

Semiannual Report to the Congress



Office of Inspector General for the Railroad Retirement Board

April 1, 2010 to September 30, 2010



UNITED STATES RAILROAD RETIREMENT BOARD

OFFICE OF INSPECTOR GENERAL

October 29, 2010

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 April 1, 2010 through September 30, 2010. 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 to the appropriate Congressional committees and subcommittees within 30 days.

During this reporting period, we issued the following audits:

- *Review of Statistical Methods Employed in the Financial Interchange Determination;*
- *Review of the Technical Approach and Methodology Used to Determine the Annual Financial Interchange Amount for the Year Ended September 30, 2008;*
- *The Railroad Retirement Board's Progress in Implementing Federal Information Security Management Act Requirements;*
- *Audit of Internal Controls over Medicare Premium Transfers Between the Railroad Retirement Board and Centers for Medicare and Medicaid Services;*
- *Review of the Accuracy of the Financial Interchange as Executed for the Year Ended September 30, 2008;*
- *Audit of Unilateral Disability Freeze Determinations;*
- *Audit of the Account Benefits Ratio; and*
- *Railroad Medicare Services Billed with Dates of Service after the Beneficiaries' Dates of Death.*

Our criminal investigators achieved 5 arrests, 22 indictments and/or informations, 31 criminal convictions, 9 civil judgments, and financial accomplishments totaling over \$27.6 million including total fraud amounts from 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
William Tebbe for

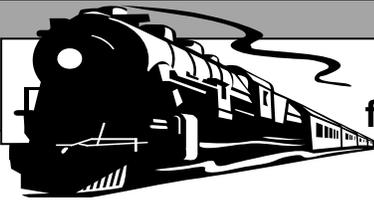
Martin J. Dickman
Inspector General

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Office of Inspector General for the Railroad Retirement Board

INTRODUCTION

Railroad Retirement Board

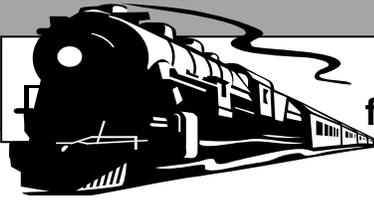
The Railroad Retirement Board (RRB) is an independent agency in the executive branch of the federal government. The RRB administers comprehensive disability, retirement-survivor, and unemployment-sickness insurance benefit programs for the nation's railroad workers and their families. These programs 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 benefits under the RRA and the RUIA.

During fiscal year (FY) 2009, the RRB paid approximately \$10.5 billion in retirement and survivor benefits to 589,000 beneficiaries. The RRB also paid roughly \$154.1 million in net unemployment and sickness insurance benefits to almost 24,000 unemployment insurance beneficiaries and 18,000 sickness insurance beneficiaries.

The RRB has administrative responsibilities for certain benefit payments under the Social Security Act and the Medicare program for eligible RRB beneficiaries. Additionally, the RRB contracts with a separate carrier to process Railroad Medicare Part B claims, the physician service aspect of the Medicare program, for qualified railroad beneficiaries. As of September 30, 2009, there were approximately 468,000 such beneficiaries enrolled in the Railroad Medicare Part B program. During FY 2009, the Medicare Part B contractor paid over \$900 million in medical insurance benefits.

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 for the RRB (OIG). 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 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; 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 traditional 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, OA:

- published three reports prepared by KPMG LLP (KPMG), under contract with the OIG, entitled *Review of Statistical Methods Employed in the Financial Interchange Determination*, *Review of the Technical Approach and Methodology Used to Determine the Annual Financial Interchange Amount for the Year Ended*



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September 30, 2008, and Review of the Accuracy of the Financial Interchange as Executed for the Year Ended September 30, 2008;

- completed an analysis of *The Railroad Retirement Board's Progress in Implementing Federal Information Security Management Act Requirements;*
- published their *Audit of Internal Controls over Medicare Premium Transfers Between the Railroad Retirement Board and Centers for Medicare and Medicaid Services;*
- published the results of their unilateral disability freeze determinations audit;
- examined the account benefits ratio;
- audited Railroad Medicare services billed with dates of service after the beneficiaries' date of death; and
- completed a peer review of the audit organization for the Federal Deposit Insurance Corporation, Office of Inspector General.

Additionally, OA began their annual audit of the RRB's financial statements pursuant to the Accountability Tax Dollars Act of 2002 and their annual audit of information security pursuant to the requirements of the Federal Information Security Management Act of 2002.

All audits completed during this reporting period are discussed in further detail on pages 5 through 11 and the full texts 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.



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Investigative efforts can result in criminal convictions; civil judgments and penalties; administrative recovery of program benefit funds; and/or administrative sanctions.

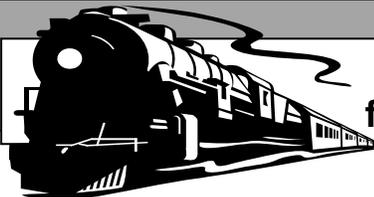
From April 1, 2010 through September 30, 2010, OI achieved:

- 5 arrests;
- 22 indictments and/or informations;
- 31 convictions;
- 9 civil judgments;
- 33 referrals to the Department of Justice; and
- \$27.6 million¹ in financial accomplishments.

Defendants, in the aggregate, were sentenced to more than 38 years in prison, 68 years of probation, 3 years of suspended sentences, and 271 hours of community service.

Representative fraud cases are discussed on pages 15 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.



APRIL 1, 2010 – SEPTEMBER 30, 2010 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 status of progress towards corrective action.

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

Financial Interchange Review

As part of their oversight activities, OA contracted with KPMG to assist in the evaluation of the statistical methods employed in the Financial Interchange (FI) between the RRB and both the Social Security Administration (SSA) and the Centers for Medicare and Medicaid Services (CMS) for the year ended September 30, 2008. As a result of this contract, OA published the following KPMG reports:

- *Review of Statistical Methods Employed in the Financial Interchange Determination – May 4, 2010;*
- *Review of the Technical Approach and Methodology Used to Determine the Annual Financial Interchange Amount for the Year Ended September 30, 2008 – May 19, 2010; and*
- *Review of the Accuracy of the Financial Interchange as Executed for the Year Ended September 30, 2008 – May 25, 2010.*

The FI is a collective term that describes a series of legally mandated periodic fund transfers between the RRB, SSA, CMS, and the Treasury. The amounts transferred are the result of a complex statistical projection. The RRB's Bureau of Actuary is responsible for determining the amount to be transferred each year. In June 2009, the RRB received a net transfer for the FY 2008 FI settlement of approximately \$4.0 billion, representing roughly 37% of RRB financing sources for that year, before considering the reduction in the reported value of the National Railroad Retirement Investment Trust assets.



