

Office of
Inspector
General

Semiannual
Report to the
Congress

*April 1, 2005 -
September 30, 2005*

Railroad
Retirement
Board



UNITED STATES RAILROAD RETIREMENT BOARD

OFFICE OF INSPECTOR GENERAL

October 31, 2005

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

Dear Mr. Schwartz:

I am pleased to submit the Semiannual Report to the Congress on the activities and accomplishments of the Office of Inspector General for the period April 1, 2005 through September 30, 2005. This report provides descriptions of our audits, evaluations and investigations performed during the past six months. The report is submitted in accordance with section 5 of the Inspector General Act of 1978 (Public Law 95-452, 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.

Auditors continued to monitor information systems security activities, and expressed concerns about the lack of progress by program officials in completing corrective actions to address identified weaknesses. Our Fiscal Year 2005 evaluation of information system security cited additional deficiencies that the agency must also now address.

Our criminal investigators achieved 28 criminal convictions, 35 indictments and informations, and \$1.9 million in recoveries, restitutions, fines, civil damages and penalties.

Please convey my appreciation to agency officials and personnel for the support and cooperation provided to my staff during the course of their audits and investigations.

Sincerely,

A handwritten signature in black ink that reads "Martin J. Dickman". The signature is written in a cursive style.

Martin J. Dickman
Inspector General

Enclosure

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All reports are available via the Internet at <http://www.rrb.gov>

EXECUTIVE SUMMARY

Audit Activities

During the reporting period of April 1 - September 30, 2005, the Office of Audit completed the Fiscal Year (FY) 2005 evaluation of information security. Auditors identified two new significant deficiencies in the agency's security program. (A summary of auditors' findings can be found on page 5.) Previously identified deficiencies in training and access controls continue. Auditors informed agency officials that such deficiencies in information security management are subject to reporting as material weaknesses under the Federal Managers' Financial Integrity Act.

As the result of a previous OIG audit, the RRB realized additional monies in the financial interchange with the Social Security Administration. To account for uncollectible benefit overpayments written off in calendar years 1997-2003, a total of \$8 million was added to the FY 2004 transfer.

Auditors also identified \$2.6 million in overpayments and underpayments during a review of retired employee work deductions (see page 8).

Investigative Accomplishments

The Office of Investigations achieved 28 convictions, 35 indictments and informations, 12 civil judgements, and \$1.9 million in recoveries, restitutions, fines, civil damages, and penalties.

INTRODUCTION

Railroad Retirement Board

The Railroad Retirement Board (RRB) is an independent agency in the executive branch of the Federal government that is headed by a three member Board appointed by the President of the United States, with the advice and consent of the Senate. One member is appointed upon the recommendation of railroad employers, one is appointed upon the recommendation of railroad labor organizations, and the third, who is the Chairman, is appointed to represent the public interest.

The agency administers comprehensive retirement-survivor and unemployment-sickness insurance benefit programs for the nation's railroad workers and their families under the Railroad Retirement and Railroad Unemployment Insurance Acts. The RRB also has administrative responsibilities under the Social Security Act for certain benefit payments and Medicare coverage for railroad workers.

During FY 2004, the RRB paid approximately \$9 billion in retirement and survivor benefits to some 649,000 beneficiaries, while net unemployment and sickness insurance benefits of \$83 million were paid to almost 32,000 claimants. The RRB also administers its own Medicare Part B program through a single carrier, Palmetto GBA. The carrier made payments totaling \$923 million to provide medical insurance benefits for 551,000 beneficiaries.

Office of Inspector General

The Office of Inspector General (OIG) has the responsibility for promoting economy, efficiency and effectiveness in the programs of the Railroad Retirement Board. The office is also charged with the detection, prevention and elimination of fraud, waste and abuse in agency operations. To accomplish its mission, the OIG conducts audits, management reviews and investigations.

The Railroad Retirement Solvency Act of 1983 established the Office of Inspector General at the Railroad Retirement Board by naming the agency as “one of such establishments” identified under Section 2 of the Inspector General Act of 1978. The Inspector General Act Amendments of 1988 added the RRB to the list of agencies covered by the Inspector General Act.

The OIG has 53 employees assigned to three operational components: the immediate office of the Inspector General, the Office of Audit, and the Office of Investigations. The office conducts operations from two locations: the headquarters of the Railroad Retirement Board in Chicago, Illinois, and an investigative field office in Philadelphia, Pennsylvania.

OFFICE OF AUDIT

The Office of Audit (OA) conducts audits and reviews to promote economy, efficiency, and effectiveness in the administration of RRB programs, and to detect and prevent waste, fraud, and abuse in such programs. Through the Inspector General, the office ensures that the Board Members and Congress are informed of current and potential problems in the RRB's programs and operations, and advised of recommended improvements, as well as the status of corrective actions. OA examines programmatic, financial, and administrative aspects of RRB operations.

During this semiannual reporting period, the RRB realized additional monies in the annual financial interchange (FI) with the Social Security Administration as a result of an earlier OIG audit. Because the FI is a major source of funding for benefits payable under the Railroad Retirement Act, the audit had recommended that unrecovered overpayments be included in the FI calculation. To account for uncollectible benefit overpayments written off in calendar years 1997-2003, a total of \$8 million was added to the FY 2004 transfer.

OA continued monitoring the agency's information systems security activities, and expressed serious concern to RRB management about the continued delays in agency efforts to address identified weaknesses. Without completion of planned corrective actions, the agency will be unable to eliminate information security as a material weakness in agency operations. Auditors completed the FY 2005 evaluation of information security, and a review of access controls in the end-user computing general support system. The OIG also contracted for information security control tests and evaluations.

Audits and evaluations were also completed concerning internal controls in selected areas, annuity payment issues, and compliance with the Prompt Payment Act. Auditors identified approximately \$2.6 million in overpayments and underpayments during a review of retired employee work deductions (see page 8).

Discussion of completed reviews, major findings and recommendations for corrective actions follow.

FISCAL YEAR 2005 EVALUATION OF INFORMATION SECURITY

Auditors performed the annual evaluation of the agency's information security to meet the requirements of the Federal Information Security Management Act of 2002 (FISMA). The legislation requires that the OIG test the effectiveness of information security, policies, procedures and practices of a representative subset of the RRB's information systems, and assess compliance with FISMA requirements and related information security policies, procedures, standards and guidelines.

