

**SEMIANNUAL
REPORT TO THE
CONGRESS**

**APRIL 1, 2014 TO
SEPTEMBER 30, 2014**

**OFFICE OF INSPECTOR GENERAL
for the
RAILROAD RETIREMENT BOARD**





UNITED STATES RAILROAD RETIREMENT BOARD

OFFICE OF INSPECTOR GENERAL

October 31, 2014

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, 2014 through September 30, 2014. 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 published audits regarding:

- general and application controls in the RRB's Financial Management Integrated System (FMIS);
- payment controls over Railroad Medicare claims submitted by physical therapists;
- FMIS business process controls;
- the adequacy of FMIS interface application controls; and
- data management application controls and FMIS selected configuration management, segregation of duties, and contingency planning general controls.

We also published the following titled Management Information Reports: *Financial Impact of Injury Settlements Awarding Service Months to Qualify Railroad Employees for Occupational Disability Benefits* and *Railroad Medicare Progress and Challenges*.

Our criminal investigators achieved 15 arrests, 46 criminal convictions, 20 indictments and informations, 14 civil judgments, and more than \$77.5 million in financial accomplishments resulting from OI's investigative work, including joint investigations.

We appreciate the ongoing assistance extended to our staff during the performance of their duties and look forward to the resolution of program integrity issues within the agency's disability program.

Sincerely,

Original Signed by
Martin J. Dickman
Inspector General



Table of Contents

INTRODUCTION.....	1
Railroad Retirement Board	1
Board Members	1
Office of Inspector General.....	1
EXECUTIVE SUMMARY.....	3
Office of Audit	3
Office of Investigations	4
APRIL 1, 2014 – SEPTEMBER 30, 2014 ACCOMPLISHMENTS.....	5
Office of Audit	5
Audit of the General and Application Controls in the Railroad Retirement Board’s Financial Management Information System	5
Audit of Payment Controls over Railroad Medicare Claims Submitted by Physical Therapists	6
Management Information Report: Financial Impact of Injury Settlements Awarding Service Months to Qualify Railroad Employees for Occupational Disability Benefits8	
Management Information Report: Railroad Medicare Progress and Challenges	9
Audit of Business Process Controls in the Financial Management Integrated System	10
Audit of the Adequacy of Interface Application Controls in the Financial Management Integrated System	11
Audit of the Data Management Application Controls and Selected General Controls in the Financial Management Integrated System	12
Management Decisions and Implementation	14
Office of Investigations	15
Current Caseload	15
Caseload and Potential Fraud Loss by Case Type	16
Investigative Accomplishments	17
Representative Investigations.....	18
Disability Investigations.....	18
Unemployment-Sickness Insurance Investigations.....	19
Retirement-Survivor Benefits and Representative Payee Investigations	21



Table of Contents

Railroad Medicare Investigations	23
Civil Enforcement Results	24
Hotline Contacts	25
OTHER OVERSIGHT ACTIVITIES	26
Seven-Day Letter to Congress.....	26
OIG Alerts.....	26
American Recovery and Reinvestment Act of 2009.....	27
OPERATIONAL ISSUES.....	27
National Railroad Retirement Investment Trust	27
LEGISLATIVE & REGULATORY REVIEW	29
APPENDICES	30
Appendix A – Office of Inspector General Reports and Other Publicly Available Papers Issued.....	31
Appendix B – Audit Reports with Questioned Costs or with Recommendations That Funds be Put to Better Use	32
Appendix C – Report on Receivables, Waivers, and Recoveries	33
Appendix D – Significant Matters.....	35
Appendix E – Peer Reviews	37
Appendix F – Reports Prepared by Management.....	38
Appendix G – Reporting Requirements	45
Appendix H – Acronyms	46
Appendix I – Legal References.....	47



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. During fiscal year (FY) 2013, the RRB paid approximately \$11.8 billion in retirement-survivor and unemployment-sickness benefits to roughly 595,000 beneficiaries.

The RRB also has administrative responsibilities for certain benefit payments under the Social Security Act, including the administration of Medicare benefits for qualifying railroad workers and dependents. Pursuant to statutory authority, the RRB, in consultation with the Centers for Medicare and Medicaid Services (CMS), awards and monitors a single nationwide Railroad Medicare Part B Services contract. During FY 2013, the Railroad Medicare contractor paid approximately \$846 million in Part B medical insurance benefits on behalf of roughly 450,000 Railroad Medicare beneficiaries.