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During the course of their review, KPMG performed a variety of complex statistical analysis and concluded, in part, that:

- the FI methodology, as designed by the RRB, adheres to the requirements set forth in the RRA;
- the RRB's FI beneficiary sample is representative of the RRA beneficiary population;
- the RRB benefits sample size overall is sufficient to achieve the required sampling precision;
- the RRB's extrapolation implementation is consistent with the original sample design and sample stratification; and
- the RRB's projection produces a reliable total benefit amount.

KPMG further noted that:

- it is not possible to examine more than the most recent year's FI sample in subsequent years; and
- design, implementation, and execution are not documented such that the FI calculations can be replicated by someone who is unfamiliar with the process.

Complete texts for all three reviews are available in the library section of OIG's website at www.rrb.gov/oig.

The Railroad Retirement Board's Progress in Implementing Federal Information Security Management Act Requirements – May 19, 2010

OA's evaluation entitled *The Railroad Retirement Board's Progress in Implementing Federal Information Security Management Act Requirements* was published on May 19, 2010. The objective of this evaluation was to determine the progress made by the RRB in implementing the security program required by the Federal Information Security Management Act of 2002 (FISMA).



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FISMA requires each agency to develop, document, and implement an agency-wide information security program for the information and information systems that support the operations and assets of the agency. It also requires, in pertinent part:

- annual agency program reviews;
- Inspector General security evaluations;
- annual reports of agency activities performed in accordance with the Privacy Act; and
- Inspector General assessments of the agency's privacy program and privacy impact assessment process.

The OIG first began evaluating the RRB's information security program in FY 2000. These past audits and evaluations by the OIG, and contractors hired by the OIG, have disclosed weaknesses throughout the RRB's information security program. Over the past ten years, they have made steady progress in correcting previously reported deficiencies in their information security and privacy programs. Additionally, the RRB is currently addressing important outstanding audit recommendations that will continue to strengthen the overall security and privacy programs.

The full text of OA's evaluation is located in the library section of OIG's website at www.rrb.gov/oig.

Audit of Internal Controls over Medicare Premium Transfers Between the Railroad Retirement Board and Centers for Medicare and Medicaid Services – May 21, 2010

The RRB administers retirement and survivor benefit programs for railroad workers and their families that provide income protection for aged and disabled annuitants. RRB annuitants receive monthly benefit payments and the RRB has authority to determine which RRB annuitants meet eligibility requirements for Medicare. Medicare premium amounts are established by law and the RRB withholds Medicare Part B premiums from the annuitant's monthly benefit payment. The RRB periodically transfers the premiums that were withheld to CMS. Likewise, CMS reimburses the RRB when retroactive Medicare premium adjustments occur and when excessive premiums may have been transferred. The RRB Medicare premium withholdings for FYs 2009 and 2008 totaled approximately \$488 million and \$490 million, respectively.



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During this semiannual reporting period, the OIG conducted a limited scope audit with the following objectives:

- to determine if internal controls were properly designed and placed in operation to ensure the accuracy, timeliness, and completeness of Medicare premium fund transfers between the RRB and CMS; and
- to determine the completeness of the controls used to identify and correct the Medicare refunds and excessive premium payments.

OA determined that the RRB's internal controls over Medicare premium transfers:

- are not properly designed or placed in operation to ensure the accuracy, timeliness, and completeness of Medicare premium fund transfers between the RRB and CMS; and
- were not properly designed to ensure the completeness of the identification and correction of the Medicare refunds and the excessive premium payments.

OA's tests disclosed many inaccuracies in the funds transfer requests which totaled more than \$3.2 million from the period October 2009 through December 2009. OA made 14 recommendations for improvement. Full details from this audit are posted in the library section of OIG's website at www.rrb.gov/oig.

Audit of Unilateral Disability Freeze Determinations— August 12, 2010

Under the RRA, every application for a disability annuity is also an application under the Social Security Act for a period of disability, commonly termed as a "freeze." The freeze portion of the Social Security Act protects disabled workers and their families against the loss of, or the reduction in, benefits because of the worker's disability. When a freeze is established, the worker's wage record is frozen and the period during which he/she is disabled and not likely to have earnings is excluded, to the worker's advantage, when determining the insured status and benefit amounts. To be eligible for a disability freeze, the applicant must meet both a disability and an earnings requirement.

In general, the RRB makes freeze decisions jointly with the SSA when there is potential entitlement to social security benefits. If, after attempts to resolve differences, a disagreement still exists between the RRB and the SSA, the RRB's Claims Examiners may decide to make an independent determination to grant the freeze, referred to as a unilateral freeze decision. The grant of a disability freeze by the RRB's Bureau of



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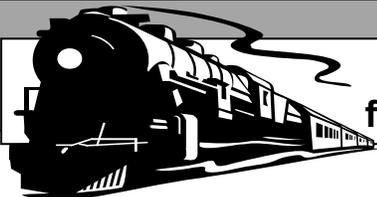
Hearings and Appeals of the three-member Board would also be considered a unilateral freeze decision.

Although unilateral freeze decisions represent a relatively small portion of all disability freezes granted by the RRB, this audit was performed to answer questions raised about the RRB's unilateral disability freeze process after the press criticized the RRB's decisions to grant disability benefits to some Long Island Rail Road employees. The objectives of this audit were to determine the:

- statutory authority under which the RRB grants a period of disability (disability freeze);
- circumstances under which the freeze determination process results in a unilateral award;
- consistency of policies and procedure requirements that apply to single, joint, and unilateral freeze awards; and
- impact of unilateral freeze decisions on the RRA trust funds.

