



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



**Semiannual Report to
the Congress**



April 1, 2011 ■ September 30, 2011



UNITED STATES RAILROAD RETIREMENT BOARD

OFFICE OF INSPECTOR GENERAL

October 31, 2011

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

Dear Mr. Schwartz:

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

During this reporting period, we issued seven audit reports with questioned costs totaling over \$7 million. In addition, we issued two special reports titled *Railroad Medicare Fraud Detection Contracts: Lessons Learned* and *Office of Inspector General's Proposal to Improve Business Efficiency at the Railroad Retirement Board*.

Our criminal investigators achieved 9 arrests, 24 criminal convictions, 15 indictments and informations, 10 civil judgments, and more than \$8.5 million in financial accomplishments resulting from OI's investigative work, including joint investigations.

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

Sincerely,

Original Signed by

Martin J. Dickman
Inspector General



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INTRODUCTION

Railroad Retirement Board

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

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

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

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.



Office of Inspector General

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

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

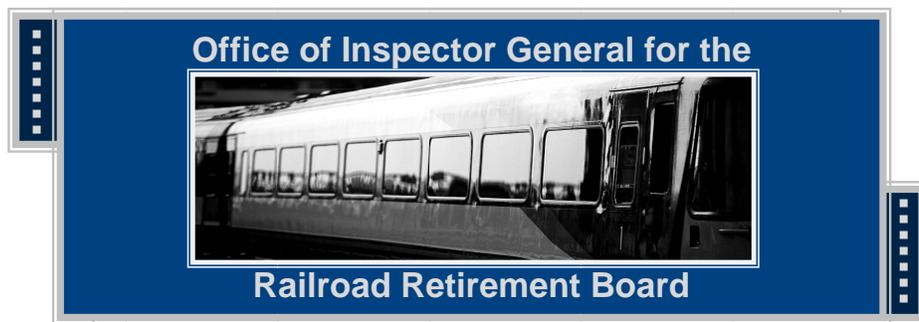
The OIG has approximately 50 employees assigned to three operational components: the immediate Office of the Inspector General, the Office of Audit, and the Office of Investigations. The OIG conducts operations from several locations: the RRB headquarters in Chicago, Illinois; an investigative field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

EXECUTIVE SUMMARY

Office of Audit

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

- conducted an audit to determine if adequate oversight procedures and controls over Railroad Medicare contract costs have been established;



- reviewed RRA benefit overpayments and internal controls;
- completed their audit to determine whether the RRB's patch management policies, procedures, and practices are in compliance with the Federal Information Security Management Act of 2002 (FISMA) requirements and if the security controls over patch management are in place and operating as intended;
- evaluated the RRB's internal controls over "dummy vendor" transactions;
- conducted an inspection to determine whether the activities conducted at the RRB for the certification and accreditation of the Agency Enterprise General Information Support System comply with existing policy, procedures, guidance, and standards;
- evaluated the activities conducted at the RRB for the continuous monitoring of the Financial Management system to determine adherence with existing policy, procedures, guidance, and standards; and
- evaluated the activities conducted at the RRB for the continuous monitoring of the Benefit and Payment Operations system to determine adherence with existing policy, procedures, guidance, and standards.

OA's activities, during this reporting period, are discussed in further details on Pages 4 through 14 of this report. All publically available reports are available on our website at www.rrb.gov/oig.

Office of Investigations

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

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



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

From April 1, 2011 through September 30, 2011, OI achieved:

- 9 arrests;
- 15 indictments and informations;
- 24 convictions;
- 10 civil judgments;
- 68 referrals to the Department of Justice; and
- more than \$8.5 million¹ in financial accomplishments.

Defendants, in the aggregate, were sentenced to more than 34 years of jail, 60 years of probation, 3 years of suspended sentences, and 80 hours of community service. Additional details regarding OI's activities are discussed on Pages 16 through 24.

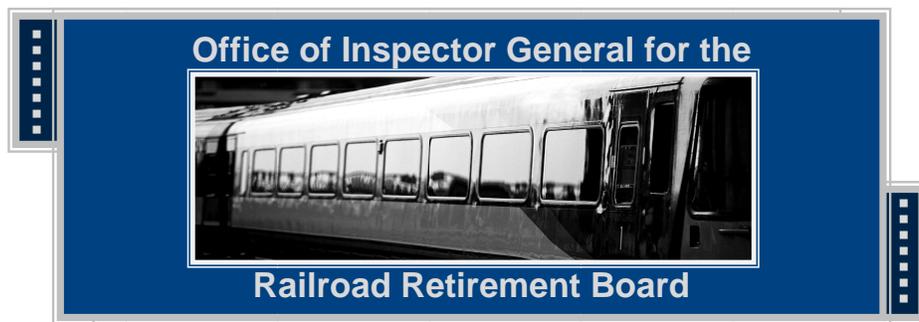
APRIL 1, 2011 – SEPTEMBER 30, 2011 ACCOMPLISHMENTS

Office of Audit

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

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

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.



Audit of Controls Over Railroad Medicare Contract Costs

OA published the results of their audit entitled *Audit of Controls Over Railroad Medicare Contract Costs* on April 20, 2011. This audit was conducted to determine if adequate oversight procedures and controls over Railroad Medicare contract costs have been established. The audit focused on controls over Palmetto GBA, LLC's (Palmetto)² direct labor timekeeping within the Optical Character Recognition (OCR), Medical Review, and Customer Service units. They also reviewed the effectiveness of the RRB's contract management and cost reimbursement processes during FYs 2008 and 2009.

Key Findings

OA identified the following weaknesses:

- Deleted customer service records, inaccessible medical review documentation, and inadequate OCR support for claims processed resulted in the questioning of Railroad Medicare costs totaling approximately \$7.1 million.
- Controls for ensuring that costs are applied to the proper accounting period in a timely manner were inadequate and the method of supporting direct labor cost adjustments was not sufficient.
- Railroad Medicare claims processing and cost data included significant inconsistencies which could impact the integrity of Railroad Medicare program costs.
- The OCR reporting system did not always track Railroad Medicare data correctly.
- Controls to ensure that timesheets are submitted by employees and approved by managers on a timely basis were not fully effective.
- The RRB has not established adequate oversight and controls over Railroad Medicare in accordance with its contract requirements.

² Since April 2000, the RRB has contracted with Palmetto to be its nationwide Railroad Medicare Part B contractor.



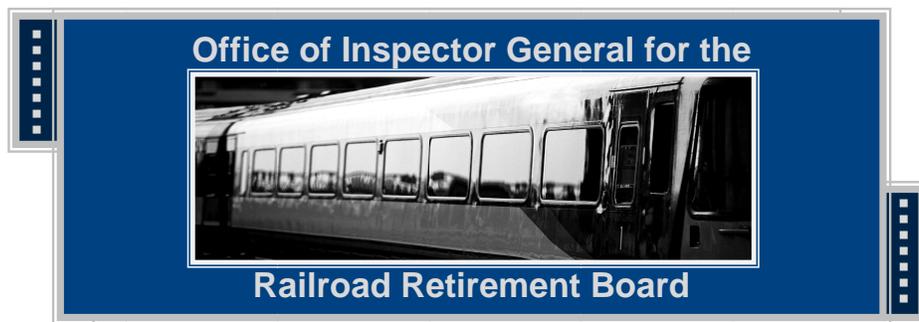
Key Recommendations

To address the identified weaknesses, OA recommended that RRB officials:

- Work with Palmetto to establish a procedure for maintaining the Customer Service Unit's call volume records in accordance with contract archival requirements and require Palmetto to provide timely access to documentation supporting work performed by the Medical Review Unit.
- Work with Palmetto to establish a reconciliation process between OCR total hours billed and total hours worked that will validate the integrity of costs reimbursed.
- Review the questioned costs totaling \$7.1 million and determine if they are allowable.
- Require Palmetto to establish an accounting procedure for detecting and validating costs charged to prior fiscal years beginning with the start of the new contract year.
- Require Palmetto to establish controls and procedures that will identify significant differences impacting Railroad Medicare claims volume, hours charged, and costs billed.
- Work with Palmetto to determine why claims were incorrectly reported on the OCR report.
- Require that Palmetto communicate timekeeping procedural requirements to all managers and employees and periodically perform random timesheet checks to ensure Palmetto complies with procedures.
- Develop improved contract oversight procedures and controls.