Board Members

The RRB's Board consists of three members who are appointed, with the advice and consent of the Senate, by the President of the United States. One 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.



Office of Inspector General for the Railroad Retirement Board

The RRB's Inspector General is a Presidential Appointee, with Senate confirmation, who serves as an independent and objective voice to 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 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 including the RRB headquarters in Illinois and investigative field offices in California, Florida, Pennsylvania, New York, Texas, and Virginia. These field offices provide an increased investigative presence which aids in the effective and efficient coordination of joint investigations with other Inspector General offices and law enforcement agencies.

Long Island Rail Road Defendants Sentenced to Pay More than \$614 Million in Judgments

As of September 30, 2014, all individuals prosecuted in connection with the Long Island Rail Road (LIRR) occupational disability fraud scheme have been sentenced. In the aggregate, they received 544 months of prison, 594 months of probation, 456 months of supervised release, 57 months of home confinement, 300 hours of community service, and were ordered to pay more than \$614 million in restitution, forfeiture, and fines.¹

Prosecution of this case was handled by the U.S. Attorney's Office for the Southern District of New York and the investigation was a joint effort with the Federal Bureau of Investigation. This investigation remains ongoing.

Specific results for this semiannual reporting period are discussed on page 18.

¹ Due to judicial timing, not all of the LIRR related financial accomplishments are reflected in OI's statistics for this semiannual reporting period.



Office of Inspector General for the Railroad Retirement Board

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, OA published audits regarding:

- general and application controls in the RRB's Financial Management Integrated System (FMIS);
- payment controls over Railroad Medicare claims submitted by physical therapists;
- FMIS business process controls;
- the adequacy of FMIS interface application controls; and
- data management application controls and FMIS selected configuration management, segregation of duties, and contingency planning general controls.

They also published the following titled Management Information Reports: *Financial Impact of Injury Settlements Awarding Service Months to Qualify Railroad Employees for Occupational Disability Benefits* and *Railroad Medicare Progress and Challenges*.

OA's activities, during this reporting period, are discussed in further detail on pages 5 through 13 of this report. All publicly available reports are available on our website at www.rrb.gov/oig.



Office of Inspector General for the Railroad Retirement Board

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

From April 1, 2014 through September 30, 2014, OI achieved:

- 15 arrests;
- 20 indictments and informations;
- 46 convictions;
- 14 civil judgments;
- 24 referrals to the Department of Justice; and
- more than \$77.5 million² in financial accomplishments.

Defendants, in the aggregate, were sentenced to more than 30 years of prison, 128 years of probation, and 200 hours of community service. Additional details regarding OI's activities are discussed on pages 15 through 24.

² 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. Additionally, this amount reflects more than \$34.1 million in LIRR related asset forfeiture judgments.



Office of Inspector General for the Railroad Retirement Board

APRIL 1, 2014 – SEPTEMBER 30, 2014 ACCOMPLISHMENTS

Office of Audit

Congress established the OIG to provide independent oversight of the RRB. Within the OIG, OA's mission 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.

Audit of the General and Application Controls in the Railroad Retirement Board's Financial Management Information System

Background

OA conducted an audit of the general and application controls in the RRB's financial management information system. The objective of this audit was to assess the adequacy of these controls.

Findings

OA determined that control deficiencies exist for the general and application controls in the financial management information system at the RRB and that controls need to be strengthened for physical access, logical application access, system development, and for the system of record notices. Specifically, OA determined the following.

- Physical access control systems need to be updated.
- Physical access privileges need to be appropriate.
- Physical access tokens need to be safeguarded.
- Personnel exit procedures need to be consistently performed.
- Physical security training is needed.
- Physical security management documentation is needed.



Office of Inspector General for the Railroad Retirement Board

- Supporting documentation is needed for logical access privileges granted.
- Logical access security table changes need to be monitored.
- Certain types of systems development need to be monitored.
- Supporting documentation is needed for emergency program changes.
- System of Records Notices need to be updated.