The OIG audited access controls in the RRB's end-user computing general support system and retained technical specialists to perform additional security tests and evaluations of the agency's local area network, and internet operations in two major application systems. Details of these reviews follow the discussion of this evaluation. Auditors also reviewed the results of prior audits and evaluations of information security during FYs 2000-2005, including the status of related recommendations for corrective action.

This evaluation identified two new significant deficiencies in the agency's security program as a result of delays in meeting FISMA requirements. The RRB has made little progress in implementing an effective risk assessment process, and efforts to implement a consistent, FISMA compliant testing and evaluation process have not been successful. Agency management has set a target date of November 2005 for completion of a standardized risk assessment format in accordance with standards issued by the National Institute of Standards and Technology. No date has been set for completion of risk assessments. The OIG previously addressed the weaknesses in the risk assessment process; agency corrective action is pending.

Previously cited significant deficiencies in training and access controls continue. Auditors also identified reportable conditions resulting from weaknesses in the agency's implementation of requirements for risk based policies and procedures; a remedial action process for addressing deficiencies in information security policies, procedures, and practices; plans for continuity of operations; and a reliable inventory that identifies component applications in the end-user computing general support system, related server locations and the security administrators.

Auditors informed management that the significant deficiencies in information security management are subject to reporting as material weaknesses under the Federal Managers' Financial Integrity Act.

REVIEW OF ACCESS CONTROLS IN THE END-USER COMPUTING GENERAL SUPPORT SYSTEM

As part of the annual security evaluation required by FISMA, auditors assessed current RRB controls over initial access to the agency's end-user computing environment that supports local and wide area networks. Sampling tests were conducted to determine the adequacy of controls for (1) granting access privileges to employees, (2) restricting access to high-risk system accounts only to those users who require such access for the performance of their current job, and (3) limiting access to certain accounts that were not otherwise subject to audit evaluation because they were not employee user accounts or high risk accounts. Auditors also examined the division of key duties and responsibilities among different people to reduce the risk of error or fraud, and the limiting of system access to authorized users through the use of expiring passwords in user accounts.

Weaknesses in the security infrastructure, implementation of best practices, restriction of user privileges and account management were identified. As a result of their findings, auditors provided the agency's Bureau of Information Services with recommendations to address identified weaknesses. Management agreed to take corrective action.

SECURITY AND EVALUATION REPORTS

At the request of the OIG, DSD Labs, Inc. conducted information systems security control tests and evaluations of the :

- RRB's Local Area Network,
- ... ■ Employer Reporting System (ERS), a system that provides railroad employers the option to exchange information with and submit required reports to the RRB using the Internet, and
- ... ■ Railroad Unemployment Insurance Act Network (RUIANET), an application that provide railroad workers with an Internet-based option to apply for and claim unemployment benefits and employment service under the Railroad Unemployment Insurance Act.

The contractor also performed system scans to detect security vulnerabilities such as insecure configurations, software versions with exploitable flaws, weak passwords, bugs in hardware and susceptibility to known attacks and exploits. The review team recommended that the RRB incorporate all National Institute of Standards and Technology security management concepts into its information technology operations. Other recommendations addressed identified vulnerabilities related to system penetration testing, the lack of password-cracking procedures to check for weak passwords, weak configuration settings on some servers and routing devices, and the need for additional virus scanning software.

At the close of this semiannual reporting period, agency management had not responded to the report recommendations.

RETIRED EMPLOYEE WORK DEDUCTIONS PRIOR TO FULL RETIREMENT AGE

When a railroad employee works after retirement from a railroad, his/her railroad annuity may be impacted in one of three ways:

- If the retired employee works for a railroad employee or railroad labor organization, the entire annuity is not payable.
- A retired employee can work for a non-railroad employer and still receive retirement benefits. However, benefits will be reduced if earnings exceed certain limits and the annuitant is under full retirement age.
- If an annuitant works for his/her last pre-retirement non-railroad employer (LPE), a portion of the retirement benefits is reduced, regardless of the amount of earnings or age.

Annuitants who are under the full retirement age, work after retirement, and expect their earnings will exceed an exempt amount, must notify the RRB and furnish an estimate of expected earnings to prevent an overpayment and penalty. They must also notify the RRB if their original earnings estimates change significantly.

Auditors evaluated the agency's identification and application of work deductions to employee retirement annuities. They determined that, in general, the RRB is applying the work deductions accurately and in a timely manner, but recommended that the agency revise its selection criteria for potential LPE status to expedite processing and better identify

all cases. A recommendation was also made that program management develop official procedures for screening and handling cases for possible work deductions. Management has revised the criteria and agreed to develop the recommended procedures.

Based on the sample results from their review, auditors estimate the number of employee annuitants in current pay status with incorrect payments or delayed processing is 1,518. They also estimated a one-time financial impact of approximately \$2.6 million in overpayments and underpayments.

EVALUATION OF SURVIVOR ANNUITY WORK DEDUCTIONS

Survivor annuities replace, in part, earnings lost to an individual or a family as the result of the death of a covered worker. Such annuities are payable to widows, widowers, and unmarried children, and in certain cases, may also be payable to parents, remarried widow(er)s, grandchildren and surviving divorced spouses. Survivor annuitants who have not yet attained full retirement age may be subject to deductions for any employment earnings that exceed certain exempt amounts.

Auditors performed this review to determine if the agency identifies and applies work deductions to survivor annuities accurately and in a timely manner. The results of the evaluation indicated that the incidence of unreported earnings for survivor annuitants is relatively low. Auditors did recommend improvements be implemented for applying the survivor work deductions for cases involving corrected and delayed reporting of earnings, cases rejected during the computer data extractions with the Social Security Administration (SSA), and manually processed cases with temporary work deductions.

At present, the RRB receives annual earnings and employment data for all annuitants from SSA in May and September following the requested year. The RRB does not receive earnings reported or corrected after the September extract. Auditors recommended that the RRB revise the time frame for the SSA request in order to capture corrected and late earnings reports. Management concurred and, effective May 2006, will request earnings for two prior years.

REVIEW OF CUSTOMER SERVICE PERFORMANCE MEASURES FOR TIMELINESS OF INITIAL RAILROAD RETIREMENT ANNUITY PAYMENTS

The Government Performance and Results Act of 1993 requires agencies to establish program goals, measure program performance against the goals, and report on their progress. Each agency must prepare an annual performance plan for each program activity in its budget. The RRB includes performance measures and the annual financial statement in the Performance and Accountability Report. The FY 2004 report, that included 49 performance measures, provided comparative data for FY 2004 and the three preceding years.