Management's Response

RRB agreed to take corrective action on 11 out of 15 audit recommendations and will conduct further analysis to determine how to address the remaining recommendations.



However, RRB did not agree to review the questioned costs incurred by the Customer Service Unit (\$3.1 million) and incurred by Medicare Review Unit (\$3.7 million) during FYs 2008 and 2009.

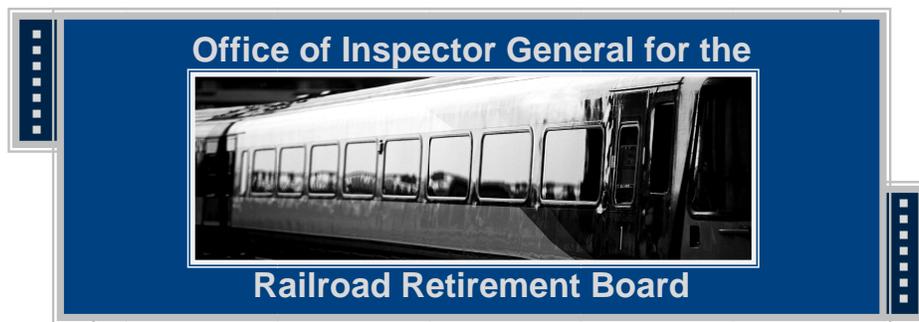
Audit of Railroad Retirement Act Benefit Overpayments and Internal Controls

OA reviewed Railroad Retirement Act benefit overpayments (RRA overpayments) and internal controls. The objectives of the audit were to assess the sufficiency of internal controls as related to the main causes of RRA overpayments and identify opportunities to improve the effectiveness of controls over the debt recognition process.

Findings

OA identified the following weaknesses:

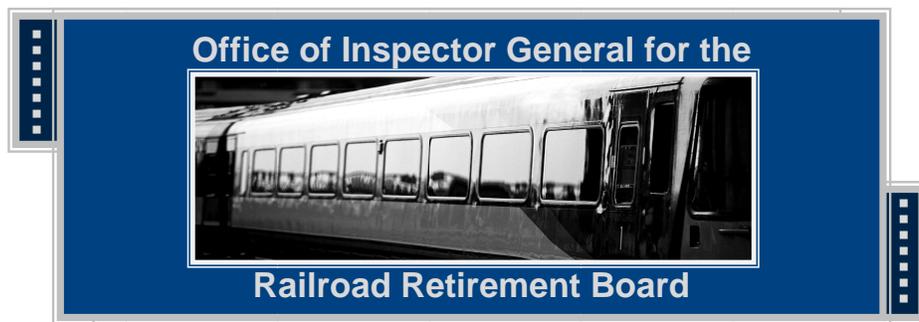
- RRA overpayments are not always processed timely.
- Completeness of records among agency systems is not always verified.
- Separation of duties is not always enforced for RRA overpayment transactions.
- Control logs and assurance reports were not always retained.
- Training attendance records were not always maintained.
- Management control documentation is not consistent with standards.
- Second authorizations for RRA overpayments exceeding \$10,000 are not taking place.
- Duplicate RRA overpayments were not detected.
- Authorization can be omitted for Retirement Online Calculation RRA overpayments.



Recommendations

To improve internal controls and their effectiveness, OA recommended agency management:

- Establish and implement time standards for RRA benefit overpayments and strengthen internal controls to ensure their identification and timely processing.
- Develop and implement controls to ensure the completeness of RRA overpayment data as it is transferred between systems.
- Modify the Overpayment Recovery Correspondence System privileges to ensure proper separation of duties.
- Implement controls to ensure that the accounts receivable system control logs and assurance reports are maintained for inspection.
- Ensure that proof of training attendance is documented and maintained.
- Work with the Management Control Review Committee to revise management control documentation to be consistent with Government Accountability Office standards for internal control.
- Strengthen the internal controls over the review and approval process for RRA overpayments greater than \$10,000 to ensure that approvals comply with agency procedures for authorizations.
- Remind examiners of proper procedures for handling existing RRA overpayments notices and strengthen internal controls to ensure that duplicate overpayments are not created.
- Update the edits in the Retirement Online Calculation program to ensure that authorization is obtained when required.



Management Responses

The Office of Programs agreed to take corrective action on seven of the ten recommendations directed to them. However, they disagreed with the findings and recommendations regarding the timeliness of RRA overpayment processing and separation of duties. The Bureau of Fiscal Operations agreed to take corrective action on all four recommendations directed to them.

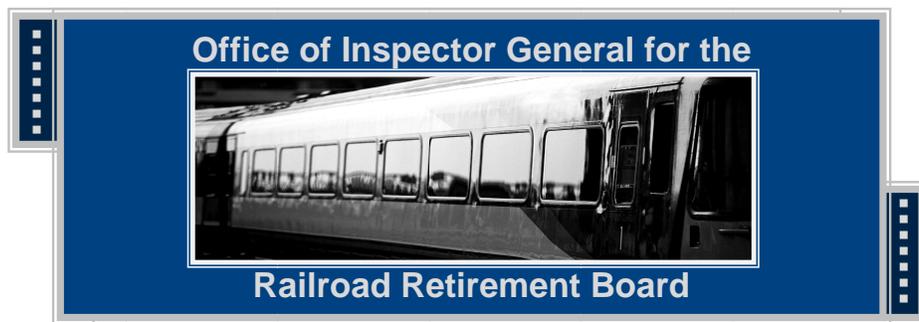
Review of the Railroad Retirement Board's Security Patch Management Process

OA conducted an audit to determine whether the RRB's patch management policies, procedures, and practices are in compliance with FISMA requirements and if the security controls over patch management are in place and operating as intended.

FISMA requires agencies to establish and maintain a security management program that includes timely and secure installation of software patches. Patch management is a security practice designed to prevent the exploitation of information technology (IT) vulnerabilities that exist within an organization. Patches are additional pieces of code developed to address security flaws and problems in software. Timely installation of security patches is generally recognized as critical to maintaining the operational availability, confidentiality, and integrity of IT system.

In a separately issued restricted distribution report, OA communicated that the RRB's security patch management policies, procedures, and practices comply with FISMA requirements. However, while security controls over patch management are in place, they are not fully effective or operating as intended. OA made 13 detailed recommendations to RRB management for improvement in:

- procedures for the remediation of identified vulnerabilities;
- standards for timely resolution of remediation requests;
- vulnerability scanning procedures for personal computers and servers;
- third-party software security updates;



- monthly server patching process;
- security patch management process performance reports;
- notification of mainframe computer updates; and
- information security policies and procedures.

Agency management has agreed to take corrective action for all recommendations.

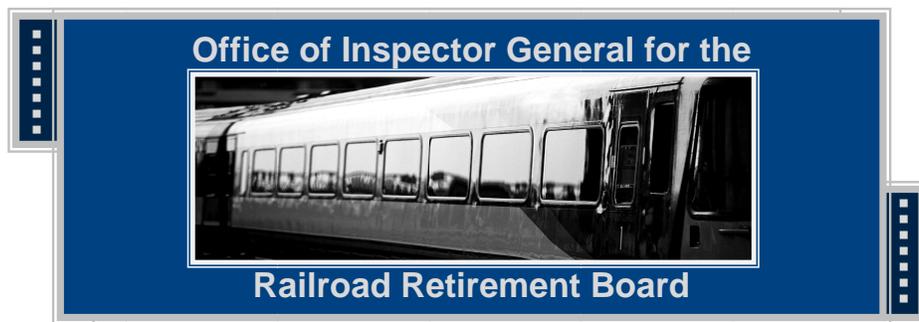
Audit of Internal Controls Over Dummy Vendor Transactions

OA released their report titled *Audit of Internal Controls Over Dummy Vendor Transactions* on August 4, 2011. Some funds are obligated in the Federal Financial System (FFS) without being associated with a specific person or a vendor, using “dummy vendor” as the vendor name for travel, relocation expense, and service order transactions. The objective of the audit was to evaluate the RRB’s internal controls over dummy vendor transactions.