Recommendations

In total, OA made 25 detailed recommendations to RRB management to strengthen the control deficiencies related to physical access, logical application access, system development, and system of record notices. Agency Management concurred with all of OA's recommendations.

Audit of Payment Controls over Railroad Medicare Claims Submitted by Physical Therapists

Background

OA conducted an audit of payment controls over Railroad Medicare claims submitted by physical therapists. The objective of this audit was to determine if physical therapy licensure requirements were met by providers that have submitted Railroad Medicare claims and that controls and edits are in place to ensure that only payments to authorized providers are processed.

Findings

OA identified the following four control weaknesses.

- The Railroad Medicare Contractor (Palmetto) does not authenticate Railroad Medicare provider licenses. Unlicensed physical therapists identified in OA's testing received Railroad Medicare payments of \$55,205. Statistical testing identified a national physical therapist licensing error rate of 4.3% with estimated improper payments totaling \$1.8 million.
- Palmetto does not have adequate controls to ensure that payments are made only to authorized Railroad Medicare providers. Some providers identified in OA's sample performed physical therapy services and received Railroad Medicare payments of \$154,631 using invalid Railroad Medicare provider



Office of Inspector General for the Railroad Retirement Board

numbers. OA's non-statistical analysis of physical therapists provider numbers identified a nationwide error rate of 30% with estimated improper payments totaling \$12.5 million.

- Railroad provider practice locations are not authenticated. An estimated 24% of the provider number records, for physical therapists enrolled in Railroad Medicare, have not been updated with validated CMS practice location addresses.
- Physical therapy providers subject to disciplinary action by their state medical board are not identified and monitored. This audit showed that some of these providers were under probation for serious malpractice or licensure violations.

Recommendations

To address the identified weaknesses, OA made 10 detailed recommendations on how RRB officials should work with Palmetto officials to ensure that Palmetto:

- implements additional compensating controls for ensuring Railroad Medicare providers are licensed and initiate post payment recovery where the provider was not licensed or their provider number was invalid;
- establishes a process or automated reconciliation for ensuring that all Medicare Administrative Contractor revocation dates and validated practice locations are entered timely in the Railroad Medicare enrollment system; and
- develops controls for ensuring providers with state imposed disciplinary actions are monitored.

The RRB's Office of Programs has agreed to work with Palmetto to take corrective action on 7 of our 10 recommendations. They, however, have not agreed to work with Palmetto to take corrective action on two of our recommendations related to the post payment recovery of estimated improper payments totaling \$1.8 million and \$12.5 million. In addition, the Office of Programs has not agreed to work with Palmetto to take corrective action on our recommendation related to Railroad Medicare providers subject to state disciplinary actions.



Office of Inspector General for the Railroad Retirement Board

Management Information Report: Financial Impact of Injury Settlements Awarding Service Months to Qualify Railroad Employees for Occupational Disability Benefits

Background

Current law allows for creditable railroad service months to be obtained through a personal injury award or settlement that allocates a portion of the damages as lost wages for a specific period following the date of injury.³ This allocation is referenced as “pay for time lost.” This provision of the law essentially allows railroad employees to buy an annuity from the RRB as part of their injury settlement with their railroad employer. The OIG’s concern is that while RRB is not a party to this settlement, the agency may be obligated to pay an annuity to the employee as a result of the settlement.

Also under current law, there are circumstances where pay for time lost, allocated for service months, may be fully creditable under the RRA, but taxable only to a limited extent, or not taxable at all.⁴ Therefore, the OIG is concerned that annuities can be purchased at a discount when all of the compensation is creditable, but not all of it is taxable.

OA conducted this review to determine the financial impact of injury settlements that awarded service months to qualify railroad employees for occupational disability benefits.

Findings

Although limitations in agency systems and a lack of documentation did not allow OA to identify every applicable case, they determined that at least 28 current occupational disability annuitants who purchased their service eligibility through injury settlements will cost the RRA trust funds at least \$11.9 million from the start of their annuity until they reach their early retirement age.^{5, 6} It is OIG’s opinion that the impact on the trust funds could potentially be as much as \$2.2 billion if all the annuitants who barely qualified for an occupational disability had purchased some of the qualifying service months through

³ 45 U.S.C. § 231 (h)(2).

⁴ 26 U.S.C. Chapter 22.

⁵ The occupational disability annuitants identified were in current pay status as of February 2014.