OA found that:

- the RRB has the authority to unilaterally award disability freezes;
- there were common circumstances leading to unilateral freeze determinations;
- procedures for unilateral freeze determinations were consistent with other types of freeze determinations;
- generally, the RRB bears the cost of benefits awarded unilaterally;
- the agreement between the RRB and the SSA regarding the agencies' responsibilities for coordinating disability decisions under the relevant sections of the RRA and the Social Security Act was outdated;
- the RRB's procedures for granting unilateral freezes were not complete;
- coordination with the SSA needed improvement;
- the RRB's system coding errors could result in the RRB bearing unnecessary costs; and



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- some controls related to the coding of disability freezes in the RRB's system and notification letters needed strengthening.

OA made seven recommendations in connection with this audit. Complete text of this audit is available in the library section of OIG's website at www.rrb.gov/oig.

Audit of the Account Benefits Ratio – September 29, 2010

RRA benefits and the payroll taxes that support the benefits are based on a two-tier system. Payroll taxes paid by railroad employers and their employees are the primary source of funding. Tier I payroll taxes, paid by employees and employers, are the same as social security payroll taxes. Tier II taxes finance railroad retirement benefits over and above social security levels. Employers and employees pay different rates for Tier II payroll taxes, which are based upon the ratio of certain asset balances to the total of benefits and administrative expenses paid under the railroad retirement program.

The Railroad Retirement and Survivors' Improvement Act of 2001 (RRSIA) requires the RRB to compute a projection of the account benefits ratio (ABR) and the average account benefits ratio (AABR) for each of the next five fiscal years.² The RRB is also required to certify their results to the Secretary of the Treasury.

“[W]ith respect to any fiscal year, [the ABR is] the amount determined by the Railroad Retirement Board by dividing the fair market value of the assets in the Railroad Retirement Account and of the National Railroad Retirement Investment Trust...as of the close of such fiscal year by the total benefits and administrative expenses paid from the Railroad Retirement Account and the National Railroad Retirement Investment Trust during such fiscal year.”³

OA's audit objective was to determine if the agency calculates the ABR accurately and certifies the ABR to the Secretary of Treasury timely.

OA found that for the 2008 and 2009 ABR submissions, the RRB calculated the ABRs accurately and certified the ABRs to the Secretary of Treasury timely; however, a Management Control Review for the ABR needs to be completed and certain internal controls need strengthening.

OA offered five recommendations in connection with this audit. Complete text of this audit is available in the library section of OIG's website at www.rrb.gov/oig.

² 45 U.S.C. § 231u(a)(1), Section 108 of RRSIA.

³ Id. Section 204d of RRSIA.



***Railroad Medicare Services Billed with Dates of Service
after the Beneficiaries' Date of Death –
September 30, 2010***

Since April 2000, the RRB has contracted with its nationwide contractor Palmetto Government Benefits Administrator, LLC (Palmetto) to process the Medicare Part B claims for qualified railroad retirement beneficiaries. Implementation of a benefit integrity program is one of Palmetto's Medicare Integrity Program (MIP) responsibilities under its cost reimbursement contract with the RRB. The RRB does not contract with a regional Program Safeguard Contractor⁴ and Palmetto retains all responsibility for MIP activities.

CMS requires Medicare contractors to identify and initiate action to recover payment with a billed date of service that is after the beneficiary's date of death. The identification of improperly paid claims shall be performed at a minimum on an annual basis for beneficiaries who died during the previous FY. Palmetto's procedures require that their Benefit Integrity Unit conduct an annual review to determine if payments were made to providers for services rendered to beneficiaries after their date of death.

This audit was initiated in response to concerns identified by OI that Railroad Medicare claims were being paid with service dates after the beneficiary's date of death. The objective was to determine if Palmetto's post-payment review process effectively identified Railroad Medicare provider claims with service dates occurring after the beneficiary's death. OA concluded that overall the post-payment review process is not functioning in accordance with RRB managements' intent or CMS' objectives for the MIP.

Auditors offered nine recommendations in connection with this audit. Complete text of this audit is available in the library section of OIG's website at www.rrb.gov/oig.

⁴ Program Safeguard Contractors perform specific MIP functions under contract with CMS.



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Management Decisions and Implementation

The OIG tracks the implementation of its recommendations to RRB management. 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	
Requiring Management Decision on April 1, 2010	0
Pending Management Decision for New Recommendations	0
Management Decision on Previous Recommendations	0
Recommendations Pending Management Decision on September 30, 2010	0

Corrective Action	
Recommendations Requiring Action on April 1, 2010	145
Recommendations Issued During Reporting Period	44
Corrective Actions Completed During Reporting Period	30
Recommendations Rejected During Reporting Period	5
Final Actions Pending on September 30, 2010	154



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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 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 Accomplishments⁵

Action	April 1, 2010 – September 30, 2010	Fiscal Year 2010
Referrals to the Department of Justice	33	67
Indictments/Informations	22	47
Arrests	5	10
Convictions	31	50
Civil Complaints	5	13
Civil Judgments	9	19
Restitution and Fines	\$16,465,422	\$17,181,541
Civil Damages and Penalties	\$10,957,633	\$11,643,861
Investigative Recoveries ⁶	\$211,996	\$470,786
Community Service Hours	271	746

⁵ The total amount of financial accomplishments in the 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.

⁶ RRB benefits that are overpaid due to fraud and can be recouped through RRB administrative recovery action are expressed as investigative recoveries.



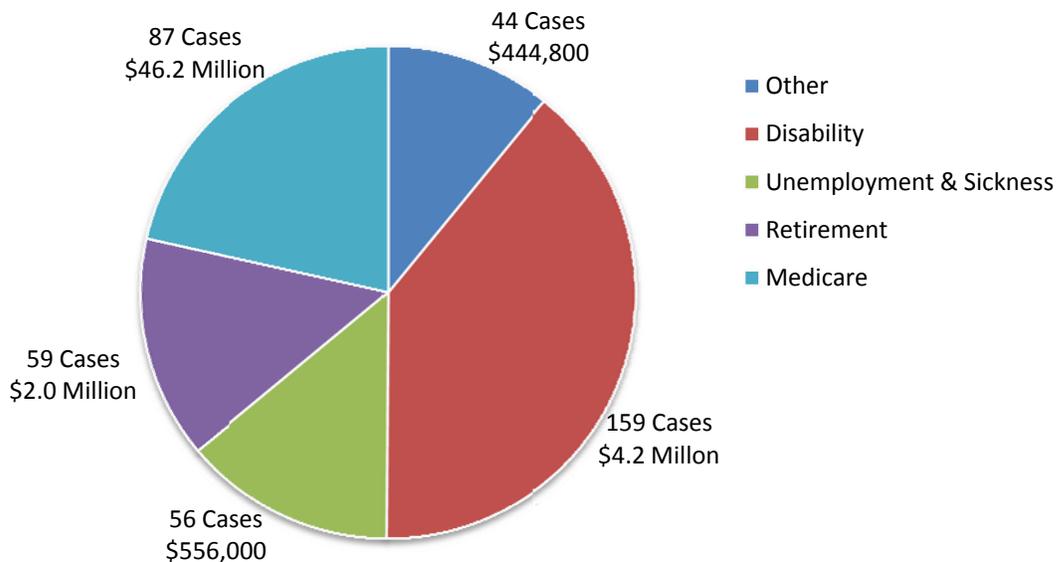
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Current Caseload

During this semiannual reporting period, OI reviewed 325 matters and opened 108 new cases.

