Once completed, the certification and accreditation process will help to ensure that the RRB complies with FISMA requirements. Additional details regarding this issue are discussed in Appendix D, Significant Matters.

Financial Accounting and Reporting

OA has determined that RRB has corrected this previously reported material weakness.

Internal Control Over Non-Integrated Subsystems – Financial Reporting

The RRB's financial reporting control structure is not comprehensive with respect to the reconciliation of the general ledger to non-integrated sub-systems. The OIG previously reported this issue as a result of its audits of the agency's financial statements performed during FYs 2000, 2001, 2008, and 2009. During the fourth quarter of FY 2010, the agency created an inventory of the various non-integrated systems that support financial accounting. Although this shows that progress is being made to address this material weakness, the agency has not yet implemented a comprehensive reconciliation process with adequate separation of duties. RRB managers are working to address this weakness. Additional details regarding this issue are discussed in Appendix D, Significant Matters.

Preventing and Detecting Improper Payments

During FY 2010, the RRB recognized nearly \$54 million in new overpayments in its retirement, survivor, and disability benefit operations of which nearly 70% were associated with routine events such as the death of an annuitant or the administrative coordination of benefits with the Social Security Administration. The Improper Payments Elimination and Recovery Act of 2010 focuses a significant amount of attention on improper payments and as the agency moves forward, they must recognize the challenges posed by this new legislation and continue to identify opportunities for improvement.

Fiscal Year 2010 Financial Statement Audit Letter to Management

On January 25, 2011, OA issued the *Fiscal Year 2010 Financial Statement Audit Letter to Management*. This letter transmits OA's memorandum on internal control communicating certain internal control matters that came to their attention during the financial statement audit.



In addition to the previously discussed material weaknesses, OA noted certain other matters involving the RRB's internal control structure and its operation. Although these matters do not rise to the level of a material weakness or significant deficiency, either individually or in the aggregate, they represent areas in which control weaknesses increase the risk of error or mishandling:

- Controls over report preparation are not fully effective.
- Controls over the Federal Financial Systems used by the RRB to support general ledger accounting for proprietary and budgetary transactions are not fully effective.
- Some RRB general ledger accounts are not in agreement with the U.S. Standard General Ledger.

RRB Management has agreed to take action on our recommendations relating to the above findings.

Review of the Railroad Retirement Board's Audit and Compliance Division

OA reviewed the RRB's Audit and Compliance Division (ACD) in the Bureau of Fiscal Operations (BFO). The ACD conducts external audits of railroad employers to ensure compliance under the RRA and the RUIA, and verifies the accuracy and timeliness of reported compensation and contributions. The purposes of the review were to determine if ACD's audits were conducted in compliance with Generally Accepted Government Auditing Standards (GAGAS), and if audit results were factually accurate and supported by competent evidence.

OA reported the following key findings:

- Audits were not conducted in accordance with GAGAS.
- Audit reports included an unmodified GAGAS statement.
- Audit results were not fully supported.
- OA identified an error related to the verification of employer information with the Internal Revenue Service which could impact reported creditable compensation amounts by an estimated \$1.7 million.
- Audit timeliness and follow-up need improvement.



To improve operations, the OIG recommended that BFO:

- Establish comprehensive written policies and procedures to ensure audits are conducted in compliance with required GAGAS.
- Remove the GAGAS statement from ACD's audit reports until they can ensure that all required GAGAS have been met.
- Require ACD management and audit staff to complete a comprehensive GAGAS training course.
- Institute a system for quality control which includes procedures to verify that the audit work meets the requirements of GAGAS.
- Quantify the differences in creditable compensation identified during the audit.
- Implement effective management controls including a control environment which promotes conscientious management.

BFO agreed to take corrective action for all 17 of our recommendations.

Concerns Related to the Railroad Retirement Board's Audit and Compliance Division's Employer Audit Reports

Due to the above described deficiencies identified in ACD's audit and reporting process, the OIG initiated a subsequent review to identify additional areas of concern related to ACD's employer audit reports. We did not make formal recommendations based upon this review because we had recently made widespread recommendations for corrective action in our February 1, 2011 audit report entitled *Review of the Railroad Retirement Board's Audit and Compliance Division*. However, we wanted to highlight additional OIG concerns for consideration during ACD's implementation of corrective action and revision of its policies and procedures.

- ACD's employer audit reports do not clearly answer one of their primary audit objectives of determining the accuracy of creditable service and compensation reports filed under the RRA.
- ACD uses materiality thresholds in their employer audit reports without defining these levels, or in some cases, informing the reader of their use.



- ACD did not complete their employer audit reports in a timely manner and did not always select the best years for review based upon the timing of their audit work.

Management Decisions and Implementation

The OIG tracks the implementation of its recommendations to RRB management. OMB Circular No. A-50 (Revised) and the Inspector General Act Amendments of 1988 require the reporting of management decisions and corrective actions for all audit recommendations.

Management Decisions	
Requiring Management Decision on October 1, 2010	0
Pending Management Decision for New Recommendations	0
Management Decision on Previous Recommendations	0
Recommendations Pending Management Decision on March 31, 2011	0

Corrective Action	
Recommendations Requiring Action on October 1, 2010	153 ²
Recommendations Issued During Reporting Period	22
Corrective Actions Completed During Reporting Period	32
Recommendations Rejected During Reporting Period	0
Final Actions Pending on March 31, 2011	143

² Reflects an adjustment to a recommendation addressed to the Chief Financial Officer.



Office of Investigations

OI's primary objective is to identify, investigate, and refer for prosecution or monetary recovery action cases of waste, fraud, and abuse in the RRB's programs. OI also seeks to prevent and deter program fraud by reporting systemic weaknesses in the RRB's operations and processes as identified through investigative work. In order to maximize the impact of its resources, OI continues to pursue cooperative investigative activities in coordination with other Inspectors General and law enforcement agencies, such as the Federal Bureau of Investigation, the U.S. Secret Service, and the Postal Inspection Service.

Investigative Accomplishments³

Action	October 1, 2010 – March 31, 2011
Referrals to the Department of Justice	43
Indictments/Informations	52
Arrests	6
Convictions	38
Civil Complaints	2
Civil Judgments	11
Restitution and Fines	\$97.4 Million
Civil Damages and Penalties	\$424,594
Investigative Recoveries ⁴	\$318,152
Community Service Hours	520

³ The total amount of financial accomplishments in this table reflect fraud amounts related to programs administered exclusively by the RRB and fraud amounts from other Federal programs such as Medicare or Social Security which were included in the disposition resulting from the investigation.

⁴ RRB benefits that are overpaid due to fraud and can be recouped through RRB administrative recovery action are expressed as investigative recoveries.