OIG auditors reviewed the agency's performance measures and supporting documentation for initial railroad retirement annuity payments in the FY 2004 report to determine the reliability and accuracy of the data reported. These measures included initial annuity payments, both for advanced and non-advanced filed applications.

Review findings indicated several major system flaws that materially impacted the reported data: (1) an incorrect ending date was used to compute the timeliness of agency processing of substantially all applications; (2) the majority of applications

were incorrectly categorized by the system; and (3) the wrong time lapse dates were captured for some applicants.

Auditors determined that the RRB had not properly evaluated its progress in meeting two key customer service objectives and reported inaccurate FY 2004 performance results for initial retirement applications. Auditors also concluded that agency oversight controls were insufficient to ensure that the RRB management adequately monitors the agency's strategic and annual performance plans.

RRB management will implement system changes to accurately capture voucher payment dates or letter dates, to properly categorize applications, and to capture the correct time lapse data. Management has also agreed to clarify oversight responsibilities for ensuring the accuracy, reliability and validity of performance data in future Performance and Accountability Reports.

REVIEW OF INTERNAL CONTROL OVER BUDGET EXECUTION

The RRB's Bureau of Fiscal Operations (BFO) is responsible for preparing budget requests, recording budgetary transactions and monitoring budget execution. The office utilizes the Federal Financial System (FFS), a mainframe application with an integrated budget subsystem to support general ledger accounting and the recording and reporting of budget transactions and approvals. Auditors examined the effectiveness of current internal controls in ensuring that agency budget transactions are properly recorded, summarized and reported in accordance with applicable laws and regulations. They determined that current controls do not include: (1) effective separation of duties for recording and approving transactions; (2) adequate supporting documentation

for transactions and reports; and (3) controls to ensure timely recording of obligations to the correct fiscal year are in place.

Tests identified that, during the first quarter of FY 2005, 37% of budgetary transactions were entered and approved by the same individual. Management implemented changes to address this weakness and reduced the number to 17% in the second and third quarters of the fiscal year. However, in order to prevent such transactions in the future, auditors recommended that the FFS system's security settings be modified.

Comprehensive supporting documentation for budgetary transactions was not often maintained. Examination of current procedures indicated a lack of steps for preparation and filing of documentation for all transactions and reports. BFO managers have agreed to implement procedures to require full supporting documentation for all transactions beginning with the first quarter of FY 2006.

The third weakness identified by auditors, the untimely recording of obligations, resulted from a detailed examination of selected transactions that identified 26 vendor invoices that were paid from obligations recorded after services had begun or goods were delivered. The lack of controls for the recording of obligations may result in inaccurate information on current agency obligations that could increase the agency's risk for violating the Anti-Deficiency Act. Management agreed to implement controls to correct the problems, but rejected a recommendation concerning controls for vendor invoices when paid piecemeal.

Finally, OIG auditors questioned \$8,300 that the agency had paid for memberships in professional organizations during FYs 1999-2004. The agency's Bureau of Law reviewed the issue and advised that the membership fees paid prior to December 2001 were prohibited but such charges could be properly approved for payment after December 2001. The staff members affected by the ruling have requested waiver of

recovery for which no decision has been rendered. Auditors also recommended that, in future, management provide training on the limitations on the use of appropriated funds, and refer the issue of an agency-wide policy on this issue to the appropriate organizational component. Management concurred.

REVIEW OF COMPLIANCE WITH THE PROMPT PAYMENT ACT

The Office of Management and Budget's Bulletin 01-02, Audit Requirements for Federal Financial Statements, requires that certain provisions of the Prompt Payment Act be tested as part of the annual audit of a Federal agency's financial statements. The Prompt Payment Act mandates that interest be paid to commercial vendors when payments are issued after the payment due date, and imposes restrictions on the early payment of vendor invoices without management approval. Agencies must perform annual quality assurance reviews to assess their performance.

Auditors examined agency payments to vendors and contractors made during a 27 month period, and determined that the RRB is not in full compliance with the Prompt Payment Act. Interest must be paid to vendors whose invoices are paid after the due date. The agency did not identify all late payments or pay all interest to vendors because its policies, procedures and controls do not ensure the identification of all invoices on which interest should be paid or the accurate payment of interest. Auditors recommended that the agency implement changes for entering correct dates and rates into agency systems to avoid incorrect determinations of timeliness and interest computations.

Instances of early payments were also identified. Although the law limits the circumstances under which a Federal agency

may pay vendor invoices early, auditors identified non-compliance with early payment restrictions and the lack of controls to restrict early payments. As above, recommendations were provided to management to implement revisions to policies and procedures to correct the problem.

Auditors also cited the RRB for using an ineffective quality assurance process for assessing compliance with the Prompt Payment Act. The agency's annual quality assurance review of vendor payments failed to disclose problems and does not include follow-up to ensure identified weaknesses are corrected. Recommendations were provided to improve the process.

Management agreed to take action to address all weaknesses identified in this review.

REVIEW OF INTERNAL CONTROL OVER THE ACTUARIAL PROJECTION PROCESS

The RRB's Chief Actuary is responsible for the preparation of the triennial actuarial valuation and interim updates of the assets and liabilities of the railroad retirement program. This valuation serves as the basis for (1) the agency's annual reports on the financial condition of the railroad retirement system to the President and Congress, and (2) the statement of social insurance published with the agency's annual financial statements.

Effective with FY 2006 financial reporting, the statement of social insurance will be classified as a basic financial statement and will be subject to more rigorous audit procedures, including tests of internal control. Auditors performed this review to determine the adequacy of controls over the actuarial process that results in actuarial projections and published reports.

Auditors determined that the Bureau of the Actuary lacks a comprehensive system of internal control for actuarial services. Although management and program staff described extensive controls over the preparation of projections, estimates and reports, they have not developed formal policies and procedures, have not captured evidence of the operation of controls, and have not performed periodic evaluations of compliance with internal requirements. As a result, auditors recommended that revisions be implemented to the internal control program to ensure compliance with standards established by the General Accountability Office (GAO). The Chief Actuary agreed to review the control program for compliance with GAO standards and to make changes if needed.

The review also disclosed that the RRB's management control review program does not identify the weaknesses in the internal control for actuarial services. The current process does not provide responsible management with direction and assistance in developing an effective system of internal control. Auditors recommended the agency's Management Control Review Committee and the Bureau of the Actuary develop an internal control assessment process for the actuarial services assessable unit that meets agency and GAO standards for internal control. Corrective action is scheduled for completion by mid-2006.