Findings

OA identified the following weaknesses:

- Service order disbursements were not always consistently recorded in FFS.
- Travel disbursements did not always include required documentation.
- Travel agency fees were not reconciled to RRB travel vouchers.
- Service order obligations did not include the required approvals.
- Guidance for the use of dummy vendor transactions has not been officially documented.



Recommendations

To improve the internal controls over dummy vendor transactions, OA recommended that agency management:

- Identify, reconcile, and post all erroneously purged transactions to the corresponding FFS vendor document cross-reference table.
- Develop procedures to reconcile and post FFS disbursements in the document reference table to the vendor document cross-reference table.
- Strengthen the review and approval controls for travel vouchers and supporting documentation.
- Issue a reminder notice to agency employees regarding appropriate documentation for travel vouchers.
- Strengthen controls to ensure that disbursements are supported by RRB travel vouchers.
- Remind travelers to include all fees on their travel vouchers.
- Take corrective action for the noted discrepancies to ensure that the appropriate reimbursements are made.
- Strengthen the second-level review and approval process for service order obligation approval requests submitted via e-mail.
- Issue formal guidance for the request of second-level approval for obligations.
- Develop procedures for dummy vendor transactions in FFS.

Management Responses

The Bureau of Fiscal Operations agreed with the finding regarding the inconsistent recording for some service order disbursements, but they stated that the entries to the table were purged and that they can no longer be identified. They agreed to take



corrective action for the other seven recommendations directed to them. The Office of Administration agreed to take corrective action on the three recommendations directed to them.

Inspection of the Railroad Retirement Board's Agency Enterprise General Information Support System Certification and Accreditation

OA conducted an inspection to determine whether the activities conducted at the RRB for the certification and accreditation of the Agency Enterprise General Information Support System (AEGIS) comply with existing policy, procedures, guidance, and standards.

FISMA requires agencies to establish and maintain an agency-wide security management program that includes testing of security controls with a frequency that is no less than annually. In addition to testing security controls, an agency official must authorize the system for processing. This authorization must be in writing and must occur at least every three years. In FY 2010, RRB hired a contractor to conduct a certification and accreditation, currently referred to as a system authorization, for AEGIS.

In a separately issued restricted distribution report, OA communicated that the activities conducted at RRB for the certification and accreditation do not fully comply with existing policy, procedures, guidance, and standards. In OA's FY 2009 FISMA report, they cited the RRB with a significant deficiency in internal control over the certification and accreditation process because of an ineffective review process for contractor deliverables. OA's inspection found that the internal control structure over the certification and accreditation process is still a significant deficiency. OA made three recommendations to RRB management:

- to develop a comprehensive review process that includes a comparison of the documents for consistency and verification that all of the requirements for applicable controls are adequately addressed;
- to review prior plan of action and milestones (POAM) items and update the current agency-wide POAM to include all outstanding weaknesses for the AEGIS system; and



- to develop and implement detailed POAM procedures for maintaining the information necessary to allow independent verification and validation of POAM closures, and for tracking of agency corrective action by the Chief Information Officer.

Agency Management has agreed to take corrective actions for all recommendations.

Inspection of the Railroad Retirement Board's Financial Management System's Continuous Monitoring Program

OA conducted an inspection to evaluate the activities conducted at the RRB for the continuous monitoring of the Financial Management system to determine adherence with existing policy, procedures, guidance, and standards. This inspection directly supports the OIG's mandated FISMA evaluation.

The objective of the continuous monitoring program is to determine if the set of deployed security controls continue to be effective over time in light of the inevitable changes that occur. Continuous monitoring programs provide organizations with an effective mechanism to update certain security documents. In FY 2010, the RRB hired a contractor to perform continuous monitoring testing of the controls over the Financial Management system.

In a separately issued restricted distribution report, OA communicated that the RRB's continuous monitoring process does not fully comply with existing policy, procedures, guidance, and standards. As a result, the RRB's significant deficiency in internal control over the certification and accreditation process remains in effect because of an ineffective review process for contractor deliverables. OA made five detailed recommendations to RRB management for improvement in:

- controls over the review process of the continuous monitoring deliverables;
- the overall planning process for the continuous monitoring program; and
- the Bureau of Fiscal Operations' portion of the RRB's agency-wide POAM.

Agency Management has agreed to take corrective actions for all recommendations.



Evaluation of the Railroad Retirement Board's Benefit and Payment Operations System Continuous Monitoring

OA conducted an evaluation of the activities conducted at the RRB for the continuous monitoring of the Benefit and Payment Operations system to determine adherence with existing policy, procedures, guidance, and standards. This evaluation also directly supports the OIG's mandated FISMA evaluation.

The objective of the continuous monitoring program is to determine if the set of deployed security controls continue to be effective over time in light of the inevitable changes that occur. Continuous monitoring programs provide organizations with an effective mechanism to update certain security documents. In FY 2010, the RRB hired a contractor to perform continuous monitoring testing of the controls over the Benefit and Payment Operations system.

In a separately issued restricted distribution report, OA communicated that the RRB's continuous monitoring process does not fully comply with existing policy, procedures, guidance, and standards. As a result, the RRB's significant deficiency in internal control over the certification and accreditation process remains in effect because of an ineffective review process for contractor deliverables. OA made five detailed recommendations to RRB management for improvement in:

- controls over the review process of the continuous monitoring deliverables;
- the overall planning process for the continuous monitoring program; and
- the Office of Programs' portion of the RRB's agency-wide POAM.

Agency Management has agreed to take corrective actions for all recommendations.

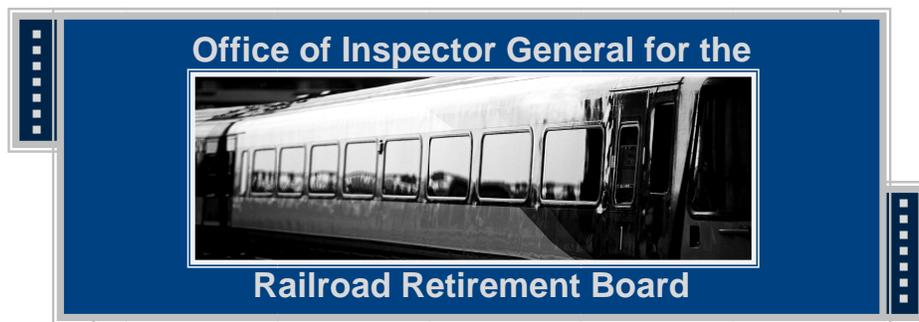


Management Decisions and Implementation

As part of its oversight activities, OIG tracks the agency's implementation of audit recommendations. Additionally, 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, 2011	0
Pending Management Decision for New Recommendations	0
Management Decision on Previous Recommendations	0
Recommendations Pending Management Decision on September 30, 2011	0

Corrective Action	
Recommendations Requiring Action on April 1, 2011	143
Recommendations Issued During Reporting Period	66
Corrective Actions Completed During Reporting Period	18
Recommendations Rejected During Reporting Period	4
Final Actions Pending on September 30, 2011	187



Office of Investigations

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

Current Caseload

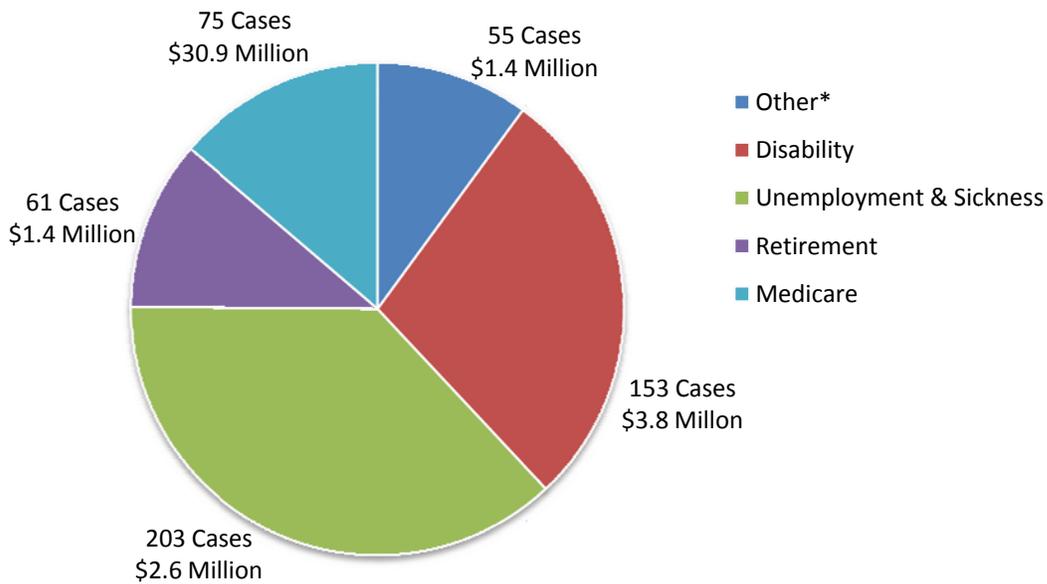
During this semiannual reporting period, OI reviewed 239 matters and opened 184 new cases.