Investigative Caseload Data	
Investigative Cases Open as of April 1, 2010	408
Investigative Cases Opened During Reporting Period	108
Investigative Cases Closed During Reporting Period	111
Investigative Cases Open on September 30, 2010	405

OI's current caseload totals 405 matters, representing more than \$53.4 million⁷ in potential fraud. The chart below reflects the distribution of OI cases and the potential fraud losses by the RRB's major program areas.



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.

⁷ 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 April 1, 2010 – September 30, 2010

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.

During this reporting period, OI obtained eight convictions and one civil judgment in disability fraud cases. The defendants received sentences totaling five months of prison, 24 years of probation; two years of suspended sentences, and were ordered to pay approximately \$463,300 in restitution, fines, and civil damages/penalties.

Descriptions of representative cases completed during this reporting period follow.

Annuitant's Wages Fraudulently Paid to Spouse

Based upon a referral from another federal agency, OI Special Agents investigated an RRB disability annuitant who, in order to conceal his income from the RRB, directed his employer to pay his salary directly to his spouse. OI's investigation revealed that the spouse performed little or no work for the employer; whereas, the annuitant performed a wide range of duties. The annuitant's failure to report his income to the RRB caused him to fraudulently receive approximately \$33,000 in disability payments.

This case was referred to the United States Attorney's Office for the District of Minnesota. The United States Attorney's Office filed an information against the annuitant for embezzling assets. The annuitant pled guilty and was sentenced to three months of confinement, two years of supervised release, and more than \$79,000 in fines and restitution.

Disability Annuitant Owned and Operated A Variety of Successful Businesses

Special Agents investigated an RRB disability annuitant who owned and operated a variety of successful businesses. Their investigation revealed that the annuitant used his business income to pay his daily living expenses, a fact which he failed to report to the RRB. This failure caused him to fraudulently receive more than \$52,000 in disability payments.



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This case was referred to the United States Attorney's Office for the Eastern District of Arkansas. The subject was indicted by a Federal Grand Jury and subsequently pled guilty to four counts of False Report to the RRB and was sentenced to 60 days of confinement, one year of probation, and full restitution.

IRS Audit Leads to RRB Disability Fraud Case

Previously undisclosed income was discovered during the course of an Internal Revenue Service audit of an RRB disability annuitant. OI's subsequent investigation revealed that from January 2004 through November 2005 the annuitant earned wages in excess of the allowable amount established by the RRA. The annuitant's failure to report his income to the RRB caused him to fraudulently receive more than \$56,000 in disability payments.

This case was referred to the United States Attorney's Office for the Western District of Wisconsin. The United States Attorney's Office filed an information against the annuitant for the Theft of Public Money. The annuitant pled guilty to all charges and was sentenced to two years of probation 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 seven convictions and three civil judgments for UI and SI fraud cases. Defendants in these cases received, in the aggregate, six months of prison, 12 years of probation, one year of suspended sentence, and were ordered to pay almost \$67,000 in restitution, fines, and civil damages/penalties.

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

UI Claimant Ordered to Repay Over \$28,000

OI initiated this investigation of an RRB UI claimant based upon an agency referral. OI's subsequent investigation, determined that during August 2007 through December 2007 the claimant applied for RRB UI benefits on the same days he was working for a



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municipal fire department. The claimant failed to report his work and earnings to the RRB and fraudulently received over \$6,000 in UI benefits.

This case was referred to the United States Attorney's Office for the District of New Mexico. The United States Attorney's Office filed a civil complaint against the claimant for violation of the False Claims Act. The claimant signed a consent judgment agreeing to pay treble damages plus a \$10,000 penalty.

UI Claimant Failed to Report Wages

OI initiated an investigation of an RRB UI claimant based upon an agency referral. OI's subsequent investigation determined that during the period of February 2006 through July 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 11 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 New York District Attorney's Office. The New York District Attorney's Office filed a criminal complaint against the claimant for violation of New York Penal Code Sections relating to Grand Larceny and Falsifying Business Records. The claimant pled guilty to Grand Larceny and was sentenced to three years of probation and ordered to pay 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 eight convictions and one civil judgment for these types of fraud cases. The defendants, in the aggregate, received sentences totaling one year of prison, more than 23 years of probation, and were ordered to pay more than \$596,000 in restitution, fines, and civil damages/penalties.



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Examples of cases completed during this reporting period follow.

Annuitant's Mother Steals RRB Benefits

Based upon an RRB District Office referral, OI initiated an investigation against an individual who received RRB benefits to care for her disabled child. OI's investigation revealed that from December 2003 through April 2005 the subject was not entitled to receive benefits because her daughter had left her care.

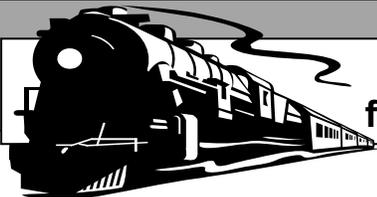
The subject had made several statements to the RRB District Office indicating that her daughter was still in her care even though her daughter had moved out of her household and was married. Failure to report her daughter's departure and subsequent marriage caused the subject to fraudulently receive more than \$20,000 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 District of Colorado. The United States Attorney's Office filed an indictment charging the mother with Failure to Provide Information to the RRB and Wire Fraud. She pled guilty to one count and was sentenced to three years of probation and ordered to pay more than \$20,000 in restitution.