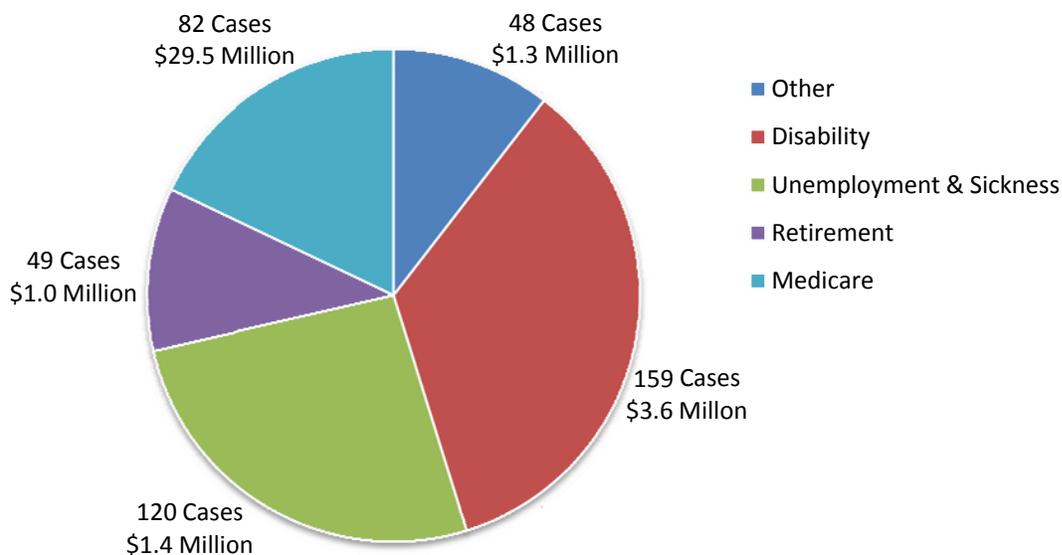


Current Caseload

During this semiannual reporting period, OI reviewed 250 matters and opened 188 new cases.

Investigative Caseload Data	
Investigative Cases Open as of October 1, 2010	405
Investigative Cases Opened During Reporting Period	188
Investigative Cases Closed During Reporting Period	135
Investigative Cases Open as of March 31, 2011	458

OI's current caseload totals 458 matters, representing approximately \$37 million⁵ in potential fraud. The chart below reflects the distribution of OI cases and potential fraud losses by RRB major program area.



Other case type is an amalgam of various types of cases involving matters such as misconduct by RRB employees, threats against agency employees, false reporting by railroad employees, and others.

⁵ This reflects potential fraud amounts related to programs administered exclusively by the RRB and potential fraud amounts from other Federal programs such as Medicare or Social Security which have been identified during OI's joint investigative work.



Representative Investigations October 1, 2010 – March 31, 2011

Disability Investigations

OI conducts fraud investigations relating to the RRB's disability program. Railroad workers who are awarded a disability annuity by the RRB are subject to work restrictions and earnings limitations. Disability benefit fraud often involves sophisticated schemes to hide disqualifying work activities from the RRB.

During this reporting period, OI obtained eight convictions and six civil judgments in disability fraud cases. The defendants received, in the aggregate, sentences totaling 2 months of jail, 15 ½ years of probation, 280 hours of community service, and were ordered to pay approximately \$742,000 in restitution, fines, and civil damages/penalties.

Descriptions of representative cases completed during this reporting period follow.

Annuitant Failed to Accurately Report Earnings to the RRB

OI Special Agents investigated an RRB disability annuitant who failed to accurately report his income and excess earnings from his job as an investigator/litigant recruiter for two law firms. The annuitant actively hid excessive earnings from the RRB by structuring his salary to receive compensation well beyond the allowable amount in the form of cars; health and car insurance premiums; extensive entertainment and business related expenses; and cash reimbursements instead of salary. The annuitant's failure to report his income to the RRB caused him to fraudulently receive over \$278,000 in disability payments.

This case was referred to the United States Attorney's Office for the Southern District of Ohio and they entered into a settlement agreement with the annuitant and his wife for \$200,000.

Annuitant Reported Earnings under his Brother's Name and Social Security Number

Based upon a referral from a state agency, OI Special Agents investigated an RRB disability annuitant who, in order to conceal his income from the RRB, had his earnings reported under his brother's name and social security number. The annuitant's failure to report his income to the RRB caused him to fraudulently receive more than \$118,000 in disability payments.



This case was referred to the United States Attorney's Office for the Western District of Virginia. The United States Attorney's Office filed an information against the annuitant for Theft of Government Funds. The annuitant pled guilty and was sentenced to 60 days in jail, 6 months of home confinement, 2 years of probation, and full restitution.

Disability Annuitant Fails to Report Excess Earnings

Special Agents investigated an RRB disability annuitant who had reported his self-employment and ownership of a construction business to the RRB but failed to report his excess earnings. Their investigation revealed that during the period of January 2006 through December 2007 the annuitant earned wages in excess of the allowable amount established by the RRA. The annuitant's failure to report his excess earnings to the RRB caused him to fraudulently receive more than \$55,000 in disability payments.

This case was referred to the United States Attorney's Office for the Western District of Washington. The United States Attorney's Office filed an information against the annuitant for Theft of Government Funds. He pled guilty and was sentenced to 3 years of probation, 4 months of home detention, 200 hours of community service, and full restitution.

Unemployment - Sickness Insurance Investigations

Unemployment Insurance (UI) - Sickness Insurance (SI) benefit fraud involves individuals claiming and receiving UI or SI benefits while working and receiving wages, in violation of Federal law, from an employer. OI receives the majority of these cases from the RRB's Disability, Sickness, and Unemployment Benefits Division as a result of information developed through state wage matching programs. The RRB conducts computer wage matches with various states to identify claimants who may have collected RRB administered UI or SI benefits on the same days they received wages from a private employer.

During this reporting period, OI obtained four convictions and four civil judgments for UI and SI fraud cases. Defendants in these cases received, in the aggregate, 7 ½ years of probation and were ordered to pay almost \$75,000 in restitution, fines, and civil damages/penalties.

The following are examples of UI and SI cases completed during this reporting period.

Judgment Entered Against UI Claimant

OI initiated an investigation of an RRB UI claimant based upon an agency referral. OI's subsequent investigation determined that during the period of July 2006 through



December 2006, the claimant applied for RRB UI benefits on the same days he was working and being paid by a private employer. He submitted a total of 10 false claims when applying for benefits by intentionally not reporting his employment. His actions resulted in the theft of more than \$6,000 in UI benefits.

This case was referred to the United States Attorney's Office for the District of New Jersey. The United States Attorney's Office filed a civil complaint for violations of the False Claims Act. Subsequently, the District Court entered a judgment for over \$25,000 against the claimant.