Investigative Caseload Data	
Investigative Cases Open as of April 1, 2011	458
Investigative Cases Opened During Reporting Period	184
Investigative Cases Closed During Reporting Period	95
Investigative Cases Open as of September 30, 2011	547

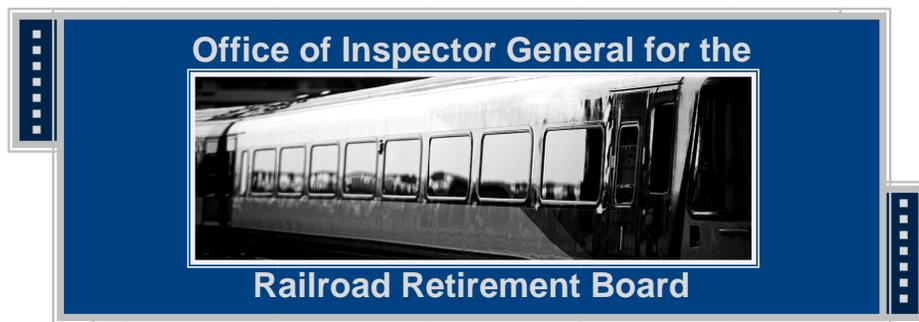
OI's current caseload totals 547 matters, representing more than \$40 million³ in potential fraud. The chart located on the next page reflects the distribution of OI cases and potential fraud losses by RRB major program area.

³ 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.

Current Caseload By Case Type



**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.*



Investigative Accomplishments⁴

Action	April 1, 2011 – September 30, 2011	Fiscal Year 2011
Referrals to the Department of Justice	68	111
Indictments/Informations	15	67
Arrests	9	15
Convictions	24	62
Civil Complaints	4	6
Civil Judgments	10	21
Restitution and Fines	\$5.6 Million	\$103 Million
Civil Damages and Penalties	\$1.7 Million	\$2.1 Million
Investigative Recoveries ⁵	\$1.1 Million	\$1.4 Million
Community Service Hours	80	600

⁴ The total amount of financial accomplishments in this table reflect fraud amounts related to programs administered exclusively by the RRB and fraud amounts from other Federal programs such as Medicare or Social Security which were included in the disposition resulting from the investigation.

⁵ RRB benefits that are overpaid due to fraud and can be recouped through RRB administrative recovery action are expressed as investigative recoveries.



Representative Investigations April 1, 2011 – September 30, 2011

Disability Investigations

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

During this reporting period, OI obtained six convictions in disability fraud cases. The defendants received, in the aggregate, sentences totaling 5 months of jail, 13 ½ years of probation, 40 hours of community service, and were ordered to pay approximately \$240,000 in restitution, fines, and civil damages/penalties.

Descriptions of representative cases completed during this reporting period follow.

Annuitant Guilty of Submitting False Statements to the RRB

OI Special Agents investigated an RRB disability annuitant who failed to accurately report his income received from his family business and from his job as a school bus driver. The annuitant's failure to report his excess earnings to the RRB caused him to fraudulently receive more than \$30,000 in disability payments.

This case was referred to the United States Attorney's Office for the Northern District of New York which entered into a Plea Agreement with the annuitant. Under the terms of this agreement, the annuitant pled guilty to one count False Statements and agreed to pay full restitution and was sentenced to two years of probation.

Annuitant Concealed Earnings from the RRB

OI Special Agents investigated an RRB disability annuitant who concealed his earnings from the RRB. Through the course of their investigation, they discovered that both the annuitant and his spouse earned wages and housing from the same employer; however, they directed the employer to pay all wages to the spouse. The annuitant's failure to report his income, including free housing, to the RRB caused him to fraudulently receive more than \$15,000 in disability payments.



This case was referred to the United States Attorney's Office for the Northern District of New York. The annuitant entered into a Plea Agreement with the United States Attorney's Office. Under the terms of this agreement, the annuitant pled guilty to one count False Statements and agreed to pay full restitution and was sentenced to two years of probation.

Unemployment - Sickness Insurance Investigations

Unemployment Insurance (UI) - Sickness Insurance (SI) benefit fraud typically involves individuals claiming and receiving UI or SI benefits while working or collecting state administered unemployment benefits. 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 or on the same days they received state administered unemployment benefits.

Since the American Recovery and Reinvestment Act of 2009 and the Worker, Homeownership, and Business Assistance Act of 2009 temporarily extended UI benefits to certain railroad workers, OI has seen a substantial increase of UI fraud referrals. In fact, roughly 92% of OI's current UI fraud cases involve extended UI benefits.

During this reporting period, OI obtained seven convictions and six civil judgments for UI and SI fraud cases. Defendants in these cases received, in the aggregate, 16 ½ years of probation, 40 hours of community service, and were ordered to pay more than \$130,000 in restitution, fines, and civil damages/penalties.

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

UI Claimant Enters into a Pretrial Diversion Agreement

OI initiated an investigation of an RRB UI claimant based upon an agency referral. OI's subsequent investigation determined that during the period of January 2009 through August 2009, 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 15 false claims when applying for benefits by intentionally not reporting his employment. His actions resulted in the theft of more than \$8,000 in UI benefits.



This case was referred to the United States Attorney's Office for the Eastern District of Missouri. The claimant entered into an 18 month Pretrial Diversion agreement with the United States Attorney's Office for violation of False Statements. Under this agreement, the claimant must pay full restitution and report regularly to a U.S. Pretrial Services Officer for 18 months or until full restitution has been paid to the government.

Claimant Fraudulently Applied for both UI and SI Benefits

OI initiated an investigation of an RRB claimant based upon an agency referral. OI's subsequent investigation determined that during the period of September 2007 through November 2007, the claimant applied for RRB UI benefits on the same days he was working and being paid by a private employer. The investigation further revealed that during the period of January 2008 through August 2008, the claimant applied for RRB SI benefits on the same days he was working and being paid by a private employer. The claimant submitted a total of 16 false claims and collected more than \$10,000 in fraudulent UI and SI benefits.

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 claimant with False Statements and False Claims. He entered into a plea agreement and was sentenced to five years of probation and ordered to pay full restitution plus a special assessment.

UI Claimant Fails to Report Work and Earnings to the RRB

OI initiated an investigation of an RRB UI claimant based upon an agency referral. OI's subsequent investigation determined that during the period of July 2007 through March 2008, the claimant collected RRB UI benefits on the same days he was working for a private employer. The claimant's failure to report his work and earnings to the RRB caused him to fraudulently receive more than \$11,000 in UI benefits.

This case was referred to the United States Attorney's Office for the Eastern District of California. The United States Attorney's Office filed an information against the annuitant for Theft of Government Property. The annuitant pled guilty and was sentenced to 3 years of probation, 40 hours of community service, and full restitution.



Retirement-Survivor Benefits and Representative Payee Investigations

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

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

During this reporting period, OI obtained the following civil judgment.

Annuitant's Son Steals Over \$170,000 in RRB Benefits

An annuitant's son failed to report his father's death to the RRB and fraudulently collected over \$170,000 in RRB retirement benefits. OI's investigation revealed that the annuitant had passed away in January 1992; however, RRB continued to issue annuity checks in his name until August 2006. Special Agents determined that the son cashed the annuitant's benefit checks and converted the benefits for his own personal use.

This case was referred to the United States Attorney's Office for the District of Columbia. The subject and the United States Attorney's Office entered into a Settlement Agreement which required the subject to pay full restitution with the initial \$90,000 due within 5 days of the agreement and the remaining balance due in equal monthly installments. The subject paid the initial \$90,000 but defaulted on the rest of the payments. Subsequently, the United States Attorney's Office filed a civil complaint against the subject in Federal District Court. The Court granted a Consent Judgment against the subject for the remainder of the restitution.