Auditors also recommended that the Bureau of the Actuary revise its workforce plan to include a professional development program and revise the plan at least annually. Management agreed to include a professional development program and to revise its workforce plan as circumstances change.

MANAGEMENT DECISIONS AND IMPLEMENTATION

The Office of Inspector General maintains the open audit follow-up system to track the status of corrective actions for all audit recommendations. Office of Management and Budget 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 for Recommendations

Requiring a management decision on October 1, 2004	0
Pending management decisions for new recommendations	45
Management decisions for previous recommendations	<u>0</u>
Recommendations pending a management decision on September 30, 2005	45

Corrective Actions

Recommendations requiring action on April 1, 2005	88
Recommendations issued during this period	97
Corrective actions completed during the period	<u>- 19</u>
Final actions pending on September 30, 2005	166

OFFICE OF INVESTIGATIONS

The Office of Investigations (OI) focuses on RRB benefit program fraud. OI's primary objective is to identify and investigate cases of waste, fraud and abuse in RRB programs and refer them for prosecution and monetary recovery action. Through its investigations, OI also seeks to prevent and/or deter program fraud. In order to maximize the effect of its resources, OI continues to pursue cooperative investigative activities and coordination with other Inspectors General and law enforcement agencies, which include the Social Security Administration-Office of Inspector General, the Office of Personnel Management-Office of Inspector General, the Federal Bureau of Investigation (FBI), the U.S. Secret Service, the Internal Revenue Service, and the Postal Inspection Service.



During this reporting period, the Assistant Inspector General for Investigations (AIGI) presented information at the RRB's managers' conference. The AIGI briefed the managers on investigative activities and results, and the significance of agency personnel in OI cases. He also informed the managers about recent fraud trends identified through OI case work and office priorities.

OI also referred two matters that appeared to be program systemic issues to the OIG's Office of Audit. As a result, auditors initiated reviews and identified failure by agency program officials to conduct certain program integrity operations resulting in benefit overpayments and underpayments.

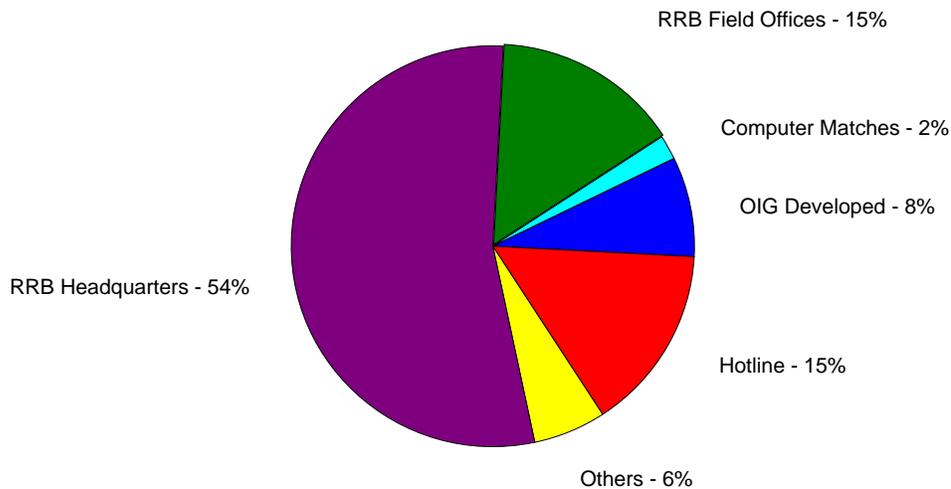
During their investigations, OI special agents identified various schemes used by annuitants to conceal their earnings to avoid the earnings restrictions of the RRB disability program. In order to address such fraudulent actions, the Inspector General provided the agency's Director of Programs with recommendations to improve monitoring of disability annuitants' earnings. As a result, program managers have agreed to review existing forms and procedures to improve program integrity and maintain effective controls to facilitate the detection of fraudulent activity.

INVESTIGATIVE ACCOMPLISHMENTS

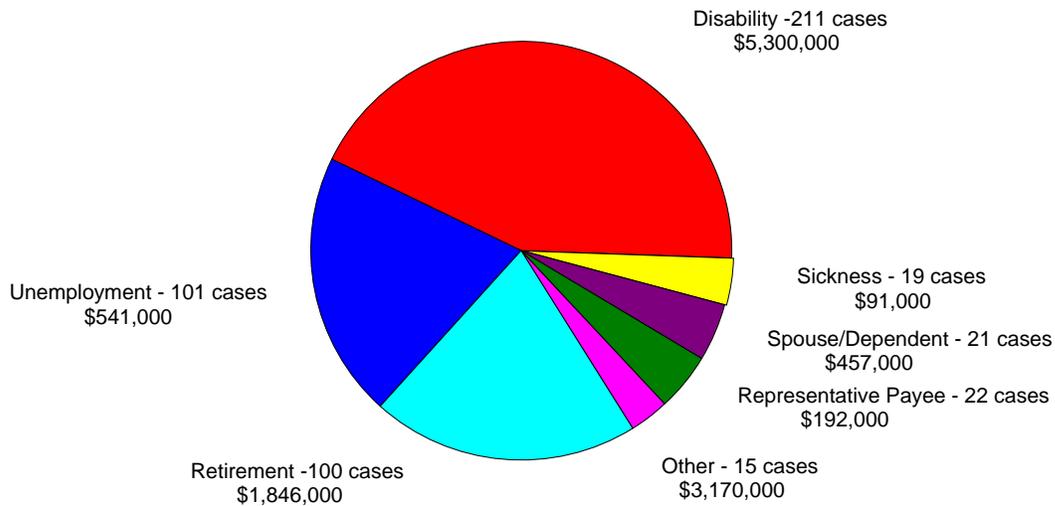
	04/01/05 - 09/30/05	FY 2005
Convictions	28	55
Civil Judgements	12	30
Indictments/Informations	35	52
Investigative Recoveries	\$ 428,352	\$ 830,074
Restitutions and Fines	\$ 1,004,601	\$ 1,577,850
Civil Damages and Penalties	\$ 135,841	\$ 375,669
Potential Economic Loss Prevented (PELP)	\$ 336,390	\$ 443,626
Community Service Hours	125	405
Disciplinary/Administrative Action	1	1
Civil Complaints	4	14
Criminal Complaints	1	2
Arrests	0	3
Subpoena Service:		
Inspector General	6	11
Federal Grand Jury	39	80
Trial	30	37
U.S. Attorney Referrals	103	231

INVESTIGATIVE CASES

During this semiannual period, OI opened 135 investigations and closed 134 cases. The major sources of case referrals are illustrated below.