SI Claimant Fails to Report Work and Earnings to the RRB

OI initiated an investigation of an RRB SI claimant based upon an agency referral. OI's subsequent investigation determined that during the period of September 2006 through February 2007, the claimant applied for RRB SI benefits on the same days he was working for a private employer. The claimant failed to report his work and earnings to the RRB and fraudulently received more than \$5,000 in SI benefits.

This case was referred to the United States Attorney's Office for the Western District of Virginia. The United States Attorney's Office filed an information against the annuitant for Theft of Government Funds. The annuitant pled guilty and was sentenced to one year of probation and full restitution.

Retirement-Survivor Benefits and Representative Payee Investigations

The RRA provides retirement-survivor benefits for qualified railroad workers and their families. RRB retirement-survivor benefit fraud typically involves:

- an individual failing to report information to the RRB that may disqualify the annuitant from receiving benefits;
- instances of theft and/or fraudulent cashing of retirement benefit checks by someone other than the authorized RRB annuitant; or
- an individual designated to receive RRB benefits on behalf of an RRB annuitant fraudulently using the funds for their own personal use.

During this reporting period, OI obtained five convictions and one civil judgment for these types of fraud cases. The defendants, in the aggregate, received sentences totaling 3 ½ years of jail, 16 years of probation, and were ordered to pay more than \$782,000 in restitution, fines, and civil damages/penalties.



Examples of cases completed during this reporting period follow.

Representative Payee Misuses RRB Benefits

OI initiated an investigation against an individual who received RRB survivor benefits to care for her disabled brother. OI's investigation revealed that from December 2007 through June 2009 the subject was not entitled to receive benefits because her brother was incarcerated and not in her care. Failure to report her brother's incarceration caused the subject to fraudulently receive more than \$17,000 in RRB Child Disability Benefits payments to which she was not entitled.

This case was referred to the United States Attorney's Office for the Southern District of Indiana. The United States Attorney's Office filed an indictment charging the sister with Theft of Government Funds. She pled guilty and was sentenced to 2 years of probation and ordered to pay full restitution.

Annuitant's Son Steals Over \$341,000 in RRB Benefits

OI's investigation revealed that an RRB annuitant had passed away in July 1985; however, RRB continued to deposit electronic funds into a joint bank account until June 2009. Special Agents determined that the annuitant's son was the joint owner on the account and had used more than \$341,000 in RRB benefits for his own personal benefit.

This case was referred to the United States Attorney's Office for the Western District of Pennsylvania. The United States Attorney's Office filed an indictment charging the son with Theft of Government Funds. He pled guilty and was sentenced to 18 months in jail, 3 years of supervised probation, and ordered to pay full restitution. Prior to sentencing the subject had made payments totaling more than \$45,000.

Individual Fraudulently Receives Two RRB Annuities

OI investigated an individual who fraudulently applied for and received widow and minor child annuity benefits. In 1996, a state court awarded custody of the railroad worker's minor child to an individual other than his spouse. When the railroad worker died in 2003, his spouse fraudulently applied for and received both a widow and a minor child annuity based upon her false statements regarding her care of their minor child. Since she did not have legal custody of the child, she was not entitled to the more than \$151,000 in RRB annuity benefits she received.



This case was referred to the United States Attorney's Office for the Southern District of New York. The United States Attorney's Office criminally prosecuted the spouse in U.S. District Court. The spouse was convicted on two counts of Wire Fraud and was sentenced to 24 months in jail, 3 years of probation, and full restitution.

Railroad Medicare Investigations

During this reporting period, OI obtained 20 convictions in Railroad Medicare fraud cases. Defendants in these cases received, in the aggregate, 88 years of jail, 51 years of probation, 240 hours of community service, and were ordered to pay more than \$96 million in restitution, fines, and civil damages/penalties.⁶

All of OI's active Medicare cases are being worked jointly with the Office of Inspector General for the U.S. Department of Health and Human Services, the Office of Inspector General for the Office of Personnel Management, or other agencies responsible for investigating health care fraud. Interagency cooperation is imperative to effective law enforcement especially among agencies responsible for investigating the complexities of health care fraud.

The following are examples of Railroad Medicare cases completed during this reporting period.

Durable Medical Equipment Company Owner Sentenced for Health Care Fraud

In our October 1, 2009 through March 31, 2010 *Semiannual Report to the Congress*, we provided information regarding the indictment of a durable medical equipment company owner. On October 4, 2010, a United States District Court Judge for the Southern District of Texas sentenced him to 21 months of jail, 3 years of supervised release, and more than \$574,000 in restitution.

Doctors Sentenced to 23 Years in Jail

An OI Special Agent worked cooperatively as a member of a multi-agency team investigating a massive, long running health care fraud scheme. This scheme, which operated from 1998 until June 2009, involved upcoding superficial injections to various higher paying and more involved injections. Based upon an analysis of their billing records, the subjects billed for an average of over 100 patients per day. Subsequent investigation revealed neither subject ever actually performed the billed procedure.

⁶ This total reflects the full amount of restitution, fines, and civil damages/penalties ordered. Since OI's Railroad Medicare fraud cases are joint investigations, the total dollar amount includes losses to other health care programs.



This case was referred to the United States Attorney's Office for the Southern District of Texas. The United States Attorney's Office indicted the doctors on Conspiracy to Commit Health Care Fraud and Health Care Fraud. Both doctors pled guilty and were sentenced to a combined total of 23 years in jail, 6 years of supervised releases, and restitution in the amount of \$43.3 million. The doctors were ordered to forfeit numerous parcels of real estate and more than \$1.5 million in cash.

Railroad Medicare Providers Prosecuted

OI initiated this investigation pursuant to a referral from the Office of Inspector General for the Department of Health and Human Services. The subsequent joint investigation revealed that a medical clinic had fraudulently billed services performed by nurse practitioners as if the services were performed by doctors. In addition to upcoding, they also misused Drug Enforcement Administration registration numbers.

This case was referred to the United States Attorney's Office for the Southern District of West Virginia. The United States Attorney's Office pursued both civil and criminal prosecutions against the clinic owners and the doctors who were involved in the scheme. The Criminal Division filed informations against the owner and two physicians for violations of Health Care Fraud. All three individuals pled guilty and were sentenced to a combined total of more than 4 years in jail, 9 years of supervised releases, and restitution in the amount of \$429,000. The Civil Division entered into Consent Judgments with the clinic owner and one physician for a total of \$550,000.