Railroad Medicare Investigations

During this reporting period, OI obtained 11 convictions and 3 civil judgments in Railroad Medicare fraud cases. Defendants in these cases received, in the aggregate, more than 34 years of jail, 30 years of probation, and were ordered to pay more than \$7 million in restitution, fines, and civil damages/penalties.⁶

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

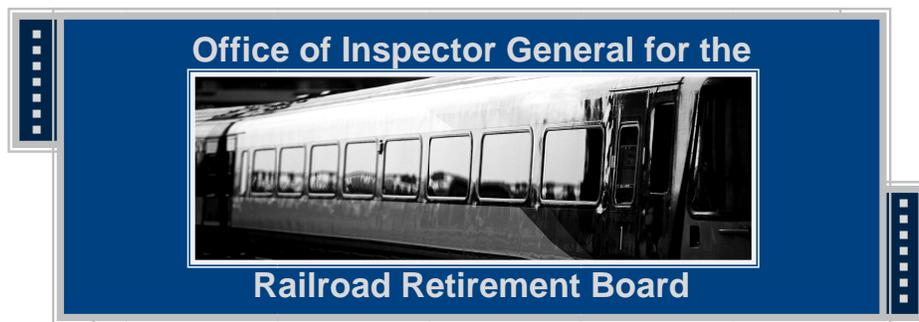
The following are examples of Railroad Medicare cases completed during this reporting period.

Doctor Agrees to Repay More Than \$28,000

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 subject doctor had fraudulently billed Medicare for a higher level of service than was actually being performed.

This case was referred to the United States Attorney's Office for the Southern District of Illinois. The doctor entered into a Settlement Agreement with the United States Attorney's Office agreeing to repay more than \$28,000.

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



Doctor Sentenced to 30 Months of Jail

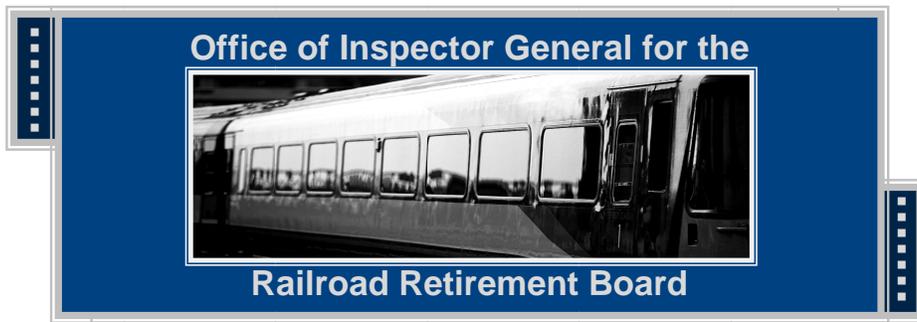
OIG initiated this investigation pursuant to a referral from the Office of Inspector General for the U.S. Office of Personnel Management. The subsequent investigation was a collaborative effort between OIG, the Office of Inspector General for the U.S. Office of Personnel Management, the Office of Inspector General for the Department of Health and Human Services, and the Federal Bureau of Investigation. Their investigation determined that the target doctor routinely billed the government for high level office visits on individuals who never actually received the services or receive reduced services.

This case was referred to the United States Attorney's Office for the Eastern District of Louisiana. The United States Attorney's Office indicted the doctor for Health Care Fraud. The doctor pled guilty and was sentenced to 30 months of prison, 3 years of supervised release, more than \$1 million in restitution, and a special assessment fee.

Civil Enforcement Results

OIG 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 10 civil judgments were entered by U.S. District Courts for RRB fraud cases totaling more than \$1.7 million in damages and penalties. Some of these civil actions are pursued under the Department of Justice's Affirmative Civil Enforcement program which provides an efficient and effective means to address fraud against the RRB's programs.



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 695 contacts during this reporting period and 1,472 during FY 2011. The following table summarizes Hotline referrals or other activities during this reporting period.

Referral or Other Activity	April 1, 2011 – September 30, 2011	Fiscal Year 2011
Referred to RRB District or Regional Office	299	599
Other (Hang Ups, Misdirected Calls, Disconnections, etc.)	243	519
Referred to the Office of Investigations	60	137
Referred to Another Federal Agency	54	110
Calls with Insufficient Information to Make Appropriate Referrals	19	41
Disposition Not Yet Determined, Additional Information is Being Obtained	8	38
Referred to RRB Bureaus	10	21
Referred to a Railroad	2	6
Referred to Railroad Medicare	0	1



OTHER OVERSIGHT ACTIVITIES

American Recovery and Reinvestment Act of 2009

During this semiannual period, the OIG continued their efforts to aide in a transparent American Recovery and Reinvestment Act (ARRA) process by preparing monthly progress reports in formats developed by the Recovery Accountability and Transparency Board. These monthly reports are published on the Recovery.gov website and are also available on the RRB's Recovery Act Information webpage. During this semiannual reporting period, OI opened 112 additional cases involving fraudulent receipt of extended ARRA funded UI benefits.

Occupational Disability Program

The RRB's occupational disability program is a unique benefit available only to qualifying railroad workers. The qualification standards for this benefit are different than those needed to qualify for a total and permanent disability under the Social Security Act.

During this semiannual reporting period, the Office of Management and Budget approved the use of RRB Form G-252, *Self-Employment/Corporate Officer Work and Earnings Monitor*. Form G-252 is intended to enhance program integrity activities by capturing additional information from disability annuitants who report self-employment or work as a corporate officer. While we applaud the RRB's development of this form, we believe that the RRB's procedures regarding Form G-252 do not go far enough to prevent improper payments.

On March 2, 2009, the OIG issued a memorandum to the Board which contained several recommendations aimed at enhancing the integrity of the occupational disability program. In this memorandum, we recommended annual recertification from all disability annuitants regarding work activities and continued eligibility. Subsequently, on June 1, 2010, during the approval stage for Form G-252, we reiterated our March 2, 2009 recommendations and further stated that if the RRB does not implement all of our recommendations, then they should require all current and new disability annuitants to complete Form G-252.



We believe that annual eligibility recertification by all disability annuitants would significantly reduce the likelihood of improper payments which would outweigh the additional administrative costs to the RRB.

The prevention of improper payments remains a priority for OIG and we continue to devote investigative and audit resources to the oversight of this and other RRB programs. Previous *Semiannual Reports to the Congress*, contained additional details regarding our March 2, 2009 occupational disability recommendations.

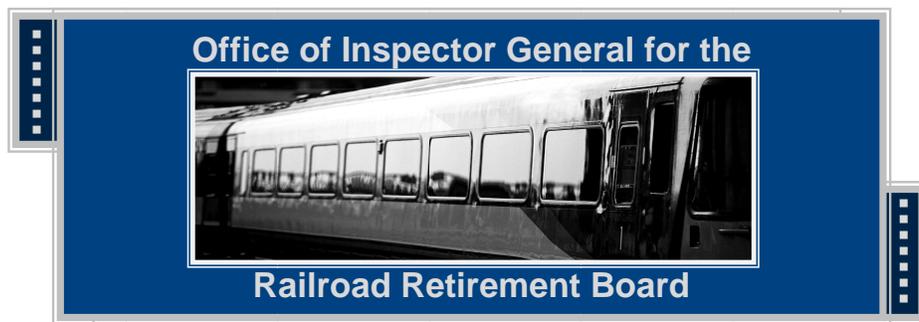
Railroad Medicare Fraud Detection Contracts: Lessons Learned

Medicare fraud is a pervasive, multifaceted problem which often involves elaborate schemes. In order to release the fiscal pressures on the Medicare program and to increase the likelihood of sustainability, we must incorporate innovative oversight techniques successfully utilized in other settings. Analyzing data in a segmented manner based upon either a particular geographic zone or type of Medicare claim may allow fraud to remain undetected. Our Railroad Medicare Fraud Detection Project demonstrated that the optimum manner to analyze data is on a nationwide basis including all Medicare Carriers and types of Medicare claims. In addition, we must concentrate on stopping Medicare fraud before it happens including utilizing technologically advanced Medicare cards, enhancing provider screening, and focusing on predicative modeling. While we recognize that numerous prepayment edits are already in place, a vast amount of fraud occurs despite these edits. An open dialogue regarding Medicare oversight is imperative to ensuring the integrity of the program.