OI's current caseload totals 489 criminal matters, representing approximately \$11.6 million in fraud against the RRB.



DISTRIBUTION OF CASES

The Office of Investigations (OI) conducts its investigations throughout the United States in response to complaints or allegations regarding violations of Federal law.

The map below indicates the number of open investigations that OI currently has in each state; there are no open cases in Alaska or Hawaii. Two additional investigations are underway in Canada.



REPRESENTATIVE INVESTIGATIONS

Retirement Benefit Investigations

RRB retirement fraud typically involves the theft and fraudulent cashing of U.S. Treasury checks, or the illicit conversion of U.S. Treasury electronic fund transfers, by someone other than the authorized RRB annuitant. During this reporting period, OI obtained six convictions and one civil judgement for retirement fraud. The defendants in these cases received sentences totaling 14 years probation, six months house arrest and were ordered to perform 75 hours of community service. They were also ordered to pay \$309,671 in restitution, \$250 in fines, \$4,301 in damages and \$1,302 in civil penalties. The RRB will recover an additional \$151,375 in overpayments as a result of OIG investigations of retirement benefit programs.

OI routinely receives referrals from the RRB's Debt Recovery Division that involve the fraudulent receipt of RRB retirement annuity payments, usually by a relative of a deceased annuitant.

Examples of recent retirement cases follow.

Daughter Convicted and Ordered to Repay \$226,205

OI opened an investigation based on a referral from the RRB's Omaha, NE District Office. A contact representative had attempted to schedule an appointment with an annuitant to present her with a 100th birthday commemorative plaque. After several attempts, the contact representative determined that the annuitant had died, and the RRB had continued to electronically deposit annuity funds in her account.

OI investigation confirmed that the annuitant had died in January 1980, and her daughter had withdrawn the annuity

funds paid after her death. When interviewed, the daughter admitted to the fraudulently withdrawing and using a total of \$226,205. She pleaded guilty to a Federal criminal information and was sentenced to three years probation and ordered to pay full restitution to the RRB. The restitution will be paid in monthly installments of \$150 or 10% of her gross income, whichever is greater.

Daughter of Deceased Annuitant Agrees to Return \$53,622

A referral from the RRB's Joliet, IL District Office involved two annuitants, husband and wife, who resided in Mexico since they began to receive RRB retirement benefits. OI investigation revealed the wife had died in December 1997, but annuity funds totaling \$21,420 were paid after her death. The husband died in October 1999 and benefits totaling \$32,202 were paid after his death. The RRB's contact representative in Joliet alleged that their daughter may have been the individual responsible for negotiating the funds after their deaths.

Because the daughter's last known address was in Mexico, OI agents contacted a Social Security Administration (SSA) representative located at the American Embassy in Mexico for assistance for locating her. SSA personnel were successful in locating the daughter and requested she report to them for an interview. During the interview, the daughter admitted to negotiating her parents' annuity funds and signed an agreement to refund overpayment. She agreed to repay the \$53,622 to the RRB, at the rate of \$1,000 a month. She and her husband are both currently receiving retirement annuities from the RRB based on her husband's railroad service.

Divorcee Illegally Collected \$58,281

OI opened an investigation based on a referral from an RRB program office that alleged that a woman had failed to notify the agency that she had divorced her husband, an RRB annuitant.

When interviewed by OI special agents, the woman claimed she had notified an agency district office of her divorce in 1995. A search of agency records found no such notification nor did RRB staff have any recollection of the divorce notification. The woman had collected \$58,281 in retirement benefits to which she was not entitled. She was indicted and pleaded guilty for failure to notify the RRB of her divorce. She was sentenced to five years probation, six months home confinement and ordered to pay full restitution to the RRB.

Bank Security Officer Fails to Report Earnings and Must Repay \$37,127

Another referral from an RRB program office involved a retirement benefits annuitant who had earned over the exempt amount for calendar years 2000 through 2003, and failed to report this work and earnings as required. RRB program staff computed that the annuitant had fraudulently received \$37,127 in benefits.

The subsequent investigation revealed that the annuitant had worked as a security officer at a local bank and had earned approximately \$92,000 during the four year period. When interviewed, the annuitant admitted that he had failed to notify the RRB of his earnings, as required. He entered into a Pretrial Diversion Agreement that requires him to pay restitution of \$37,127 to the RRB. He also agreed to perform 75 hours of community service.

Disability Investigations

The OIG also conducts fraud investigations relating to the RRB's disability program, which typically involves larger financial amounts and more sophisticated schemes. An individual who receives a disability annuity is restricted to earning not more than \$400 in one month. An earnings cap of \$4,999 per year also applies. Disability annuitants must report all work activity to the RRB.

During this reporting period, OI obtained 12 convictions for disability fraud. The defendants in these cases received sentences totaling thirteen months and one day imprisonment, 29 years probation, one year, four months house arrest and ordered to perform 50 hours of community service. They were also ordered to pay \$588,591 in restitution and \$925 in fines. The RRB will recover an additional \$194,168 as a result of disability fraud investigations concluded during this reporting period. Descriptions of several cases follow.

Police Community Service Officer Must Pay \$198,410 to the RRB

Through a detailed earnings query obtained through the Social Security Administration, the RRB's Retirement Benefits Division identified earnings posted to an occupational disability annuitant's social security number from the City of Fresno, CA.

Subsequent investigation by OI special agents revealed that the annuitant was employed as a police community service officer from January 1995 through July 2003. The subject had obtained his job while awaiting a decision from the RRB regarding his application for disability benefits. In March 1995, the agency informed him that he qualified for an occupational disability benefit retroactive to June 1993. He failed to notify the RRB that he was employed and had earned between \$22,000 and \$38,000 annually through his employment.

During an interview with OI special agents, the annuitant claimed he had informed the RRB about his employment, but was told that government jobs were exempt from disability earnings limitations. He also stated that RRB publications also included information exempting government earnings, but could not produce the information. He was indicted, pleaded guilty, and was ordered to immediately pay restitution to the RRB in the amount of \$198,410, serve six months home confinement and five years probation, and pay a special assessment fee of \$100 to the U.S. District Court.

Hotline Complaint Results in \$50,349 in Restitution

OI received a Hotline complaint concerning an occupational disability annuitant who was allegedly self-employed as an antique automobile restorer. The subject was awarded disability benefits from the RRB in August 1994 based on a herniated disc.