Durable Medical Equipment Company Owner and Patient Recruiter Sentenced to 13 Years in Jail

Pursuant to a referral from the Medicare Fraud Strike Force, OI initiated this investigation against the owner and patient recruiter for a Texas Durable Medical Equipment company. The subsequent joint investigation revealed that the individuals had submitted \$1.1 million in Medicare claims for medically unnecessary power wheelchairs. They billed the wheelchairs and related accessories as lost or damaged in hurricanes, even though many of the Medicare beneficiaries had not owned a power wheelchair during these catastrophes or owned wheelchairs which were not damaged.

This case was referred to the United States Attorney's Office for the Southern District of Texas. After a weeklong trial for Conspiracy to Commit Health Care Fraud and Aiding and Abetting in Health Care Fraud, the owner was found guilty and his co-owner/spouse was found not guilty. Soon after the trial, the patient recruiter pled guilty to Conspiracy to Commit Health Care Fraud and Aiding and Abetting in Health Care Fraud. The individuals were sentenced to a combined total of more than 13 years in jail, 6 years of supervised release, and restitution in the amount of \$553,000.



Civil Enforcement Results

OI may pursue civil actions to obtain judicial orders for the recovery of funds fraudulently obtained by annuitants or claimants. These civil actions are typically brought under the provisions of the False Claims Act. This statute allows the government to recover up to treble damages as well as \$5,500 to \$11,000 for each false claim submitted.

During this semiannual reporting period, a total of 11 civil judgments were entered by U.S. District Courts for RRB fraud cases totaling more than \$424,000 in damages and penalties. Some of these civil actions are pursued under the Department of Justice's Affirmative Civil Enforcement (ACE) program which provides an efficient means to address fraud against the RRB's programs. ACE is an effective way to return fraud losses to the RRB's trust funds and it also creates a deterrent against future fraud.



Hotline Contacts

The OIG established its Hotline to receive complaints concerning suspected fraud, waste, and abuse in the RRB's programs and operations. The Hotline provides an open line of communication for individuals to report suspected criminal activity and mismanagement/waste of RRB funds.

The Hotline received 777 contacts during this reporting period. The following table summarizes Hotline referrals or other activities during this reporting period.

Referral or Other Activity	October 1, 2010 – March 31, 2011
Referred to RRB District or Regional Office	300
Other (Hang Ups, Misdirected Calls, Disconnections, etc.)	276
Referred to the Office of Investigations	77
Referred to Another Federal Agency	56
Calls with Insufficient Information to Make Appropriate Referrals	30
Disposition Not Yet Determined, Additional Information is Being Obtained	22
Referred to RRB Bureaus	11
Referred to a Railroad	4
Referred to Railroad Medicare	1



OTHER OVERSIGHT ACTIVITIES

American Recovery and Reinvestment Act of 2009

During this semiannual period, the OIG continued their efforts to aide in a transparent American Recovery and Reinvestment Act (ARRA) process by preparing monthly progress reports in formats developed by the Recovery Accountability and Transparency Board. These monthly reports are published on the Recovery.gov website and are also available on the RRB's Recovery Act Information webpage. During this semiannual reporting period, OI opened 23 additional cases involving fraudulent receipt of extended ARRA funded UI benefits.

Occupational Disability Program

The RRB's occupational disability program is a unique benefit available only to qualifying railroad workers. The qualification standards for this benefit are much different and more lenient, than those needed to qualify for a total and permanent disability under the Social Security Act. The OIG has reported detailed information regarding this issue in previous *Semiannual Reports to the Congress*; however, it is important to note that the OIG continues to devote investigative and audit resources to the oversight of this and other agency programs.

During this semiannual reporting period, the RRB has issued a *Disability Program Integrity Action Plan*. The OIG has reviewed this plan and applauds the agency for their efforts; however, we continue to encourage the agency to adopt all of the following recommendations in connection with the occupational disability program.

- All future occupational disability applicants should be sent for a secondary medical screening prior to adjudication.
- The RRB should require the applicant's immediate supervisor to complete and certify all RRB Forms G-251a or G-251b. These forms are used by the RRB to request information from railroad employers regarding job duties performed by applicants; however, in a large percentage of cases the employers fail to return the forms or provide the requested information.
- The RRB should amend current disability annuitant reminder forms to include an annual questionnaire requiring a certified response from all disability annuitants. If the disability annuitant fails to return the signed certification form within a reasonable timeframe, then their disability annuity should be suspended.



- The RRB should amend their current self-employment/corporate involvement verification form to require more thorough and complete information. A more comprehensive form is currently awaiting OMB approval.

The implementation of these recommendations would provide disability examiners with additional information to consider in their adjudication process, resulting in better supported decisions.

Railroad Medicare Fraud Detection Contracts

Since 1990, the U.S. Government Accountability Office (GAO) has designated Medicare as a high-risk area due to its size and complexity, as well as its susceptibility to mismanagement and improper payments.⁷ GAO's February 2011 high-risk update reiterates that "[t]he Medicare program remains on a path that is fiscally unsustainable over the long term. This fiscal pressure heightens the need for CMS to improve Medicare's payment methods to achieve efficiency and savings, and its management, program integrity, and oversight of patient care and safety."⁸

GAO further stated that "[i]n 2010, Medicare covered 47 million elderly and disabled beneficiaries had estimated outlays of \$509 billion. Medicare had estimated improper payments of almost \$48 billion in fiscal year 2010. However, this improper payment estimate did not include all of the program's risk, since it did not include improper payments in its prescription drug benefit, for which the agency has not yet estimated a total amount."⁹ Improper payments of this magnitude are unacceptable and innovative prevention and detection tools must be used to reduce their occurrence.

After touring the Recovery Accountability and Transparency Board's Operations Center and observing their fraud detection and prevention methods, we decided to explore fraud detection and prevention possibilities in the form of two limited scope Railroad Medicare fraud detection contracts. Since we do not have access to live claims data, we were limited to post-payment review. The parameters for both contracts were also narrowed by funding limitations. A brief description of each contract follows.

Thomson Reuters

To identify potentially fraudulent Railroad Medicare claims, we entered into a competitively bid, limited scope contract with Thomson Reuters to review and analyze three years worth of Railroad Medicare Part B claims. We selected four algorithms to analyze the more than 66 million records contained in Railroad Medicare Part B claims

⁷ See GAO, *High-Risk Series: An Update*, GAO-11-278 (Washington, D.C.: 2011).

⁸ Id.

⁹ Id.



data from calendar years 2007, 2008, and 2009. The following briefly describes the four algorithms along with preliminary results.¹⁰

- Objective:* To determine whether any Railroad Medicare providers fraudulently billed for services not provided.

Algorithm: Identify Railroad Medicare claims for services incurred 60 or more days after the beneficiaries' recorded dates of death as reported on the Social Security Administration's Death Master File (DMF).