⁶ The identification was limited to individuals who had an open settlement related debt with the RRB in 2008 or later because debts closed prior to 2008 had been purged from the agency’s receivable system.



Office of Inspector General for the Railroad Retirement Board

an injury settlement.⁷ OIG believes that the ability to essentially purchase qualifying service, while allowable by law, is another troubling aspect of the occupational disability program.

Recommendations

OA recommended that the Board seek legislative changes to:

- disallow service months credited as pay for time lost through an injury settlement when determining service eligibility for an occupational disability; and
- tax all creditable compensation.

Management Information Report: Railroad Medicare Progress and Challenges

Background

During FY 2013, CMS designated Palmetto as a Specialty Medicare Administrative Contractor (SMAC). This designation provided Palmetto with additional resources for addressing some of the weaknesses previously identified by OIG.

The objective of this review was to assess Railroad Medicare's program administration and oversight since Palmetto's designation as a SMAC.

Findings

OA's review found that Palmetto has made progress towards improving its claims processing control environment through technical innovation and resource deployment. However, Palmetto's program, budgetary, system, and resource limitations continue to restrict progress and its organizational communication and operational processes can be further refined to minimize improper payments. In addition, the RRB has not always implemented Railroad Medicare corrective actions in an expeditious manner. Both the RRB and Palmetto must address these challenges to minimize improper payments and adapt to future program and organizational change.

⁷ Please see pages 6 through 8 of the report for additional details regarding the methodology and results of OA's data analysis. The full report is available on our website at www.rrb.gov/oig.



Office of Inspector General for the Railroad Retirement Board

Recommendations

The following are examples of the 13 recommendations OA made to improve Railroad Medicare program administration and oversight.

- The Office of Programs should ensure that Palmetto periodically conducts meetings and training with key fraud and abuse units including provider enrollment, medical review, benefit integrity, and Medicare secondary payers;
- The Office of Programs should ensure that Palmetto modifies their return mail process to include benefit integrity referrals; and
- The Office of Administration should re-evaluate their audit follow-up process to ensure that open recommendations are closed in a timely manner.

The RRB has agreed to take corrective action on eight of these recommendations.

Audit of Business Process Controls in the Financial Management Integrated System

Background

OA conducted an audit to assess the adequacy of the selected business process controls in the FMIS for the financial management activities of budget formulation and execution, general ledger, and reporting.

Findings

OA determined that a significant deficiency exists for the business process controls in FMIS based on their audit findings, which are summarized as follows.⁸

- The selected business process controls for the financial management activities in the general ledger were not operating and effective for the preparation and approval process for accounting transactions. OA identified 34 accounting transaction errors, which were not considered valid or confidential for the selected controls. Twenty-four of those transactions, totaling approximately \$1.6 billion, had partial or no supporting documentation, making their financial recording questionable. OA estimated that

⁸ A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.



Office of Inspector General for the Railroad Retirement Board

there are 197 accounting transaction errors in the universe of accounting transactions prepared by the Bureau of Fiscal Operations from October 2013 through March 2014.

- The Bureau of Fiscal Operations had not clearly documented or maintained policies and procedures for FMIS transaction processing. They had also not been updated to incorporate changes that have taken place since FMIS became operational.
- Transactions were modified by the Financial Systems Manager contrary to the Bureau of Fiscal Operations' policy and FMIS security profiles were not always appropriate.

Recommendations

In total, OA made nine recommendations to address identified weaknesses including recommendations that the Bureau of Fiscal Operations should:

- improve controls to ensure the validity of the transaction by attaching sufficient supporting documentation in FMIS;
- develop policies and procedures specific for FMIS and update current ones to incorporate FMIS; and
- review and revise FMIS security roles to ensure that the principles of segregation of duties is established and to ensure that only authorized personnel can initiate and view appropriate transactions.

The Bureau of Fiscal Operations either concurred with or acted upon all nine recommendations.

Audit of the Adequacy of Interface Application Controls in the Financial Management Integrated System

Background

In October 2013, the RRB transitioned from an older mainframe based financial management system to a new web-based cloud hosted system, FMIS. The interface strategy that RRB used for the new FMIS was to adapt as much of the interface design and processes in place under the prior system so that a significant redesign of the pre-existing interfaces was not necessary. OA conducted an audit of the interface application controls in the RRB's new FMIS with the objective of assessing the adequacy of the controls.