OI special agents found that the annuitant had exceeded the disability earnings limitations from February 1988 through March 2000, but had failed to report any employment to the agency. Records indicated that he frequently attended and purchased automobiles at auctions in Arkansas, and was licensed by the State of Arkansas to sell used vehicles. From February 1998 through March 2000, he purchased and sold 20 vehicles, earning over \$10,000 annually.

When interviewed, the annuitant denied involvement with auto sales and stated he was in very poor health. Although the special agents presented him with information concerning his earnings, he continued to deny he had purchased and sold cars for profit.

A criminal information was filed against the subject, and he subsequently pleaded guilty. He was sentenced to one year probation and ordered to pay restitution of \$50,349 to the RRB.

Bar Owner Must Return \$50,000 in Disability Benefits

A state wage match with the State of South Dakota identified an individual who had been awarded disability benefits in 1985. In 2002, the RRB requested the annuitant to provide any information about employment and earnings that he received since his occupational disability award in 1985. In response, he reported that he worked as a doorman at a local bar since October 1999, earning approximately \$400 monthly.

However, investigation indicated that the annuitant had, in fact, incorporated the bar in 1986. Social Security Administration records indicated earnings of \$16,238 for the period 2000 through 2002; in fact, his net income was \$131,607. The bar, for which he was the owner/operator, had generated total revenue exceeding \$475,000 for the same time period. The subject, when interviewed, told agents he was not required to report his work since his employment was part-time.

The annuitant pleaded guilty to a criminal information and was sentenced to 4 months imprisonment, four months home confinement, two years supervised released and ordered to pay full restitution of \$50,000 to the RRB for the fraudulently received disability benefits. At the time of sentencing, he made full restitution to the agency.

Annuitant Has Wages Paid Under Wife's Social Security Number

OI initiated another investigation based on another Hotline complaint that alleged that an RRB disability annuitant had significant earnings through his employment at a lumber company. The annuitant had been awarded benefits based on chronic lower back pain.

Special agents determined that the subject had fraudulently collected disability benefits from January 1999 through December 2004, earning in excess of the exempt earnings limitation. He had also requested that the lumber company to report his wages under

his wife's social security number to avoid a reduction in his disability benefits.

The RRB subsequently calculated that the annuitant had been paid \$84,394 in disability benefits to which he was not entitled. When interviewed, he admitted that he concealed his earnings and pleaded guilty to withholding the information from the RRB. He was sentenced to five years in probation and order to pay full restitution to the RRB.

Unemployment and Sickness Insurance Investigations

Unemployment Insurance (UI) and Sickness Insurance (SI) benefit fraud involves individuals claiming and receiving UI or SI benefits while working and receiving wages from an employer, in violation of Federal law. OI receives the majority of these cases for followup investigation from the RRB's Disability, Sickness and Unemployment Benefits Division as a result of information developed from state wage matching programs. These programs match RRB annuitants with individuals who also had wages reported to the state during the same period of time.

During this reporting period, OI obtained 10 convictions and 6 civil judgements for UI and SI fraud. Defendants in these cases received, in the aggregate, two months imprisonment, 10½ years probation, and one year suspended sentence. They were ordered to pay \$52,701 in restitution, \$47,069 in damages, \$150 in fines, and \$11,090 in civil penalties. The RRB will also be able to recover an additional \$18,633 as a result of OI investigations.

Examples of cases completed this reporting period follow.

Amtrak Employee Illegally Collected \$22,180 in Sickness Benefits

The RRB's Sickness and Unemployment Benefits Division referred a case to OI in January 2005. The subject was allegedly employed by Amtrak in Philadelphia, PA while receiving RRB sickness insurance benefits. When interviewed by OI special agents, the annuitant admitted his failure to report his earnings and acknowledged he was aware that his actions were illegal.

He subsequently signed a settlement agreement that requires him to make restitution totaling \$22,180 to the RRB. The monies will be made from previously withheld disability annuity payments and from a settlement received from Amtrak in June 2005.

Pennsylvania Wage Match Reveals \$6,107 in Fraudulent UI Benefits

A wage match with the State of Pennsylvania resulted in a referral to OI concerning an annuitant who was receiving UI benefits on many of the same days that he was employed by the Target Corporation. OI investigation revealed that the annuitant had fraudulently received \$6,107 in UI benefits. Under the terms of a settlement agreement with the U.S. Attorney's Office, the subject will make restitution to the RRB in weekly payments of \$50 for 123 weeks.

Judge Doubles Judgement to \$13,700

The RRB referred another case to OI as the result of a wage match with the State of California. The program identified an RRB unemployment insurance claimant who received wages while claiming RRB unemployment benefits. He falsely certified that he did not work on days and received \$6,850 in benefits to which he was not entitled. The U.S. Attorney's Office filed a civil complaint against the subject. The U.S. District Court, Sacramento, CA filed a stipulated judgement against the subject for \$13,700. Of this amount, the RRB will receive the original overpayment of \$6,850 and the interest pertaining to this sum.

Employee Misconduct

OI also has the responsibility for ensuring agency integrity by investigating alleged misconduct by RRB employees.

OI special agents initiated an investigation of an RRB field office employee based upon a referral from a railroad employer. The agents determined that actions by the employee had resulted in the unauthorized disclosure of identity information for employees to the Chairman of a major railroad union. These actions were in violation of the Privacy Act and RRB policy.

The employee's actions did not meet the criteria established by the U.S. Attorney's Office for criminal prosecution. Based on the OI investigation, the RRB issued a letter of counseling to the employee.

As a result of the investigation, OI also provided recommendations to agency management to assist in eliminating similar incidents in the future. However, the RRB has declined to implement the majority of these recommendations.

AFFIRMATIVE CIVIL ENFORCEMENT (ACE) PROGRAM

OI continues to pursue prosecution of cases under the Department of Justice's Affirmative Civil Enforcement Program. This program involves "fast track" civil prosecution of cases under the provisions of the Title 31, U. S. Code, Sections 3729-3733, The Civil False Claims Act. This statute allows the government to recover up to triple damages as well as \$5,000 to \$10,000 for each false claim submitted.

The Department of Justice frequently obtains double damages through these civil false claims prosecutions. The judgements obtained in these cases also provide the agency with an efficient and effective basis to pursue their collection activities.

The ACE Program continues to provide an efficient means to address fraud against agency programs, particularly where the fraud losses are below the financial guidelines for criminal prosecution. It also is an effective way to return fraud losses to the RRB's trust funds and create a deterrent against future fraud.

During this reporting period, seven civil judgements under the ACE program were entered by Federal district courts which will result in the return of \$58,562 to the government when the funds are collected.