Preliminary results: There were 41 beneficiaries identified with Railroad Medicare Part B services incurred 60 or more days after their dates of death (as identified by the DMF).
- Objective:* To determine whether any Railroad Medicare providers fraudulently billed for emergency transportation to routine dialysis or physical therapy appointments.

Algorithm: Identify instances of emergency transportation when the patients received non-emergency dialysis-related services or physical therapy on the same day of the transport.

Preliminary Results: There were 939 unique patients who had either dialysis-related services or physical therapy on the same day as an emergency transportation trip.
- Objective:* To identify potential upcoding by Railroad Medicare providers.

Algorithm: Analysis of the 100 oldest Railroad Medicare beneficiaries with claims.

Preliminary Results: There were 4,028 claim lines associated with the 100 oldest beneficiaries with paid claims. On average these patients had 13.67 claims for medical care during the three year period.
- Objective:* To identify improper payments.

Algorithm: Identify providers who have submitted claims for services after they were officially sanctioned/excluded from Government programs per the Office of Inspector General for the Department of Health and Human Services' List of Excluded Individuals/Entities (LEIE).

Preliminary Results: This algorithm identified 29 Unique Provider Identification Numbers from the LEIE that had Railroad Medicare professional claims after their sanctioned date.

¹⁰ All results are considered preliminary because they require additional investigation, including medical review, to validate the results.



Palantir Technologies

We had the opportunity to visit the Recovery Accountability and Transparency Board's Operations Center and observe the functionality of Palantir Technologies' (Palantir) data analysis platform. In order to gain a better understanding of how this analytical tool may be utilized for fraud detection in the Railroad Medicare program, we entered into a two month data analysis pilot project.

Since we do not have access to live claims data, Palantir analyzed the more than 66 million records contained in Railroad Medicare Part B claims data from calendar years 2007, 2008, and 2009. Their platform utilized data fusion to quickly integrate a variety of information sources including coding patterns that OIG had identified in previous fraud cases. Palantir was able to fuse this information to identify non-obvious relationships and patterns in the claims data. They were also able to present a graphic display of the Railroad Medicare claims data, illustrating provider billing patterns, timelines reflecting questionable treatment frequencies, and improbable geospatial connections between providers and beneficiaries.

Both contractors were quickly able to import and model data, including large volumes of Railroad Medicare claims information. Based upon our limited experience, we believe that these types of data platforms are useful for conducting searches, testing fraud hypotheses, and providing audit or investigative leads. We believe that they may be beneficial for pre-payment analysis and predictive modeling to help stop improper payments before they go out the door.

OUTREACH ACTIVITIES

In addition to audit and investigative activities, OIG staff members perform outreach as a means to further the office's mission. The following are examples of outreach activities conducted during this reporting period.

The Inspector General presented a breakout session entitled *New Anti-Fraud and Program Integrity Requirements under Health Care Reform* for the Academy of Managed Case Pharmacy's 2010 Educational Conference in St. Louis, Missouri.

The Inspector General attended and assisted at the 2010 Biennial National Procurement and Grant Conference in Philadelphia, Pennsylvania.

An OI Special Agent received the *Award of Excellence* from the Council of Inspectors General for Integrity and Efficiency (CIGIE). CIGIE's annual awards ceremony recognizes exemplary performances by Federal law enforcement personnel. The Special Agent, along with fellow investigative team members, received this award in



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connection with the successful prosecution of an individual that electronically diverted over \$700,000 of Federal benefit checks into her bank account.

An OI Special Agent, along with other task force team members from various other Federal law enforcement agencies, received an award from the United States Attorney's Office for the Southern District of Texas. This award was in connection with the successful prosecution of two doctors. The details of this case are discussed on page 18 of this report.

OI staff members participated in a number of Medicare related meetings including several task forces. These task forces provide an open forum for health care fraud related communications and foster a team approach to health care fraud investigations. Members of the various task forces include representatives from: the Department of Justice; the Centers for Medicare and Medicaid Services; the Office of Inspector General for the Department of Health and Human Services; the Office of Inspector General for the Office of Personnel Management; the Federal Bureau of Investigation; various State Police agencies; various Medicaid Fraud Control Units; and Medicare Program Safeguard Contractors. Since Railroad Medicare is a national program, OI staff members attend task forces in several judicial districts. Participation in Task Force meetings allows the Special Agents to develop the necessary contacts and information to ensure that Railroad Medicare fraud losses will be included in Medicare investigations. They also provide an opportunity for OI Special Agents to become familiar with the most recent fraud schemes.

A number of OA staff members participated in the Association of Government Accountants' (AGA) Chicago Chapter. AGA provides a variety of networking and training opportunities for government auditing professionals. OA staff members currently serve on the Executive Committee as Membership Director and Website Director.

An OA staff member served as a Session Monitor for AGA's North American Computer Audit, Control, and Security workshop. In this capacity, she provided logistical support for the speakers and attendees; introduced speakers; and coordinated announcements and materials for the sessions she monitored.

A supervisory auditor serves as the OIG's representative at the RRB's monthly information technology steering committee meetings.

The Assistant Inspector General for Audit (AIGA) attended the National Intergovernmental Audit Forum. This forum covered current issues related to the Recovery Act, the budget, and financial reform.



The AIGA also attended the 2010 Annual CIGIE/GAO Financial Statement Audit Conference. This conference covered current issues related to the annual financial statement audits and related standards, including topics on accountability issues and new Improper Payments Requirements and Guidance.

OPERATIONAL ISSUES

The following operational issue impacts the OIG's ability to effectively carry out its oversight role. This issue would have to be remedied with legislative change.

National Railroad Investment Trust

The NRRIT was established by RRSIA to manage and invest Railroad Retirement assets. As of January 2011, the RRB's investments in the NRRIT were valued at approximately \$25 billion.

Although the NRRIT is a tax-exempt entity independent of the Federal government, RRSIA requires that the NRRIT report to the RRB. This office has previously expressed concerns about the RRB's passive relationship with the NRRIT and has identified the RRB's oversight in this area as a critical issue. However, RRSIA does not provide the OIG with oversight authority to conduct audits and investigations of the NRRIT. This office believes that independent oversight of the NRRIT's operations is necessary to ensure that sufficient reporting mechanisms are in place and to ensure that the Trustees are fulfilling their fiduciary responsibilities.

LEGISLATIVE & REGULATORY REVIEW

The Inspector General Act of 1978, as amended, requires the Inspector General to review existing and proposed legislation and regulations relating to the programs and operations of the agency. The OIG did not make any comments during this reporting period.