RRB Survivor Annuitant Fails to Report Disqualifying Marriage

Based upon an agency referral, OI initiated an investigation against a widow annuitant. Subsequent investigation revealed that the subject had applied for a widow's annuity in April 1998 but at the time of her application she was re-married and was ineligible for survivor benefits. The annuitant's fraudulent activity caused the agency to pay her over \$70,000 in benefits.

This case was referred to the United States Attorney's Office for the Central District of California. The United States Attorney's Office filed an indictment charging the annuitant with Theft of Government Property. The annuitant pled guilty to one count and was sentenced to three years of probation and ordered to pay full restitution.



Representative Payee Fails to Pay Nursing Home Expenses

OI initiated this investigation of a representative payee based upon an agency referral. OI's subsequent investigation revealed that the representative payee had used RRB funds for his own personal use instead of paying the RRB beneficiary's nursing home bills.

This case was referred to the United States Attorney's Office for the District of South Dakota. The United States Attorney's Office filed an indictment against the representative payee for Theft of Government Funds. He was convicted and ordered to pay full restitution of more than \$14,000.

Railroad Medicare Investigations

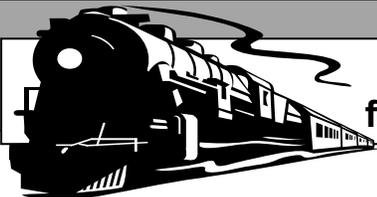
Qualified railroad retirement beneficiaries are covered under the Railroad Medicare program the same as persons covered under the social security system. Individuals covered under the railroad retirement system submit their Medicare enrollment applications to the RRB for processing. The RRB also selects and monitors the single nationwide Medicare Part B Carrier contract. During FY 2009, the RRB's Medicare contractor paid over \$900 million in medical insurance benefits.

Since 1990 the U.S. Government Accountability Office has designated Medicare as a high-risk area due to its size and complexity, as well as its susceptibility to mismanagement and improper payments. Additionally, OA's *Management and Performance Challenges Facing the Railroad Retirement Board* published in the RRB's annual *Performance and Accountability Report* continues to list Railroad Medicare benefit integrity as a serious management challenge.

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.

During this reporting period, OI obtained eight convictions and four civil judgments for Railroad Medicare fraud cases. Defendants in these cases received, in the aggregate, more than 36 years of prison, nine years of probation, and were ordered to pay more than \$26.2 million in restitution, fines, and civil damages/penalties.

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



RRB Medicare Recovers More Than \$1.4 Million in Qui Tam Suit

OI Special Agents worked cooperatively as members of a multi-agency team investigating allegations contained in a Qui Tam lawsuit filed in the Northern District of Illinois. Agents were able to substantiate the allegations contained in the Qui Tam and the U.S. Attorney's Office for the Northern District of Illinois intervened in the case.

The team's investigation revealed that the doctor utilized his hospital privileges to gain access to patient information including both personal and insurance information. He subsequently utilized this information to submit false claims to more than 30 private and public health insurance programs including Railroad Medicare.

The U.S. Attorney's Office for the Northern District of Illinois filed an information against the doctor for Health Care Fraud. The doctor pled guilty and was sentenced to five years of prison and \$20 million in restitution. The doctor also entered into a civil settlement agreement consenting to pay an additional \$13 million in restitution. The Railroad Medicare program will receive more than \$1.4 million from this settlement.

Business Owners Ignore Cease and Desist Order

Based upon a referral from another federal agency, an OI special agent participated in the joint investigation of an orthotics business. Subsequent investigation revealed that the business owners continued to see patients and bill Medicare even after they failed the necessary licensing test for a fifth time and were ordered by the State Board of Orthotics and Prosthetics to cease and desist.

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 business owners on numerous counts of Health Care Fraud and other related charges. After a two week trial, they were convicted of Conspiracy to Commit Health Care Fraud and Aid, Abet, and Assist in Health Care Fraud. They were sentenced to a total of nearly 11 years of prison, three years of supervised release, and ordered to make full restitution of over \$491,000.

Investigation Prevents Medicare from Paying Fraudulent Claims

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 the owners of an ambulance company submitted fraudulent Medicare claims for medically unnecessary transportation. During the course of this investigation, the company was placed on 100% pre-payment review which prevented Medicare from paying fraudulent claims.



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This case was referred to the United States Attorney's Office for the Southern District of Illinois. The owners entered into a settlement agreement relinquishing any rights to more than \$74,000 in pending Medicare payments and consenting to debarment from the Medicare program.

OI Special Agents Participate in the Largest Federal Health Care Fraud Bust Ever

On July 16, 2010, 14 OI Special Agents actively participated in a multi-state Medicare Fraud Strike Force enforcement action. This action was the largest federal health care fraud bust ever with over 360 federal and local law enforcement agents working together to execute both search and arrest warrants. In connection with this enforcement action, charges were unsealed against 94 individuals and more than 40 individuals were arrested. These charges covered a variety of Medicare fraud schemes which represented approximately \$251 million in false claims to the Medicare program.

This action garnered national media attention. Media attention creates a substantial deterrent by highlighting the ramifications of fraudulent activities.

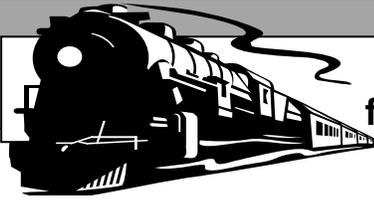
Retired Nurse Sentenced for Health Care Fraud

In our October 1, 2009 through March 31, 2010 *Semiannual Report to the Congress*, we provided information regarding the criminal conviction of a retired nurse for Medicare fraud. On September 9, 2010, a United States District Court Judge for the Southern District of Texas sentenced her to 33 months of prison, three years of supervised release, and more than \$462,000 in restitution.

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 nine civil judgments were entered by U.S. District Courts for RRB fraud cases totaling more than \$10.9 million 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.



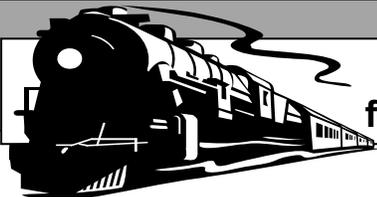
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Hotline Contacts

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 1,000 contacts during this reporting period and 2,185 during FY 2010. The following table summarizes Hotline referrals during both time periods.