On April 7, 2011, OIG published a paper titled *Railroad Medicare Fraud Detection Contracts: Lessons Learned*. In this paper, we discuss details regarding our two limited scope Railroad Medicare fraud detection contracts and the lessons gained from the experience.⁷ These lessons are summarized below.

- Data analysis results are only as reliable as the original data sources utilized.
- The compartmentalization of Medicare claims processing by geographic region or by class of beneficiary, as is unique to the Railroad Medicare program, makes

⁷ Our October 1, 2010 – March 31, 2011 *Semiannual Report to the Congress* contains additional background information and contract details relating to this project.



it difficult, if not impossible, to see the “big picture” and has a negative impact on efforts to identify erroneous or fraudulent claims.

- Data analysis reveals aberrances which may be used as audit or investigative leads; however, any leads developed will require substantial amounts of audit or investigative work to confirm that the claim(s) should not have been paid.
- The “pay and chase” methodology of fighting Medicare fraud, even with the use of powerful software tools, is ineffective and work intensive. Medicare must institute better controls on the front-end to prevent the disbursement of improper payments.

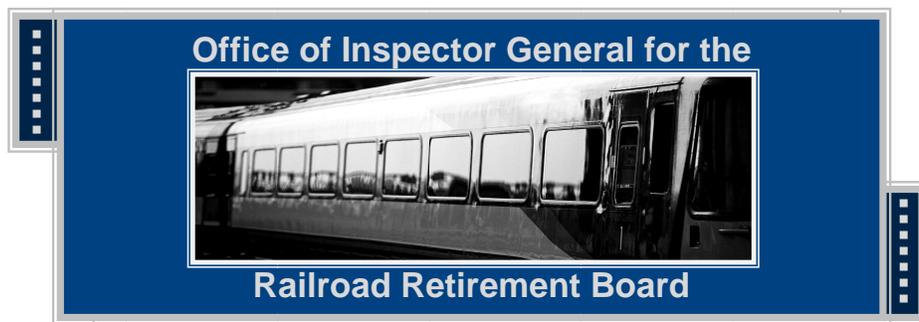
A complete copy of this paper is available on our website at www.rrb.gov/oig.

Proposal to Improve Business Efficiency at the Railroad Retirement Board

The current economic decline and high rate of unemployment has heightened the public’s awareness of the cost of government services and the need for greater accountability in all areas of public spending. Budgetary timing and appropriation uncertainty, financial transparency and close public scrutiny drive the continuing need for Federal agencies to achieve greater results with fewer resources.⁸ As such, the RRB must utilize the most advantageous methods of productivity while fully leveraging its available budgetary and staffing resources.

During FY 2011, the OIG conducted a special review to identify the RRB’s current weaknesses and the ways in which they could be addressed. RRB senior management and key operating staff were interviewed to obtain their feedback and identify concerns with regard to agency-wide efficiency. Proposals for future improvement were generated based on these discussions and through additional research and analysis. The OIG has previously performed special reviews to address the concerns of management and Congress and to respond to contemporary issues impacting the agency.

⁸ As defined by OMB Circular No. A-11, “Preparation, Submission and Execution of the Budget,” Section 20.3: “Appropriation means a provision of law (not necessarily in an appropriations act) authorizing the expenditure of funds for a given purpose. Usually, but not always, an appropriation provides budget authority.”



In fulfilling its oversight responsibility, the Government Accountability Office (GAO) identifies and monitors those government agencies and programs which are at high risk for fraud, waste, abuse, and mismanagement. The OIG considered the high risk areas reported by the GAO during its special review and identified several areas of concern for the RRB which parallel those previously identified by the GAO.

Based upon our review, we conclude that the RRB must respond to new Federal technology directives while concurrently facing the possibility of staffing deficiencies and the likelihood of budgetary reductions. The agency has made significant progress in some areas, however, program efficiency can be improved and cost savings initiatives have not been fully utilized. Business efficiency weaknesses have been identified in the following areas:

- Increasing program costs and under-funded mandates are further complicated by economic and budgetary uncertainty.
- Agency productivity has declined relative to program funding and the railroad customer base.
- Rising National Railroad Retirement Investment Trust (NRRIT) administrative costs have increased the RRB's overall cost structure by more than 70% while retirement benefits appear unsustainable in future years.⁹
- The proposed financial accounting replacement system does not address non-integrated system weaknesses and is critically under-funded.
- A source of funding is needed for the agency's electronic disability record processing initiative.
- Call center integration and automation have not been utilized to streamline program functions, minimize operational expense, and improve customer service.
- A collaborative, agency-wide cloud computing initiative that will assess IT costs, benefits and relative risk has not yet been established.

⁹ See Page 32 for additional details regarding the NRRIT.



- Rising attrition levels are forecast while the agency's management succession plan lacks a funding source and an adaptive long-term service benefit plan has not been established.
- Ineffective contract oversight threatens the integrity of the Railroad Medicare program as the agency's program workload and responsibilities continue to increase.
- A headquarters space utilization study addressing long-term staffing and the impact of telework policy is needed.

We propose that the Board and RRB management identify the available options that will counter these business efficiency weaknesses and initiate appropriate corrective actions. Copies of this review, along with our previous reviews, are located on our website at www.rrb.gov/oig.

Unemployment Insurance Program

During this semiannual reporting period, we recommended that the RRB amend question 15 on Form UI-1 (03-04), *Application for Unemployment Benefits and Employment Service*, to solicit information regarding the receipt of unemployment benefits from another source such as a state administered program. RRB concurred with our recommendation and they will amend the form accordingly.

OUTREACH ACTIVITIES

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

The Inspector General was the keynote speaker at the Midwestern Intergovernmental Audit Forum and delivered a presentation titled *Strategies to Remain Effective in a Changing Environment*.

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 Assistant Inspector General for Investigations presented information regarding OIG's mission and accomplishments at a conference attended by railroad claims examiners and employees representing law firms specializing in railroad workers' compensation.

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

OA staff attended the Midwestern Intergovernmental Audit Forum. This forum is an association of audit representatives from Federal, state, and local governments. The primary purpose is to promote communication, coordination, and cooperation among members' audit agencies to facilitate the effectiveness, efficiency, and usefulness of audits. The conference covered several topics including: strategies to remain effective in a changing environment; audit resolution and corrective action; potential duplication in government programs; and information security.

A number of OA staff members participated in the Chicago Chapter of the Association of Government Accountants (AGA). 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.

A supervisory auditor serves as the OIG's representative at the RRB's monthly Information Technology Steering Committee meetings.



The Assistant Inspector General for Audit (AIGA) attended the 2011 Annual Council of Inspectors General for Integrity and Efficiency/GAO Financial Statement Audit Conference. This conference covered current issues related to the annual financial statement audits and related standards, including topics on the 2011 Yellow Book and the new Improper Payments Requirements and Guidance.

The AIGA also attended the Federal Audit Executive Council Annual Conference. This conference focused on the future of accountability including New Media, Performance Metrics, and Cloud Computing in the Federal Sector.

OPERATIONAL ISSUES

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

National Railroad Investment Trust

The NRRIT is a tax-exempt entity independent of the Federal government which was established by the Railroad Retirement and Survivors' Improvement Act of 2001 (RRSIA) to manage and invest Railroad Retirement assets.¹⁰ The RRSIA does not provide the OIG with oversight authority to conduct audits and investigations of the NRRIT; however, RRSIA does require that the NRRIT report to the RRB.

On March 31, 2008, this office issued a *Statement of Concern* addressing the RRB's passive relationship with the NRRIT. Since the release of this statement, there has been no corrective action directed toward alleviating our NRRIT oversight concerns; however, the NRRIT's long-term trust fund solvency has become increasingly questionable. In fact, since its inception, the NRRIT's administrative expenses have steadily risen and increased by the overall RRB cost structure by more than 70%. This increase can be partially explained by the number of fund management staff that would be needed to manage increasingly complex risk-based investment strategies and transactions. However, minimal information is released publically to justify the recurrent increases in administrative expenses. Despite the NRRIT's lack of fund management transparency and the extraordinary value of the fund's assets, there has been a

¹⁰ As of August 31, 2011, the RRB's investments in the NRRIT were valued at approximately \$24 billion.



consistently passive approach to fund management and we continue to identify the lack of oversight in this area as a critical issue.