APPENDICES

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Appendix A – Office of Inspector General Reports and Other Publicly Available Documents Issued

- *Management and Performance Challenges Facing the Railroad Retirement Board*, October 15, 2010¹¹
- *Fiscal Year 2010 Evaluation of Information Security at the Railroad Retirement Board*, November 5, 2010
- *Opinion on the Financial Statements of the Railroad Retirement Board*, November 5, 2010¹²
- *Report on the Railroad Retirement Board's Fiscal Year 2010 Financial Statements*, November 15, 2010
- *Fiscal Year 2010 Financial Statement Audit Letter to Management*, January 25, 2011
- *Review of the Railroad Retirement Board's Audit and Compliance Division*, February 1, 2011
- *Concerns Related to the Railroad Retirement Board's Audit and Compliance Division's Employer Audit Reports*, March 31, 2011

All audits and other publicly available documents are available on our website at www.rrb.gov/oig.

¹¹ Published as pages 111-115 of the *Railroad Retirement Board's Fiscal Year 2010 Performance and Accountability Report*.

¹² Published as pages 100 – 107 of the *Railroad Retirement Board's Fiscal Year 2010 Performance and Accountability Report*.

**Appendix B – Audit Reports with Questioned Costs or
with Recommendations That Funds be Put to Better Use**

	Audit Reports with Questioned Costs	Amount of Questioned Costs	Amount of Unsupported Costs
A. For which no management decision had been made by October 1, 2010	0	0	0
B. Which were issued from October 1, 2010 through March 31, 2011	2	\$2.7 Million	0
Subtotal (A + B)	2	\$2.7 Million	0
C. For which a management decision was made between October 1, 2010 through March 31, 2011	0	0	0
(i) dollar value of disallowed costs	0	0	0
(ii) dollar value of costs not disallowed	0	0	0
D. For which no management decision had been made by March 31, 2011	2	\$2.7 Million	0
E. Report for which no management decision was made within six months of issuance	0	0	0

	Audit Reports With Recommendations that Funds Be Put to Better Use	Dollar Value
A. For which no management decision had been made by October 1, 2010	0	0
B. Which were issued from October 1, 2010 through March 31, 2011	0	0
C. Subtotal (A + B)	0	0
(i) dollar value of disallowed costs	0	0
(ii) dollar value of costs not disallowed	0	0
D. For which no management decision had been made by March 31, 2011	0	0
E. Report for which no management decision was made within six months of issuance	0	0

Appendix C – Report on Receivables, Waivers, and Recoveries

The FY 1999 appropriations language for the OIG requires the reporting of additional information concerning actual collections, offsets, and funds put to better use achieved as a result of the OIG's activities.

Office of Investigations

Recoveries realized by the RRB resulting from court-ordered restitution and civil damages:

Fiscal Year	Amount Recovered
1999	\$ 855,655
2000	\$1,038,134
2001	\$ 990,356
2002	\$ 785,843
2003	\$ 947,876
2004	\$ 646,273
2005	\$ 844,183
2006	\$1,281,680
2007	\$1,347,049
2008	\$1,389,489
2009	\$1,097,227
2010	\$1,118,256
October 1, 2010 – March 31, 2011	\$ 847,249

Office of Audit

Report	Funds to be put to better use	Funds Agreed by Management	Receivables Established	Waivers	Recoveries to Date ¹³
99-03	\$50,850	\$50,850	\$50,850	\$50,490	\$360
99-14	\$83,000	\$83,000	\$34,423	\$0	\$30,584
99-16	\$48,000,000	\$48,000,000	\$0	\$0	\$17,300,000
99-17	\$11,000,000	\$11,000,000	\$0	\$0	\$1,604,545
00-16	\$235,000	\$235,000	\$0	\$0	\$253,846
03-06	\$306,129	N/A	\$0	\$0	\$306,129
04-06	\$821,000	\$821,000	\$604,429	\$5,564	\$629,688
04-10	\$400,000	\$400,000	\$0	\$0	\$761,151
05-03	\$1,800,000	\$1,800,000	\$4,574,902	\$337,700	\$2,100,115
05-06	\$10,000	\$10,000	\$0	\$0	\$42,915
05-07	\$1,070,000	\$1,070,000	\$49,943	\$0	\$86,307
05-10	\$2,600,000	\$2,600,000	\$311,000		
06-04	\$257,000	\$257,000			
06-05	\$2,100	\$2,100	\$0	\$0	\$0
06-06	\$200,000	\$200,000	\$13,651	\$0	\$20,671
09-02	\$600,000	\$600,000	\$320	\$0	\$326,423
10-09	\$3,355,408	\$3,355,408	\$0	\$0	\$0
10-13	\$212,038	\$92,412	\$0	\$0	\$0

¹³ Both overpayments and underpayments are included in this column.

Appendix D – Significant Matters

The OIG has identified deficiencies in controls over non-integrated subsystems and information security as significant matters. A summary of the issues and related recommendations for corrective action follow.

Internal Control over Non-Integrated Subsystems

The OIG identified the RRB’s non-integrated subsystems as a material weakness. The RRB’s financial reporting control structure is not comprehensive with respect to the reconciliation of the general ledger to non-integrated subsystems. During the fourth quarter of FY 2010, the agency created an inventory of the various non-integrated systems that support financial accounting. Although this shows that progress is being made to address this material weakness, the agency has not yet implemented a comprehensive reconciliation process with adequate separation of duties.

Non-integrated Subsystems	March 11, 2010	Report OIG 10-03, #2
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Information Security

The OIG previously evaluated information security pursuant to the provisions of FISMA and concluded that the RRB has not yet achieved an effective FISMA-compliant security program. Although agency managers are working to strengthen controls, management action in response to the following OIG recommendations had either not been completed as of the end of the current semiannual reporting period or had not been in place long enough to permit evaluation.

Internal Control Over Certification and Accreditation	July 18, 2005	Report OIG 05-08, #4
	September 30, 2008	Report OIG 08-05, #2 and 7
	November 12, 2009	Report OIG 10-01, #1 and 5

Appendix E – Peer Reviews

Section 989C of the Dodd-Frank Wall Street Reform and Consumer Protection Act requires Inspectors General to provide information regarding peer reviews in their *Semiannual Reports to the Congress*.

During this reporting period, the OIG did not conduct any peer reviews.

Office of Audit

In general, Federal audit organization may receive a peer review rating of pass, pass with deficiencies, or fail.

The results of OA's most recent peer review (which was for the year ended March 31, 2009) were transmitted on August 24, 2009. OA received a peer review rating of pass. This peer review did not contain any recommendations.

Office of Investigations

In general, Federal OIG investigative organizations may receive a peer review rating of fully compliant, compliant, or not compliant with the quality standards established by the Council of the Inspectors General on Integrity and Efficiency and the Attorney General's Guidelines for Inspectors General with law enforcement authority based on Section 6(e) of the Inspector General Act, as amended.