Referral or Other Activity	April 1, 2010 – September 30, 2010	Fiscal Year 2010
RRB District or Regional Office	530	1281
Other (Hang Ups, Misdirected Calls, Disconnections, etc.)	304	608
Office of Investigations	70	136
Other Federal Agencies	68	107
Calls with Insufficient Information to Make Appropriate Referrals	9	25
RRB Bureaus	8	12
Disposition Not Yet Determined, Additional Information is Being Obtained	7	9
Local or State Agencies	2	4
Referred to a Railroad	2	3



OTHER OVERSIGHT ACTIVITIES

American Recovery and Reinvestment Act of 2009

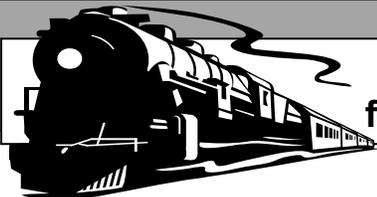
During this semiannual period, the OIG continued their efforts to aide in a transparent American Recovery and Reinvestment Act (ARRA) process by preparing monthly progress reports in formats developed by the Recovery Accountability and Transparency Board. These monthly reports are published on the Recovery.gov website and are also available on the RRB's Recovery Act Information webpage. During this semiannual reporting period, OI opened an additional 20 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.

In response to the OIG's concerns regarding potential improper payments in the occupational disability program, the Board directed the formation of an agency working to focus on this issue. The OIG applauds the agency for their efforts but continues to encourage the agency to adopt 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.



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- 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 Board approval.

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

Signature Proxy by Attestation

During this reporting period, the OIG reviewed and responded to a risk assessment issued by the RRB. The RRB analyzed the risks associated with the implementation of signature proxy through attestation for benefits under the RRA. This process has been proposed as an alternative to the current process of paper-and-ink signatures on RRA benefit applications. The OIG directed a number of serious concerns regarding this issue to the Board. Due to the potentially sensitive nature of this issue, the OIG has limited the distribution of their comments to agency personnel. This issue is currently pending Board review.

STRATEGIC PLAN

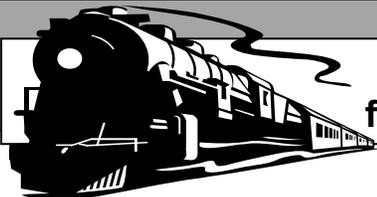
During this semiannual reporting period, the OIG adopted a new *Strategic Plan* for FYs 2010 – 2015. This plan is in accordance with the Government Performance and Results Act of 1993 and establishes three strategic goals.

1. Add value to the RRB's programs and operations.
2. Protect the integrity of the RRB's programs, operations, and trust funds.
3. Ensure quality and excellence in the OIG's work and products.

Additionally, this plan redefines the OIG's mission statement as follows:

The OIG will promote economy, efficiency, and effectiveness in the RRB's programs and operations by focusing our audit and investigative efforts on protecting the integrity of the RRB's trust funds and improving the delivery of benefits to the railroad community.

The full text of this *Strategic Plan* is available on our website at www.rrb.gov/oig.



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 made a presentation to students majoring in Government Oversight and Inspection at John Jay College of Criminal Justice in New York. His presentation focused on government auditing standards and issues pertinent to the Inspector General community.

The Inspector General and members of his executive staff met with the Health Care Bureau Chief, the Mediation Supervisor, and an Assistant Attorney General from the Office of the Attorney General for the State of Illinois. They met to discuss federal and state cooperation to combat health care fraud, waste, and abuse.

The Inspector General and the Assistant Inspector General for Investigations presented a breakout session entitled *Fraud Prevention and Detection* for the 2010 Illinois Public Pension Reciprocal Conference.

The Inspector General discussed *The Role of the Inspector General in the Current Economic Climate* at a luncheon sponsored by the Chicago Chapter for the Association of Government Accountants (AGA).

The Special Agent-in-Charge and a Special Agent from OI's Chicago Field Office conducted fraud awareness training for newly hired agency Contact Representatives. Agency Contact Representatives have direct interaction with RRB beneficiaries and provide the OIG with an invaluable source of information and referrals.

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



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investigations. They also provide an opportunity for OI Special Agents to become familiar with the most recent fraud schemes.

The Assistant Inspector General for Audit attended the 2010 Annual Council of the Inspectors General on Integrity and Efficiency/U.S. Government Accountability Office's Financial Statement Audit Conference. This conference covered current issues related to annual financial statement audits and related standards, including topics on accountability issues, stimulus oversight, and financial management.

A number of OA staff members participated in AGA's 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 auditor served as a session monitor for the 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.

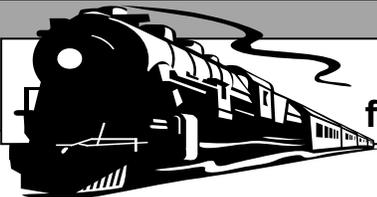
OPERATIONAL ISSUES

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

National Railroad Investment Trust

The National Railroad Retirement Investment Trust (NRRIT) was established by RRSIA to manage and invest Railroad Retirement assets. As of January 31, 2010, the RRB's investments in the NRRIT were valued at approximately \$22.8 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.



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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 agency neither proposed nor finalized any legislation or regulations during this reporting period.

APPENDICES

<i>Appendix</i>	<i>Title</i>	<i>Page No.</i>
A	Office of Inspector General Reports and Other Publicly Available Documents Issued	29
B	Audit Reports with Questioned Costs or with Recommendations that Funds be Put to Better Use	30
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G	Reporting Requirements	42
H	Acronyms	43
I	Legal References	44

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

- *Review of Statistical Methods Employed in the Financial Interchange Determination*, May 4, 2010 (This report was prepared, under contract, by KPMG.)
- *Review of the Technical Approach and Methodology Used to Determine the Annual Financial Interchange Amount for the Year Ended September 30, 2008*, May 19, 2010 (This report was prepared, under contract, by KPMG.)
- *The Railroad Retirement Board's Progress in Implementing Federal Information Security Management Act Requirements*, May 19, 2010
- *Audit of Internal Controls over Medicare Premium Transfers Between the Railroad Retirement Board and Centers for Medicare and Medicaid Services*, May 21, 2010
- *Review of the Accuracy of the Financial Interchange as Executed for the Year Ended September 30, 2008*, May 25, 2010 (This report was prepared, under contract, by KPMG.)
- *Audit of Unilateral Disability Freeze Determinations*, August 12, 2010
- *Audit of the Account Benefits Ratio*, September 29, 2010
- *Railroad Medicare Services Billed with Dates of Service after the Beneficiaries' Dates of Death*, September 30, 2010