Office of Inspector General for the Railroad Retirement Board

Findings

OA's audit determined that FMIS interface application controls are adequately operating as designed; however, they did note that the RRB needs to revise the System Security Plan for FMIS because the plan does not adequately describe the interfaces, and it leaves information about interconnected applications and systems incomplete. This occurred because the FMIS System Security Plan was prepared by the shared service provider and was not adequately reviewed by RRB management. Inadequate information about interfaces and interconnections in the System Security Plan can result in system risks not being fully evident to the system's authorizing official or in misunderstandings about the existence and legitimacy of agreements over interfaces and delays in making updates when those agreements expire.

Recommendation

OA recommended that the Bureau of Fiscal Operations revise the FMIS System Security Plan to provide the required information about each interface, and update the interconnections table accordingly. The Bureau of Fiscal Operations concurred with this recommendation.

Audit of the Data Management Application Controls and Selected General Controls in the Financial Management Integrated System

Background

OA conducted an audit of data management application controls and selected configuration management, segregation of duties, and contingency planning general controls in the RRB's FMIS. The objective of this audit was to assess the adequacy of the controls. Data management components of an application include the logical design and physical architecture of the system, and control the entry, storage, retrieval, and processing of information. In an effective internal control environment, configuration management controls should be in place to ensure adequate migration from an older system to a newer system; a contractor's organizational structure should have proper segregation of duties; and contingency planning should ensure the continuity of operations if an unplanned interruption of operation occurs.



Office of Inspector General for the Railroad Retirement Board

Findings

OA's audit determined that the FMIS controls for data management, configuration management (migration of the system), contractor segregation of duties, and contingency planning are adequate; however, some control deficiencies exist. They determined that the RRB should:

- create system specific procedures for access to the FMIS application;
- update the FMIS System Security Plan to correct errors in control descriptions and ensure missing controls are reflected; and
- modify audit and accountability procedures to reflect current practice.

Additionally, an official from the Bureau of Fiscal Operations notified us that the RRB anticipates migrating their Program Accounts Receivable system to one that will fully integrate with FMIS. Similar control deficiencies could occur during the course of that migration if lessons learned are not effectively applied.

Recommendations

OA made eight recommendations to address the control deficiencies that were identified by the audit: RRB concurred with six recommendations and partially concurred with two recommendations.



Office of Inspector General for the Railroad Retirement Board

Management Decisions and Implementation

As part of its oversight activities, the 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, 2014	5
Pending Management Decision for New Recommendations	2
Management Decision on Previous Recommendations	0
Recommendations Pending Management Decision on September 30, 2014	7

Corrective Action	
Recommendations Requiring Action on April 1, 2014	188
Recommendations Issued During Reporting Period	68
Corrective Actions Completed During Reporting Period	29
Recommendations Rejected During Reporting Period	9
Final Actions Pending on September 30, 2014	218



Office of Inspector General for the Railroad Retirement Board

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 identified through investigative work. In order to maximize the impact of its resources, OI pursues cooperative investigative activities in coordination with other Inspectors General such as the Office of Inspector General for the Department of Health and Human Services and other law enforcement agencies, such as the Federal Bureau of Investigation and the U.S. Secret Service.

Current Caseload

During this semiannual reporting period, OI opened 93 new cases.

Investigative Caseload Data	
Investigative Cases Open as of April 1, 2014	326
Investigative Cases Opened During Reporting Period	93
Investigative Cases Closed During Reporting Period	98
Investigative Cases Open as of September 30, 2014	321