Additionally, a lack of NRRIT investment fund management accountability, transparency, and stringent financial oversight can be precursors to fraud, waste, and abuse. Within the Federal agency spectrum there is no comparable example where Federal program assets are completely outside of the jurisdiction of a Federal agency's appointed Inspector General. However, the NRRIT fund which supports the Railroad Retirement program remains outside the purview of those appointed to protect the interests of the program's beneficiaries and tax-paying public.

To ensure the integrity, economy, and long-term viability of the NRRIT, RRB management must establish performance audit requirements that will strengthen administrative and financial oversight and ensure fund transparency.

LEGISLATIVE & REGULATORY REVIEW

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

APPENDICES

Appendix	Title	Page No.
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G	Reporting Requirements	48
H	Acronyms	49
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Appendix A – Office of Inspector General Reports and Other Publicly Available Papers Issued

- Railroad Medicare Fraud Detection Contracts: Lessons Learned, April 7, 2011
- Audit of Controls Over Railroad Medicare Contract Costs, April 20, 2011
- Audit of Railroad Retirement Act Benefit Overpayments and Internal Controls, June 29, 2011
- Review of the Railroad Retirement Board's Security Patch Management Process, July 7, 2011
- Audit of Internal Controls Over Dummy Vendor Transactions, August 4, 2011
- Office of Inspector General's Proposal to Improve Business Efficiency at the Railroad Retirement Board, September 21, 2011
- Inspection of the Railroad Retirement Board's Agency Enterprise General Information Support System Certification and Accreditation, September 29, 2011
- Inspection of the Railroad Retirement Board's Financial Management System's Continuous Monitoring Program, September 29, 2011
- Evaluation of the Railroad Retirement Board's Benefit and Payment Operations System Continuous Monitoring, September 30, 2011

All publically available audit reports and papers 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, 2011	2	\$2.7 Million	0
B. Which were issued from April 1, 2011 through September 30, 2011	1	\$7.1 Million	0
Subtotal (A + B)	3	\$9.8 Million	0
C. For which a management decision was made between April 1, 2011 through September 30, 2011	3	\$9.8 Million	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, 2011	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, 2011	0	0
B. Which were issued from April 1, 2011 through September 30, 2011	0	0
C. Subtotal (A + B)	0	0
(i) dollar value of disallowed costs	0	0
(ii) dollar value of costs not disallowed	0	0
D. For which no management decision had been made by September 30, 2011	0	0
E. Report for which no management decision was made within six months of issuance	0	0

Appendix C – Report on Receivables, Waivers, and Recoveries

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

Office of Investigations

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

Fiscal Year	Amount Recovered
1999	\$ 855,655
2000	\$1,038,134
2001	\$ 990,356
2002	\$ 785,843
2003	\$ 947,876
2004	\$ 646,273
2005	\$ 844,183
2006	\$1,281,680
2007	\$1,347,049
2008	\$1,389,489
2009	\$1,097,227
2010	\$1,118,256
2011	\$2,293,530

Office of Audit

Report	Funds to be put to better use	Funds Agreed by Management	Receivables Established	Waivers	Recoveries to Date ¹¹
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	\$19,400,000
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	\$4,523,997	\$339,244	\$2,209,064
05-06	\$10,000	\$10,000	\$0	\$0	\$42,915
05-07	\$1,070,000	\$1,070,000	\$49,943	\$0	\$91,164
05-10	\$2,600,000	\$2,600,000	\$311,000		
06-04	\$257,000	\$257,000			
06-05	\$2,100	\$2,100	\$0	\$0	\$0
06-06	\$200,000	\$200,000	\$13,651	\$0	\$20,671
09-02	\$600,000	\$600,000	\$320	\$0	\$605,114
10-09	\$3,355,408	\$3,355,408	\$0	\$0	\$0
10-13	\$212,038	\$92,412	\$0	\$0	\$0

¹¹ Both overpayments and underpayments are included in this column.

Appendix D – Significant Matters

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

Internal Control over Non-Integrated Subsystems

The OIG identified the RRB's non-integrated subsystems as a material weakness. The RRB's financial reporting control structure is not comprehensive with respect to the reconciliation of the general ledger to non-integrated subsystems. The agency has taken action to address this material weakness by performing reconciliations of the various non-integrated subsystems that support financial accounting. Although this shows that progress is being made, the progress is not yet sufficient to ensure that all of the reconciliations are properly implemented.

Non-Integrated Subsystems

March 11, 2010

Report OIG 10-03, #2

Information Security

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

Internal Control Over Certification
and Accreditation

July 18, 2005

Report OIG 05-08, #4

September 30, 2008

Report OIG 08-05, #2 & 7

November 12, 2009

Report OIG 10-01, #1 & 5

September 28, 2011

Report OIG 11-10, #1 – 3

September 28, 2011

Report OIG 11-11, #1 – 5

September 29, 2011

Report OIG 11-12, #1 – 5

Appendix E – Peer Reviews

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

Office of Audit

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

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

OA did not conduct any peer reviews during this semiannual reporting period.

Office of Investigations

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

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

During this reporting period, OI reviewed the investigative operations of the Office of Inspector General for the U.S. Department of State and the Broadcasting Board of Governors. The results of OI's review were in draft form at the end of this reporting period and will be discussed in our next *Semiannual Report to the Congress*.

Appendix F – Reports Prepared by Management

Final Action on Audits with Disallowed Costs

For the 6-Month Period Ending September 30, 2011	Number of <u>Audit Reports</u>	Disallowed <u>Costs</u>
A. Audit reports, with management decisions, on which final action had not been taken at the beginning of the period.	0	\$ 0
B. Audit reports on which management decisions were made during the period.	0	\$ 0
C. Total audit reports pending final action during the period. (A + B)	0	\$ 0
D. Audit reports on which final action was taken during the period.		
1. Recoveries		
(a) Collections and offsets	0	\$ 0
(b) Property	0	\$ 0
(c) Other	0	\$ 0
2. Recovery Waived	0	\$ 0
3. Total of 1 and 2	0	\$ 0
E. Audit reports needing final action at the end of the period (C - D.3).	0	\$ 0

**Management Report on Final Action on Audits with
Recommendations to Put Funds to Better Use for the
6-Month Period Ending September 30, 2011**

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

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

Management Statement on Resolved Audit Reports Over 12 Months Old with Final Action Pending as of September 30, 2011

Report	Date	Disallowed Costs	Funds to be Put to Better Use	Reason Action Not Completed
Fiscal Year 2000 Financial Statement Audit (01-03)	2/23/01	NONE	NONE	While help desk procedures have been upgraded, the Bureau of Information Services is still developing procedures to close the last open recommendation. Work continues.
Review of Information Security at the Railroad Retirement Board (02-04)	2/5/02	NONE	NONE	Information Services has closed 26 out of 28 recommendations. A complete review has not yet been completed. Bureau of Information services will provide documentation once review is complete. Work continues.
Inspection of Unverified Records in the RRB's Employment Data Maintenance System (03-06)	3/20/03	NONE	NONE	Programs reviewed all 20,000 records and are using a recently implemented tracking system to close the last recommendation, however due to ARRA and WHBAA work, project was extended to 12/31/2011 to be completed.
Review of Internal Control Over the Actuarial Projection Process (05-04)	5/5/05	NONE	NONE	The Chief Actuary is still reviewing their options to best implement this recommendation.
Review of LAN, LAN Security Scan and Web-based Applications (DSD)	6/7/05	NONE	NONE	These contractor-prepared confidential reports contained 45 recommendations, with 39 closed thus far. Documentation will be submitted for 3 recommendations and testing is still needed for remaining.
Review of Access Controls in the End-User Computing General Support System (05-08)	7/18/05	NONE	NONE	Information Services has closed 14 of 15 recommendations in this confidential report. As reported previously, new risk assessment still must be submitted for remaining case. Work continues.
Fiscal Year 2005 Evaluation of Information Security at the Railroad Retirement Board (05-11)	9/28/05	NONE	NONE	Bureau of Information Services is taking steps to train IT owners to use SharePoint POAM website. Work continues.