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

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 April 1, 2010	0	0	0
B. Which were issued from April 1, 2010 through September 30, 2010	0	0	0
Subtotal (A + B)	0	0	0
C. For which a management decision was made between April 1, 2010 through September 30, 2010	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 September 30, 2010	0	0	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 April 1, 2010	0	0
B. Which were issued from April 1, 2010 through September 30, 2010	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 September 30, 2010	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

Office of Audit

Report	Funds to be put to better use	Funds Agreed by Management	Receivables Established	Waivers	Recoveries to Date ⁸
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	\$4,586,602	\$337,700	\$1,937,420
05-06	\$10,000	\$10,000	\$0	\$0	\$42,915
05-07	\$1,070,000	\$1,070,000	\$50,581	\$0	\$78,294
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	\$20,611
09-02	\$600,000	\$600,000	\$320	\$0	\$304,908
10-09	\$3,355,408	\$3,355,408	\$0	\$0	\$0

⁸ Both overpayments and underpayments are included in this column.

Appendix D – Significant Matters

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

Financial Reporting

The OIG previously identified internal control over financial reporting as a material weakness. As a result, financial accounting controls cannot be relied upon to ensure that material errors will be detected to prevent misstatements in financial reporting. RRB financial managers have worked to strengthen internal control over financial reporting during FY 2009. During the third quarter of FY 2009, the agency implemented enhanced controls to address the weaknesses that, in the aggregate, were the basis for the OIG's assessment of a material weakness during the prior year.⁹ However, because these enhanced controls were not implemented until mid-year, they could not be relied upon to ensure the accuracy of accounting and reporting for FY 2009 and had not been in operation for a period of time sufficient to support an assessment of overall effectiveness.

Compliance with requirements	February 9, 2007	Report OIG 07-01, #11
Report preparation	March 6, 2008	Report OIG 08-01, #9
Transaction documentation	March 6, 2008	Report OIG 08-01, #11
Journal voucher preparation and recording	March 24, 2009	Report OIG 09-02, #2 and 4

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.

Access Controls	February 5, 2002	Report OIG 02-04, #20 and 21
	June 7, 2005	Report DSD Web, #16
	September 27, 2007	Report OIG 07-08, #1
	March 24, 2009	Report OIG 09-02, #7 and 8
	September 30, 2009	Report OIG 09-05, #8, 11, 12, 15, 19, and 20
Internal Control Over Certification and Accreditation	September 30, 2009	Report OIG 09-06, #3, 4, and 6
	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

⁹ *Fiscal Year 2008 Financial Statement Audit Letter to Management*, OIG Report No. 09-02, March 2009.

Appendix E – Peer Reviews

Section 989C of the Dodd-Frank Wall Street Reform and Consumer Protection Act (P.L. 111-203) requires Inspectors General to provide information regarding peer reviews in their *Semiannual Reports to the Congress*.

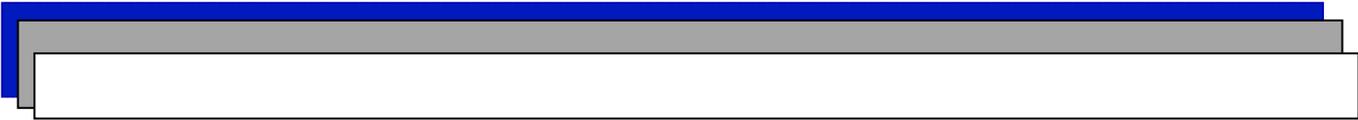
During this reporting period, OA conducted a peer review of the audit organization for the Federal Deposit Insurance Corporation, Office of Inspector General (FDIC-OIG). The review was conducted in accordance with *Government Auditing Standards* and guidelines established by the Council of Inspectors General on Integrity and Efficiency. OA examined the system of quality control for the FDIC-OIG’s audit organization for the year ended March 31, 2010.

Based upon their review, OA concluded that the system of quality control (in effect for the year ended March 31, 2010) had been suitably designed and complied with to provide the FDIC-OIG with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects.

In general, federal audit organization may receive a peer review rating of pass, pass with deficiencies, or fail. OA awarded the FDIC-OIG a peer review rating of pass.

On September 21, 2010, the Inspector General sent the FDIC-OIG a letter setting forth findings that were not considered to be of sufficient significance to affect OA’s conclusion. These recommendations along with their status as of September 30, 2010 are set forth below.

Recommendation	Status
FDIC-OIG should schedule and complete its planned quality control review of individual engagements for overall compliance with professional standards, policies, and procedures.	Pending
FDIC-OIG should enhance the current procedure for obtaining independence representations via e-mail by using “Yes” and “No” voting buttons in place of read receipts.	Pending
FDIC-OIG should re-emphasize existing requirement to obtain Statement of Non-Conflict of Interest certifications from staff contributing to engagements.	Pending
FDIC-OIG should develop procedures to obtain Annual Independence Representation confirmation from new employees and reassigned staff before they are assigned to audits.	Pending
FDIC-OIG should ensure that the procedures for reviewing work papers prior to report issuance are followed.	Reported as Implemented



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 peer review, 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 Inspector Generals with law enforcement authority based on Section 6(e) of the Inspector General Act, as amended.

The results of OI's peer review, 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 – Management Reports*

Final Action on Audits with Disallowed Costs

For the 6-Month Period Ending September 30, 2010	<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

*Appendix F was prepared by RRB management.

Management Report on Final Action on Audits with Recommendations to Put Funds to Better Use for the 6-Month Period Ending September 30, 2010

	<u>Number of audit reports</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.	3	\$802,100*
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)	3	\$802,100
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)	3	\$802,100

*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*, and \$600,000 from Audit Report 09-02, *Fiscal Year 2008 Financial Statement Audit Letter to Management*.