The results of OI's most recent peer review (which was for the FY ended September 30, 2007) were transmitted on March 26, 2008. OI received a peer review rating of fully compliant. There are currently no outstanding recommendations.

Appendix F – Reports Prepared by Management

Final Action on Audits with Disallowed Costs

For the 6-Month Period Ending March 31, 2011	<u>Number of audit reports</u>	<u>Disallowed costs</u>
A. Audit reports, with management decisions, on which final action had not been taken at the beginning of the period.	0	\$ 0
B. Audit reports on which management decisions were made during the period.	0	\$ 0
C. Total audit reports pending final action during the period. (A + B)	0	\$ 0
D. Audit reports on which final action was taken during the period.		
1. Recoveries		
(a) Collections and offsets	0	\$ 0
(b) Property	0	\$ 0
(c) Other	0	\$ 0
2. Recovery Waived	0	\$ 0
3. Total of 1 and 2	0	\$ 0
E. Audit reports needing final action at the end of the period (C - D.3).	0	\$ 0

***Management Report on Final Action on Audits with
Recommendations to Put Funds to Better Use for the
6-Month Period Ending March 31, 2011***

	<u>Number of audit reports</u>	Funds to be put <u>to better use</u>
A. Audit reports, with management decisions, on which final action had not been taken at the beginning of the period.	5	\$4,249,920*
B. Audit reports on which management decisions were made during the period.	0	\$0
C. Total audit reports pending final action during the period. (A + B)	5	\$4,249,920
D. Audit reports on which final action was taken during the period.		
1. Value of recommendations implemented (completed)	0	\$0
2. Value of recommendations that management concluded should not or could not be implemented (completed)	0	\$0
3. Total of 1 and 2	0	\$0
E. Audit reports needing final action at the end of the period (C - D.3)	5	\$4,249,920

* Comprised of the following amounts: \$2,100 from Audit Report 06-05, *Review of Compliance with Provisions of the Railroad Retirement Act Governing the Initial Award of Benefits*, \$200,000 from Audit Report 06-06, *Review of the Termination and Suspension of Benefits Paid Under the Railroad Retirement Act*, \$600,000 from Audit Report 09-02, *Fiscal Year 2008 Financial Statement Audit Letter to Management*, \$3,355,408 from Audit Report 10-09, *Audit of Internal Controls over Medicare Premium Transfers Between the Railroad Retirement Board and the Centers for Medicare and Medicaid Services*, and \$92,412 from 10-13 *Railroad Medicare Services Billed with Dates of Service after Beneficiaries' Dates of Death*.

Management Statement on Resolved Audit Reports Over 12 Months Old with Final Action Pending as of March 31, 2011

Report	Date	Disallowed costs	Funds to be put to better use	Reason action not completed
Fiscal Year 2000 Financial Statement Audit (01-03)	2/23/01	NONE	NONE	While help desk procedures have been upgraded, the Bureau of Information Services is still developing procedures to close the last open recommendation.
Review of Information Security at the Railroad Retirement Board (02-04)	2/5/02	NONE	NONE	Information Services has closed 26 out of 28 recommendations. A complete review has not yet been completed. Bureau of Information services will provide documentation once review is complete.
Inspection of Unverified Records in the RRB's Employment Data Maintenance System (03-06)	3/20/03	NONE	NONE	Programs reviewed all 20,000 records and are using a recently implemented tracking system to close the last recommendation, however due to ARRA and WHBAA work, project was extended to 12/31/2011 to be completed.
Review of Internal Control Over the Actuarial Projection Process (05-04)	5/5/05	NONE	NONE	The Chief Actuary is still reviewing their options to best implement this recommendation.
Review of LAN, LAN Security Scan and Web-based Applications (DSD)	6/7/05	NONE	NONE	These contractor-prepared confidential reports contained 45 recommendations, with 39 closed thus far.
Review of Access Controls in the End-User Computing General Support System (05-08)	7/18/05	NONE	NONE	Information Services has closed 14 of 15 recommendations in this confidential report. As reported previously, new risk assessment still must be submitted for remaining case.
Fiscal Year 2005 Evaluation of Information Security at the Railroad Retirement Board (05-11)	9/28/05	NONE	NONE	Bureau of Information Services has taken steps to have all bureaus use the SharePoint POAM website. Work continues.
Accuracy and Reliability of GPRA Performance Measures: Timeliness of Non-Disability Survivor Annuity Payments (06-03)	1/30/06	NONE	NONE	Programs have closed five of the seven recommendations. One recommendation has been delayed due to higher priority project and the other recommendation, new SIS Manager will draft instructions in FY11.
Review of Compliance with the Provisions of the Railroad Retirement Act Governing the Initial Award of Benefits (06-05)	4/12/06	NONE	\$2,100	Programs staff closed four of the five recommendations. Project is awaiting completion of the AARP project.

Management Statement on Resolved Audit Reports Over 12 Months Old with Final Action Pending as of March 31, 2011

Report	Date	Disallowed costs	Funds to be put to better use	Reason action not completed
Review of the Termination and Suspension of Benefits Paid Under the Railroad Retirement Act (06-06)	5/24/06	NONE	\$200,000	Programming work on a referral system is pending that should close out the remaining open recommendation.
Review of Incident Handling and Reporting at the Railroad Retirement Board (06-09)	8/24/06	NONE	NONE	Work continues on training material and progress has been made to the updating of policies.
Audit of the DAISY/CHICO Component Application of the RRA Benefit Payment Major Application System (07-02)	3/9/07	NONE	NONE	Resources were diverted to higher priority projects.
Audit of the State Wage Match Data Transmission Controls (07-04)	3/28/07	NONE	NONE	Coordination required with outside agencies. Programs completed and implemented one of the two remaining recommendations. The last recommendation is schedule to be completed in FY12.
Evaluation of the Railroad Retirement Board's Privacy Program (07-06)	7/30/07	NONE	NONE	New CPO was appointed. Additional funding and resources are needed. Of the 16 recommendations, 12 have been closed with 3 targeted for completion during FY11 and 1 for FY12.
Audit of Federal Income Taxes Withheld from Railroad Retirement Annuities (07-07)	7/30/07	NONE	NONE	Coordination required with another org. Four of the six recommendations have been closed, with the rest targeted for completion in FY11.
Fiscal Year 2007 Evaluation of Information Security at the Railroad Retirement Board (07-08)	9/27/07	NONE	NONE	Policy and procedures are still being developed. Recommendations are targeted for completion in FY11.
Audit of Controls to Safeguard Sensitive Personally Identifiable Information (07-09)	9/27/07	NONE	NONE	Coordination is required with an outside contractor on 1 recommendation and work plans, policy and procedures are still being developed for all other recommendations. Target date for completion is FY11.
Fiscal Year 2007 Financial Statement Audit Letter to Management (08-01)	3/6/08	NONE	NONE	Bureau of Fiscal Operations implemented enhanced controls in FY10 however additional work is needed to correct errors.
Evaluation of Information Security for the RRB's Financial Interchange Major Application – Abstract (08-03)	09/26/08	NONE	NONE	Work plans, policy and/or procedures continue with target completion in FY11 and one in FY12.