Management Statement on Resolved Audit Reports Over 12 Months Old with Final Action Pending as of September 30, 2011

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 five of the seven recommendations. One recommendation has been delayed due to higher priority project and the other recommendation, a new Operations Analyst was hired which will be briefing and trained.
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. Requirements are currently in development for programming changes to the EDM system.
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 review.
Review of Incident Handling and Reporting at the Railroad Retirement Board (06-09)	8/24/06	NONE	NONE	Work continues on training material and progress has been made to the updating of policies.
Audit of the DAISY/CHICO Component Application of the RRA Benefit Payment Major Application System (07-02)	3/9/07	NONE	NONE	Recent IT changes are pending review as resources were diverted to higher priority projects.
Audit of the State Wage Match Data Transmission Controls (07-04)	3/28/07	NONE	NONE	Coordination is still required with outside agencies. Programs completed and implemented one of the two remaining recommendations. The last recommendation is schedule to be completed in FY12.
Evaluation of the Railroad Retirement Board's Privacy Program (07-06)	7/30/07	NONE	NONE	New CPO was appointed. Additional funding and resources are needed. Of the 16 recommendations, 13 have been closed with 3 targeted for completion during FY12.
Audit of Federal Income Taxes Withheld from Railroad Retirement Annuities (07-07)	7/30/07	NONE	NONE	Coordination is required with another org. Five of the six recommendations have been closed, with the remaining one targeted for completion in FY12.

Management Statement on Resolved Audit Reports Over 12 Months Old with Final Action Pending as of September 30, 2011

Report	Date	Disallowed Costs	Funds to be Put to Better Use	Reason Action Not Completed
Fiscal Year 2007 Evaluation of Information Security at the Railroad Retirement Board (07-08)	9/27/07	NONE	NONE	Policy and procedures are still being developed. Recommendations are targeted for completion in FY12.
Audit of Controls to Safeguard Sensitive Personally Identifiable Information (07-09)	9/27/07	NONE	NONE	Coordination is required with an outside contractor on 1 recommendation and work plans, policy and procedures are still being developed for all other recommendations. Target date for completion is FY12.
Fiscal Year 2007 Financial Statement Audit Letter to Management (08-01)	3/6/08	NONE	NONE	Bureau of Fiscal Operations implemented enhanced controls in FY10. OIG will reassess once sufficient time has lapse.
Evaluation of Information Security for the RRB's Financial Interchange Major Application – Abstract (08-03)	09/26/08	NONE	NONE	Work plans, policy and/or procedures continue with target completion in FY12 and one in FY13.
Fiscal Year 2008 Evaluation of Information Security at the RRB (08-05)	09/26/08	NONE	NONE	Coordination is still required with outside contractor; and additional documentation is requested by OIG.
Fiscal Year 2008 Financial Statement Audit Letter to Management (09-02)	03/24/09	NONE	\$600,000	Review and updating of documentations along with case reviews are currently being performed on remaining recommendations. Work continues.
Audit of Internal Control Over Accounts Payable (09-03)	03/31/09	NONE	NONE	Documentation was submitted for implementation on one recommendation, another requires coordination with another organization and one is awaiting the results of a quarterly review. Work continues.
Audit of the Railroad Medicare Integrity Program at Palmetto Government Benefits Administrators (09-04)	09/25/09	NONE	NONE	OIG requested additional documentations since previous documentation was not accepted. In addition, coordination is also required with outside agency on those recommendations issued to the outside agency.

Management Statement on Resolved Audit Reports Over 12 Months Old with Final Action Pending as of September 30, 2011

Report	Date	Disallowed Costs	Funds to be Put to Better Use	Reason Action Not Completed
Audit of the General and Application Controls in the Financial Management Major Application System (09-05)	09/30/09	NONE	NONE	In the process of developing work plans, policy and/or procedures continue with target completion in FY12.
Fiscal Year 2009 Evaluation of Information Security (10-01)	11/12/09	NONE	NONE	The Bureau of Information Services will review and take the necessary action(s). Target completion in FY12.
Fiscal Year 2009 Financial Statement Audit Letter to Management (10-03)	03/11/10	NONE	NONE	No change. Awaiting OIG reassessment based on documentation submitted to OIG for implementation on last open recommendation. OIG indicated they will assess the request for closure during the FY2011 financial statement audit.
Review of Statistical Methods Employed in the Financial Interchange Determination (10-06m)	05/04/10	NONE	NONE	The Bureau of Actuary (BOA) is reviewing documentation and will take the necessary action(s) and coordinate with the Bureau of Information Services for programming services.
Review of the Technical Approach and Methodology Used to Determine the Annual Financial Interchange Amount for the Year Ended September 30, 2008 (10-07m)	05/19/10	NONE	NONE	The Bureau of Actuary is reviewing documentation and will take the necessary action(s).
Audit of Internal Controls over Medicare Premium Transfers Between the Railroad Retirement Board and Centers for Medicare and Medicaid Services (10-09)	05/21/10	NONE	\$3,355,408	Work continues in the development of work plans, policy and/or procedures with target completion in FY12.
Review of the Accuracy of the Financial Interchange as Executed for the Year Ended September 30, 2008 (10-10)	05/25/10	NONE	NONE	The Bureau of Actuary is reviewing documentation and will take the necessary action(s).
Audit of Unilateral Disability Freeze Determinations (10-11)	08/12/10	NONE	NONE	Work continues in the development of work plans, policy and/or procedures with target completion in FY12.
Audit of the Account Benefits Ratio (10-12)	09/29/10	NONE	NONE	The Bureau of Actuary reviewed and will take the necessary action(s).

**Management Statement on Resolved Audit Reports Over 12 Months
Old with Final Action Pending as of September 30, 2011**

Report	Date	Disallowed Costs	Funds to be Put to Better Use	Reason Action Not Completed
Railroad Medicare Services Billed with Dates of Service after the Beneficiaries' Dates of Death (10-13)	09/30/10	NONE	\$92,412	Coordination continues with outside organization.

Appendix G – Reporting Requirements

Act Reference	Inspector General Reporting Requirements	Page(s)
Section 4(a) (2)	Review of Legislation and Regulations	33
Section 5(a) (1)	Significant Problems, Abuses, and Deficiencies	39
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Section 5(a) (3)	Prior Significant Recommendations Not Yet Implemented	39
Section 5(a) (4)	Matters Referred to Prosecutive Authorities	4, 18
Section 5(a) (5)	Instances Where Information Was Refused	None
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Section 5(a) (7)	Summary of Each Significant Report	4 – 14
Section 5(a) (8)	Statistical Tables on Management Decisions on Questioned Costs	36
Section 5(a) (9)	Statistical Tables on Management Decisions on Recommendations That Funds be Put to Better Use	36
Section 5(a) (10)	Summary of Each Audit Report Over 6 Months Old for Which No Management Decision Has Been Made	15
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
AEGIS	Agency Enterprise General Information Support System
AGA	Association of Government Accountants
AIGA	Assistant Inspector General for Audit
ARRA	American Recovery and Reinvestment Act of 2009
FFS	Federal Financial System
FISMA	Federal Information Security Management Act of 2002
FY	Fiscal Year
GAO	U.S. Government Accountability Office
IT	Information Technology
NRRIT	National Railroad Retirement Investment Trust
OA	Office of Inspector General for the Railroad Retirement Board – Office of Audit
OCR	Optical Character Recognition
OI	Office of Inspector General for the Railroad Retirement Board – Office of Investigations
OIG	Office of Inspector General for the Railroad Retirement Board
POAM	Plan of Action and Milestones
RRA	Railroad Retirement Act
RRB	Railroad Retirement Board
RRSIA	Railroad Retirement and Survivors' Improvement Act of 2001
RUIA	Railroad Unemployment Insurance Act
SI	Sickness Insurance
UI	Unemployment Insurance

Appendix I – Legal References

Federal:

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

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

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

False Statements – 18 U.S.C. § 1001, et. seq.

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

Health Care Fraud – 18 U.S.C. § 1347

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

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

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

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

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

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

Worker, Homeownership, and Business Assistance Act of 2009 – P.L. 111-92

REPORT

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