Management Statement on Resolved Audit Reports Over 12 Months Old with Final Action Pending as of September 30, 2010

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 reports 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. Documentation still needed for the 2 remaining.
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 in FY10, however due to ARRA and WHBAA work, project extended to 12/31/2011 to be completed.
Review of RRB Compliance with Federal Laws and Regulations on Competitive Sourcing (05-02)	12/6/04	NONE	NONE	Information Services completed an initial feasibility study of sourcing information technology activities but continues to investigate alternate approaches and use contractor support.
Review of Internal Control Over the Actuarial Projection Process (05-04)	5/5/05	NONE	NONE	The Chief Actuary indicated that they are reviewing their options to best implement this recommendation.
Review of Customer Service Performance Measures for Timeliness of Initial Railroad Retirement Annuity Payments (05-05)	5/17/05	NONE	NONE	System changes are still being made to address the remaining open recommendation in FY11.
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 two-thirds 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. New risk assessment 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	Information Services continues to develop policies and procedures.

Management Statement on Resolved Audit Reports Over 12 Months Old with Final Action Pending as of September 30, 2010

Report	Date	Disallowed costs	Funds to be put to better use	Reason action not completed
Accuracy and Reliability of GPRA Performance Measures: Timeliness of Non-Disability Survivor Annuity Payments (06-03)	1/30/06	NONE	NONE	Programs have closed four of the seven recommendations. Work is delayed due to higher priority project.
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 AARP project.
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 updating of policies.
Fiscal Year 2006 Financial Statement Audit (07-01)	2/9/07	NONE	NONE	The agency has closed 19 of the 20 recommendations, with action on the final one to be verified as part of the FY08 financial statement audit. Submitted documentation to OIG for review. However OIG indicate they will evaluate implementation of this recommendation during FY2010 financial statement audit. There has been no change in this status.
Audit of the DAISY/CHICO Component Application of the RRA Benefit Payment Major Application System (07-02)	3/9/07	NONE	NONE	Documentation was accepted by the OIG for implementation on one recommendation and coordination with another agency is still needed. Resources were unavailable on the other two recommendations.
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 were needed. Of the 15 recommendations, 12 have been closed with the remainder targeted for completion during FY11.

Management Statement on Resolved Audit Reports Over 12 Months Old with Final Action Pending as of September 30, 2010

Report	Date	Disallowed costs	Funds to be put to better use	Reason action not completed
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 still being developed. Two of the eight recommendations have been closed with the rest targeted for completion in FY11.
Audit of Controls to Safeguard Sensitive Personally Identifiable Information (07-09)	9/27/07	NONE	NONE	Coordination required with outside contractor on 1 recommendation. Of the 22 recommendations, 14 have been implemented with work plans still being developed for other recommendations to be finished in FY11.
Fiscal Year 2007 Financial Statement Audit Letter to Management (08-01)	3/6/08	NONE	NONE	The OIG is still assessing BFO's implemented enhanced controls for the last 2 recommendations. Of the 25 recommendations, 23 have been implemented.
Evaluation of Information Security for the RRB's Financial Interchange Major Application – Abstract (08-03)	09/26/08	NONE	NONE	Documentation submitted to OIG for review on one recommendation has been accepted for implementation and work continues on others. Of the 11 recommendations, 2 have been implemented with work on the remaining ones to be finished in 2011.
Fiscal Year 2008 Evaluation of Information Security at the RRB (08-05)	09/26/08	NONE	NONE	Coordination is still required with outside contractor on one recommendation and with another organization on another recommendation. Of the eight recommendations, four have been implemented with work on the remaining ones to be finished in FY11.
Fiscal Year 2008 Financial Statement Audit Letter to Management (09-02)	03/24/09	NONE	\$600,000	Of the 13 recommendations, documentations submitted to the OIG for 5 recommendations have been accepted for implementation. Review and updating of documentations along with case reviews are currently being performed on remaining recommendations.

Management Statement on Resolved Audit Reports Over 12 Months Old with Final Action Pending as of September 30, 2010

Report	Date	Disallowed costs	Funds to be put to better use	Reason action not completed
Audit of Internal Control Over Accounts Payable (09-03)	03/31/09	NONE	NONE	Of the 18 recommendations, 14 were implemented. Work continues on the remaining recommendations.
Audit of the Railroad Medicare Integrity Program at Palmetto Government Benefits Administrators (09-04)	09/25/09	NONE	NONE	Of the 15 recommendations, 6 have been implemented and 1 rejected by the outside agency. Documentations were submitted for 4 recommendations; however, OIG indicated further corrective action is needed. Coordination is required with outside agency on remaining recommendations.
Audit of the General and Application Controls in the Financial Management Major Application System (09-05)	09/30/09	NONE	NONE	Of the 20 recommendations, 12 have been implemented, 3 were rejected and of the 5 remaining, documentation was submitted to the OIG for implementation on 1 and work continues on the remaining.
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 ones to be finished in FY11.

Appendix G – Reporting Requirements

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Section 5(a) (3)	Prior Significant Recommendations Not Yet Implemented	33
Section 5(a) (4)	Matters Referred to Prosecutive Authorities	4, 13
Section 5(a) (5)	Instances Where Information Was Refused	None
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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	12
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
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Appendix H – Acronyms

Acronym	Explanation
AABR	Average Account Benefits Ratio
ABR	Account Benefits Ratio
ACE	Affirmative Civil Enforcement
AGA	Association of Government Accountants
ARRA	American Recovery and Reinvestment Act of 2009
CMS	Centers for Medicare and Medicaid Services
FDIC-OIG	Federal Deposit Insurance Corporation, Office of Inspector General
FI	Financial Interchange
FISMA	Federal Information Security Management Act of 2002
FY	Fiscal Year
KPMG	KPMG LLC
MIP	Medicare Integrity Program
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
RRA	Railroad Retirement Act
RRB	Railroad Retirement Board
RRSIA	Railroad Retirement and Survivors' Improvement Act of 2001
RUIA	Railroad Unemployment Insurance Act
SSA	Social Security Administration
SI	Sickness Insurance
UI	Unemployment Insurance

Appendix I – Legal References

Federal:

Accountability Tax Dollars Act of 2002 – P.L. 107–289

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.

Government Performance and Results Act of 1993 – P.L. 103–63

Health Care Fraud – 18 U.S.C. § 1347

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

Privacy Act – 5 U.S.C. § 552a

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

Railroad Solvency Act of 1983 – P.L. 98–76

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

State:

Falsifying Business Records – New York State Penal Code PL 175.10

Grand Larceny – New York State Penal Code PL 155.25

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