Management Statement on Resolved Audit Reports Over 12 Months Old with Final Action Pending as of March 31, 2011

Report	Date	Disallowed costs	Funds to be put to better use	Reason action not completed
Fiscal Year 2008 Evaluation of Information Security at the RRB (08-05)	09/26/08	NONE	NONE	Coordination is still required with outside contractor; and additional documentation is requested by OIG.
Fiscal Year 2008 Financial Statement Audit Letter to Management (09-02)	03/24/09	NONE	\$600,000	Review and updating of documentations along with case reviews are currently being performed on remaining recommendations.
Audit of Internal Control Over Accounts Payable (09-03)	03/31/09	NONE	NONE	Documentation was submitted for implementation on one recommendation, another requires coordination with another organization and one is awaiting the results of a quarterly review.
Audit of the Railroad Medicare Integrity Program at Palmetto Government Benefits Administrators (09-04)	09/25/09	NONE	NONE	Additional documentations were submitted for the 4 remaining recommendations to the OIG for implementation and coordination is required with outside agency on those recommendations issued to the outside agency.
Audit of the General and Application Controls in the Financial Management Major Application System (09-05)	09/30/09	NONE	NONE	Work plans, policy and/or procedures continue with target completion in FY11.
Audit of the Railroad Retirement Board's Medicare Major Application System (09-06)	09/30/09	NONE	NONE	Of the 9 recommendations, 4 have been implemented and 2 were rejected with work on the remaining 3 to be completed in FY11.
Fiscal Year 2009 Evaluation of Information Security (10-01)	11/12/09	NONE	NONE	The Bureau of Information Services will review and take the necessary action(s). Target completion in FY11.
Fiscal Year 2009 Financial Statement Audit Letter to Management (10-03)	03/11/10	NONE	NONE	Documentation was submitted to OIG for implementation on last open recommendation. OIG indicated they will assess the request for closure during the FY2011 financial statement audit.

Appendix G – Reporting Requirements

Act Reference	Inspector General Reporting Requirements	Page(s)
Section 4(a) (2)	Review of Legislation and Regulations	27
Section 5(a) (1)	Significant Problems, Abuses, and Deficiencies	33
Section 5(a) (2)	Recommendations With Respect to Significant Problems, Abuses, and Deficiencies	33
Section 5(a) (3)	Prior Significant Recommendations Not Yet Implemented	33
Section 5(a) (4)	Matters Referred to Prosecutive Authorities	3, 12
Section 5(a) (5)	Instances Where Information Was Refused	None
Section 5(a) (6)	List of Audit Reports	29
Section 5(a) (7)	Summary of Each Significant Report	4 – 11
Section 5(a) (8)	Statistical Tables on Management Decisions on Questioned Costs	30
Section 5(a) (9)	Statistical Tables on Management Decisions on Recommendations That Funds be Put to Better Use	30
Section 5(a) (10)	Summary of Each Audit Report Over 6 Months Old for Which No Management Decision Has Been Made	11
Section 5(a) (11)	Description and Explanation for Any Significant Revised Management Decision	None
Section 5(a) (12)	Information on Any Significant Management Decisions With Which the Inspector General Disagrees	None

Act Reference	Management Reporting Requirements	Page(s)
Section 5(b) (1)	Comments Deemed Appropriate	Transmittal Letter
Section 5(b) (2)	Statistical Table on Final Action on Disallowed Costs	35
Section 5(b) (3)	Statistical Table on Final Action to Put Funds to Better Use	36
Section 5(b) (4)	Statement on Audit Reports With Final Action Pending	37 – 39

Appendix H – Acronyms

Acronym	Explanation
ACD	Audit and Compliance Division for the Railroad Retirement Board
ACE	Affirmative Civil Enforcement
AGA	Association of Government Accountants
AIGA	Assistant Inspector General for Audit
ARRA	American Recovery and Reinvestment Act of 2009
BFO	Bureau of Fiscal Operations for the Railroad Retirement Board
CIGIE	Council of Inspectors General for Integrity and Efficiency
CMS	Centers for Medicare and Medicaid Services
DMF	Social Security Administration’s Death Master File
FISMA	Federal Information Security Management Act of 2002
FY	Fiscal Year
GAGAS	Generally Accepted Government Auditing Standards
GAO	U.S. Government Accountability Office
LEIE	Department of Health and Human Services’ List of Excluded Individuals/Entities
MOU	Memorandum of Understanding
NRRIT	National Railroad Retirement Investment Trust
OA	Office of Inspector General for the Railroad Retirement Board – Office of Audit
OI	Office of Inspector General for the Railroad Retirement Board – Office of Investigations
OIG	Office of Inspector General for the Railroad Retirement Board
OMB	Office of Management and Budget
RRA	Railroad Retirement Act
RRB	Railroad Retirement Board
RRSIA	Railroad Retirement and Survivors’ Improvement Act of 2001
RUIA	Railroad Unemployment Insurance Act
SI	Sickness Insurance
UI	Unemployment Insurance

Appendix I – Legal References

Federal:

Aiding and Abetting in Health Care Fraud – 18 U.S.C. § 1347

American Recovery and Reinvestment Act of 2009 – P.L. 111–5

Conspiracy to Commit Health Care Fraud – 18 U.S.C. § 1349

Dodd-Frank Wall Street Reform and Consumer Protection Act - P.L. 111–203

False Claims Act – 31 U.S.C. §§ 3729 – 3733

Federal Information Security Management Act of 2002 – 44 U.S.C. § 3531, et. seq.

Health Care Fraud – 18 U.S.C. § 1347

Improper Payments Elimination and Recovery Act of 2010 – P.L. 111-204

Inspector General Act of 1978, as amended – 5 U.S.C. App. 3

Railroad Retirement Act – 45 U.S.C. § 231, et. seq.

Railroad Unemployment Insurance Act – 45 U.S.C. § 351, et. seq.

Railroad Retirement and Survivors' Improvement Act of 2001 – P.L. 107–90

Reports Consolidation Act of 2000 – P.L. 106-531

Social Security Act – 42 U.S.C. § 301, et seq.

Theft of Public Money/Government Funds/Government Property – 18 U.S.C. § 641

Wire Fraud – 18 U.S.C. § 1343

REPORT

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