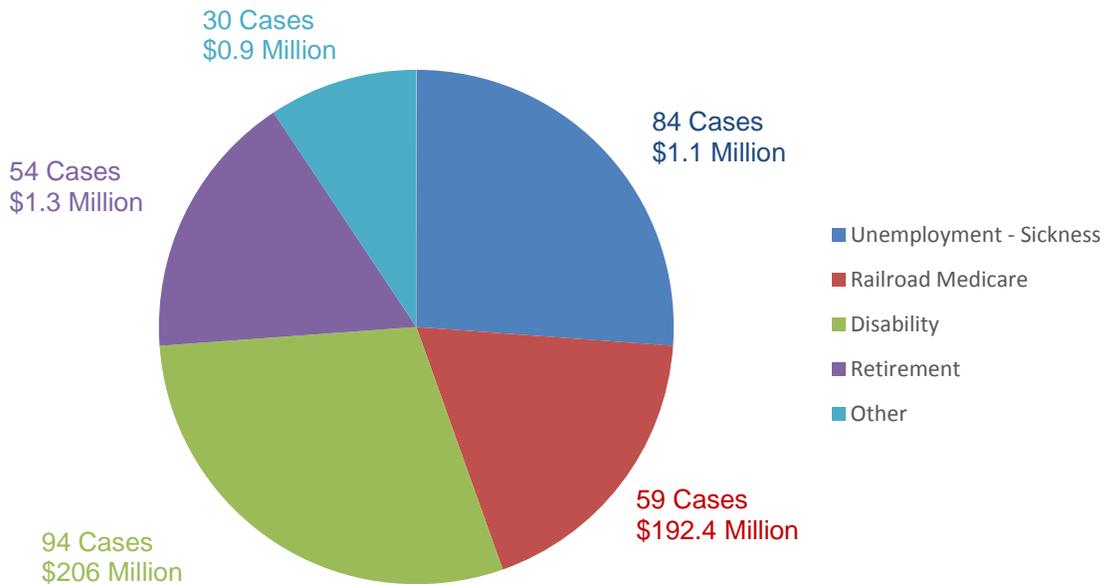
As of September 30, 2014, OI's investigative case load totaled 321 matters which represent approximately \$401.7 million in potential fraud losses.⁹ The chart located on the next page reflects the distribution of OI cases and potential fraud losses by RRB major program area.

⁹ 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.



Office of Inspector General for the Railroad Retirement Board

Caseload and Potential Fraud Loss 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 employers, and others.



Office of Inspector General for the Railroad Retirement Board

Investigative Accomplishments

Action	April 1, 2014 – September 30, 2014
Referrals to the Department of Justice	24
Indictments/Informations	20
Arrests	15
Convictions	46
Civil Complaints	8
Civil Judgments	14
Restitution and Fines ¹⁰	\$39.7 Million
Asset Forfeiture	\$34.1 Million
Civil Damages and Penalties ¹⁰	\$3.2 Million
Investigative Recoveries ¹¹	\$570,248
Community Service Hours	200

¹⁰ The dollar amounts 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.

¹¹ RRB benefits that are overpaid due to fraud and can be recouped through RRB administrative recovery action are expressed as investigative recoveries.



Office of Inspector General for the Railroad Retirement Board

April 1, 2014 – September 30, 2014
Representative Investigations

Disability Investigations

OI conducts fraud investigations relating to the RRB's disability program. Railroad workers who are awarded an RRB disability annuity 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 semiannual reporting period, 12 individuals, including a former RRB District Office Manager, received Federal sentences totaling 115 months of prison, 216 months of probation, 192 months of supervised release, and were ordered to pay more than \$68 million in restitution, forfeiture, and special assessments in connection with our ongoing LIRR occupational disability fraud investigation.

In combination with the above LIRR related sentences, OI obtained 30 disability fraud convictions. The defendants received, in the aggregate, sentences totaling more than 15 years of prison, 81 years of probation, and were ordered to pay more than \$71.1 million in restitution, fines, and forfeiture.

Descriptions of representative cases completed during this reporting period follow.

Former RRB Employee Sentenced to Five Years of Prison in Connection with Ongoing LIRR Fraud Investigation

A Federal District Court Judge sentenced a former RRB District Office Manager to 5 years of prison, 3 years of supervised release, and more than \$63 million in restitution and forfeiture for her role as a facilitator in connection with our ongoing LIRR fraud investigation. During a 2013 trial, the employee was convicted of Conspiracy to Commit Mail Fraud, Wire Fraud, and Health Care Fraud in addition to Conspiracy to Defraud the RRB. This case was prosecuted by the U.S. Attorney's Office for the Southern District of New York and was a joint investigative effort with the Federal Bureau of Investigation.