HOTLINE CALLS

The Office of Inspector General established its Hotline to receive complaints concerning suspected fraud, waste and abuse in RRB programs and operations. The Hotline provides an open line of communication for individuals to report suspected criminal activity, conflict of interest, mismanagement, and waste of RRB funds.

	<u>04/01/05 - 09/30/05</u>	<u>FY 2005</u>
Total Contacts: (Telephone Calls and Letters)	568	1048
Referred to: RRB-OIG, Office of Investigations	32	82
RRB Bureaus/Offices	309	587
Other Federal Agencies	20	46
RRB Medicare Carrier/Durable Medical Equipment Regional Carriers	1	2
Other (misdirected calls, follow-up calls to agents, etc.)	200	315
Calls for which there was insufficient information to substantiate an allegation or to make a referral	6	16

LEGISLATIVE & REGULATORY REVIEW

The Inspector General Act requires the Inspector General to review existing and proposed legislation and regulations relating to the programs and operations of the agency, and to make recommendations in the semiannual report concerning the impact on the economy and efficiency of the agency's administration of its programs and on the prevention of fraud and abuse.

The OIG has no comments for this reporting period.

APPENDIX A

REPORTS ISSUED

- Review of Internal Control Over the Actuarial Projection Process, May 5, 2005
- Review of Customer Service Performance Measures for Timeliness of Initial Railroad Retirement Annuity Payments, May 17, 2005
- Review of Compliance with the Prompt Payment Act, June 15, 2005
- DSD Labs Security Test and Evaluation Reports, June 7, 2005
- Evaluation of Survivor Annuity Work Deductions at the Railroad Retirement Board, July 14, 2005
- Review of Access Controls in the End-User Computing General Support System, July 18, 2005
- Review of Internal Control Over Budget Execution, September 6, 2005
- Retired Employee Work Deductions Prior to Full Retirement Age, September 19, 2005
- Fiscal Year 2005 Evaluation of Information Security at the Railroad Retirement Board, September 28, 2005

APPENDIX B

INSPECTOR GENERAL ISSUED REPORTS WITH QUESTIONED COSTS

	<u>Number</u>	<u>Questioned Costs</u>	<u>Unsupported Costs</u>
A. For which no management decision had been made by April 1, 2005	0	0	0
B. Which were issued from April 1, 2005 through September 30, 2005	1	\$ 8,300	0
Subtotals (A + B)	1	\$ 8,300	0
C. For which a management decision was made from April 1, 2005 through September 30, 2005	1	\$ 8,300	0
(i) dollar of disallowed costs		\$ 2,835	0
(ii) dollar value of costs not disallowed		\$ 5,465	0
D. For which no management decision had been made by September 30, 2005	0	0	0
Reports for which no management decision was made within six months of issuance	0	0	0

**INSPECTOR GENERAL ISSUED REPORTS WITH
RECOMMENDATIONS THAT FUNDS BE PUT TO
BETTER USE**

	<u>Number</u>	<u>Dollar Value</u>
A. For which no management decision had been made by April 1, 2005	0	0
B. Which were issued from April 1, 2005 through September 30, 2005	3	\$ 3,680,000
Subtotals (A + B)	3	\$ 3,680,000
C. For which a management decision was made from April 1, 2005 through September 30, 2005	3	
(i) dollar value of recommendations that were agreed to by management		\$ 3,680,000
(ii) dollar value of recommendations that were not agreed to by management		0
D. For which no management decision had been made by September 30, 2005	0	
Reports for which no management decision was made within six months of issuance	0	

APPENDIX C

REPORT ON RECEIVABLES, WAIVERS, AND RECOVERIES

The FY1999 appropriations language for this office requires the reporting of additional information concerning actual collections, offsets and funds put to better use achieved as a result of Inspector General activities.

Office of Audit

<u>Report</u>	<u>Funds to be put to better use</u>	<u>Funds Agreed by Management</u>	<u>Receivables Established</u>	<u>Waivers</u>	<u>Recoveries to date</u>
99-03	\$ 50,850	\$ 50,850	\$ 50,580	\$ 50,490	\$ 360
99-14	83,000	83,000*	34,423		30,584
99-16	48,000,000	48,000,000			\$ 8,000,000
99-17	11,000,000	11,000,000			1,604,535**
00-16	235,000	235,000			253,846***
04-06	821,000	821,000	629,688		585,282
04-10	400,000	400,000			
05-03	1,800,000	1,800,000			
05-06	10,000	10,000			
05-07	1,070,000	1,070,000			
05-10	2,600,000	2,600,000			

* This figure includes monies owed to the agency and overpayments which must be refunded.

** This figure represents case corrections that resulted in receivables, annuitant payments, employer tax credits and liabilities.

***This figure represents returned payments credited to debtor accounts.

Office of Investigations

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

FY 1999	\$ 855,655
FY 2000	1,038,134
FY 2001	990,356
FY 2002	785,843
FY 2003	947,876
FY 2004	646,273
FY 2005	844,183

APPENDIX D

RRB MANAGEMENT REPORTS

(The information contained in this section has been provided by RRB management.)

MANAGEMENT REPORT ON FINAL ACTION ON AUDITS WITH DISALLOWED COSTS FOR THE SIX MONTH PERIOD ENDING SEPTEMBER 30, 2005

	<u>Number</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.	1	\$ 2,835*
C. Total audit reports pending final action during the period.	1	\$ 2,835
D. Audit reports on which final action was taken during the period.		
1. Recoveries		
(a) Collections	0	0
(b) Property		
(c) Other		
2. Write-offs	0	0
3. Total of 1 and 2	0	0
E. Audit reports needing final action at the end of the period.	1	\$2,835

* Identified in Audit Report 05-09, "Review of Internal Control Over Budget Execution."

**MANAGEMENT REPORT ON FINAL ACTION ON AUDITS WITH
RECOMMENDATIONS TO PUT FUNDS TO BETTER USE FOR THE
SIX MONTH PERIOD ENDING SEPTEMBER 30, 2005**

	<u>Number</u>	<u>Funds to be put to better use</u>
A. Audit reports, with management decisions, on which final action had not been taken at the beginning of the period.	4	\$ 50,729,996 *
B. Audit reports on which management decisions were made during the period.	2	\$ 1,080,000 **
C. Total audit reports pending final action during the period.	6	\$ 51,809,996
D. Audit reports on which final action was taken during the period.		
1. Value of recommendations implemented.	1	\$ 48,000,000
2. Value of recommendations that management concluded should not or could not be implemented.	0	\$ 0
3. Total of 1 and 2.	0	\$ 48,000,000
E. Audit reports needing final action at the end of the period.	4	\$ 3,809,996

* Comprised of the following amounts: \$48,000,000 from Audit Report 99-16, "Financial Interchange: Status of Prior Recommendations for Change;" and \$529,996 from Audit Report 01-11, "Review of the Quality of the Debt Recognition and Collection Process for Railroad Retirement Act Overpayments," \$400,000 from Audit Report 04-10, "Review of Spouse Annuity Work Deductions at the Railroad Retirement Board," and \$1,800,000 from Audit Report 05-03, "Evaluation of the RRB's Processing of Disability Earnings Cases."

**Comprised of \$10,000 from Audit Report 05-06, "Review of Compliance with the Prompt Payment Act," and \$1,070,000 from Audit Report 05-07, "Evaluation of Survivor Annuity Work Deductions at the Railroad Retirement Board."

**MANAGEMENT STATEMENT ON RESOLVED AUDIT REPORTS
OVER TWELVE MONTHS OLD WITH FINAL ACTION PENDING
AS OF SEPTEMBER 30, 2005**

<u>Report</u>	<u>Date</u>	<u>Disallowed Costs</u>	<u>Funds to be put to better use</u>	<u>Reason action has not been completed</u>
Review of Quality Assurance Activities (97-06)	1/22/97	None	None	The remaining recommendation will be addressed in conjunction with efforts to improve calculation and reporting of performance measures.
Review of Non-Priority Correspondence Handling (97-09)	3/13/97	None	None	The Office of Programs plans to implement a tracking system in FY 2006 to close the remaining recommendation.
Information Systems Security (INFOSEC) Assessment Report	6/28/00	None	None	The agency has implemented 13 recommendations, and is working to close out the remaining 2.
Review of Document Imaging - Railroad Unemployment Insurance Act Programs (01-01)	11/17/00	None	None	The agency is making progress, using hardware and software approaches, to improve server backup and disaster recover capabilities.
Audit of the RRB's FY 2000 Financial Statements (01-03)	2/23/01	None	None	The Bureau of Information Services is working to enhance problem reporting and phase out obsolete servers.
Site Security Assessment for the Office of Inspector General (Blackbird #1)	7/20/01	None	None	The Bureau of Information Services has closed out 10 recommendations, and is in the process of addressing the last 2.
Review of the Quality of the Debt Recognition and Collection Process for RRA Overpayments (01-11)	8/9/01	None	\$ 529,996	The Office of Programs will evaluate the results of a case review and hopes to issue findings by January 2006.
Security Controls Analysis for the Office of Inspector General (Blackbird #2)	8/17/01	None	None	The Bureau of Information Services has closed 35 recommendations and is developing needed documentation for the remaining 3.
Review of Information Security at the Railroad Retirement Board (02-04)	2/5/02	None	None	The Bureau of Information Services has closed 18 recommendations and is currently addressing the remaining 10.

**MANAGEMENT STATEMENT ON RESOLVED AUDIT REPORTS
OVER TWELVE MONTHS OLD WITH FINAL ACTION PENDING
AS OF SEPTEMBER 30, 2005**

<u>Report</u>	<u>Date</u>	<u>Disallowed Costs</u>	<u>Funds to be put to better use</u>	<u>Reason action has not been completed</u>
FY 2002 Evaluation of Information Security at the RRB (02-12)	8/27/02	None	None	The agency recently awarded a new contract for offsite disaster recovery services and is developing necessary procedural documentation..
Evaluation of the Self-Assessment Process for Information System Security (03-02)	12/27/02	None	None	The Bureau of Information Services was able to use automated software tools to conduct security assessments on some systems, and hopes to complete the remaining ones during FY 2006.
Evaluation of the RRB E-government Initiative: RUIA Contribution Internet Reporting and Payment (03-03)	12/27/02	None	None	The Bureau of Fiscal Operations closed nine recommendations and is working on an MOU with Treasury to close the remaining two.
Inspection of Unverified Records in the RRB's Employment Data Maintenance System (03-06)	3/20/03	None	None	The Office of Programs has reviewed most of the almost 20,000 identified records and is developing procedures to verify employer-reported data for individual railroad workers.
Review of the RRB's PIN/Password System for On-Line Authentication (03-09)	9/8/03	None	None	The Bureau of Information Services will establish procedures as part of its standards update for Report 03-10 to close the remaining recommendation.
Review of the Systems Development Life Cycle for End-User Computing (03-10)	9/8/03	None	None	The Bureau of Information Services recently completed migration of new project management software which should help address the remaining recommendations.
RRB's Railroad Retirement Act Document Imaging Process: Reliability of Images from Scanned Paper Documents (04-02)	5/12/04	None	None	The Office of Programs plans to complete a review of sampled items during the first half of FY 2006 to close the remaining recommendation.

**MANAGEMENT STATEMENT ON RESOLVED AUDIT REPORTS
OVER TWELVE MONTHS OLD WITH FINAL ACTION PENDING
AS OF SEPTEMBER 30, 2005**

<u>Report</u>	<u>Date</u>	<u>Disallowed Costs</u>	<u>Funds to be put to better use</u>	<u>Reason action has not been completed</u>
Management Information Report - Opportunities to Improve the RRB's Performance and Accountability Report (04-03)	5/17/04	None	None	The Bureau of Fiscal Operations will address the remaining recommendation by improving the presentation in the FY 2005 Performance and Accountability Report.
Review of Accounts Receivable Established Under the Railroad Unemployment Insurance Act (04-06)	7/29/04	None	None	Software enhancements should close two of the remaining recommendations, while mainframe-based programming changes will be needed to close the final one.
Review of Mainframe Access Controls at the Application Level - Federal Financial System (04-07)	9/7/04	None	None	The Bureau of Information Services has sent guidance to subsystem managers and is investigating methodologies for improved quality assurance.
Review of Mainframe Access Controls at the Application Level - RRB Developed Applications Controlled by ACF2 and IDMS (04-08)	9/7/04	None	None	Read-only access is being added to the one system lacking it, and improved quality assurance methodologies are under investigation.
Review of Mainframe Access Controls at the Application Level - Program Accounts Receivable System (04-09)	9/7/04	None	None	Agency staff are reviewing security profiles, security-related transactions, and investigating improved quality assurance methodologies.

APPENDIX E

REPORTING REQUIREMENTS

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Management Requirements

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REPORT

FRAUD, WASTE AND ABUSE



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