Office of Inspector General for the Railroad Retirement Board

Disability Annuitant Pleads Guilty and Consents to the Suspension of His RRB Benefits

Special Agents investigated an RRB disability annuitant who failed to report earnings from his guitar repair business. His failure to report this information to the RRB caused him to fraudulently receive RRB disability payments.

This case was referred to the United States Attorney's Office for the Southern District of Georgia which filed an indictment against the annuitant. He pled guilty to one count False Statements and was sentenced to four years of probation and ordered to pay almost \$86,000 in restitution and fines. He also agreed to the suspension of his RRB disability benefits.

Disability Annuitant Sentenced to County Sheriff's Work Farm Program

OI Special Agents investigated an RRB disability annuitant who failed to report his income and excess earnings to the RRB. The annuitant's failure to report this information caused him to fraudulently receive more than \$57,000 in disability payments.

This case was referred to the United States Attorney's Office for the Middle District of Florida which filed a criminal information against the annuitant. He subsequently pled guilty to 1 count Theft of Government Funds and was sentenced to 3 years of probation (with 12 days to be served at the County Sheriff's Work Farm Program) and full restitution plus a special assessment.

Unemployment-Sickness Insurance Investigations

Unemployment-Sickness Insurance benefit fraud typically involves individuals claiming and receiving Unemployment Insurance (UI) or Sickness Insurance (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.



Office of Inspector General for the Railroad Retirement Board

Since the enactment of the American Recovery and Reinvestment Act of 2009 and various other benefit extending legislation, OI has seen a substantial increase of UI fraud referrals. In fact, almost 89% of OI's current UI fraud cases involve extended UI benefits.

During this reporting period, OI obtained 8 convictions and 10 civil judgments for UI-SI fraud cases. Defendants in these cases received, in the aggregate, 24 years of probation, 200 hours of community service, and were ordered to pay more than \$337,000 in restitution, fines, and civil damages/penalties.

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

UI Claimant Fails to Report Work and Earnings to the RRB

OI investigated a UI claimant based upon an agency referral. OI's investigation determined that during the period of January 2012 through February 2013, the claimant applied for UI benefits on the same days he was working and being paid by a private employer. The claimant submitted a total of 29 false claims and collected more than \$14,000 in fraudulent UI benefits.

This case was referred to the United States Attorney's Office for the Northern District of Illinois. The United States Attorney's Office filed an information against the annuitant for Theft of Public Money. The annuitant pled guilty and was sentenced to two years of probation and ordered to pay full restitution plus a special assessment.

UI Claimant Sentenced to Four Years of Probation

OI investigated a UI claimant based upon an agency referral. OI's investigation determined that during the period of April 2009 through June 2010, the claimant applied for UI benefits on the same days he was working and being paid by a private employer. The claimant submitted a total of 10 false claims and collected more than \$18,000 in fraudulent UI benefits.

This case was referred to the United States Attorney's Office for the Eastern District of Tennessee. The annuitant was indicted on Mail Fraud and False Statements. He pled guilty to one count False Statements and was sentenced to four years of probation and ordered to pay full restitution plus a special assessment.



Office of Inspector General for the Railroad Retirement Board

UI Claimant Ordered to Repay Over \$23,000

OI investigated a UI claimant based upon an agency referral. OI's investigation determined that during the period of November 2008 through May 2010, the claimant applied for UI benefits on the same days he was working and being paid by a private employer. The claimant submitted a total of 30 false claims and collected more than \$23,000 in fraudulent UI benefits.

This case was referred to the United States Attorney's Office for the Eastern District of Pennsylvania. The United States Attorney's Office filed an information against the annuitant and the annuitant pled guilty to five counts of Wire Fraud, one count False Statements, and one count Conversion of Government Funds. The claimant was sentenced to five years of probation and ordered to pay full restitution plus a special assessment.

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 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 two convictions and two civil judgments for retirement benefit fraud cases. Defendants in these cases received, in the aggregate, 3½ years of prison, 3 years of probation, and were ordered to pay more than \$941,000 in restitution, fines, and civil damages/penalties.

The following are examples of retirement-survivor cases completed during this reporting period.



Office of Inspector General for the Railroad Retirement Board

Financial Management Firm Criminally Prosecuted for Embezzling Federal Funds

OI worked cooperatively with the State of Montana Division of Criminal Investigations; the Office of Inspector General for the Social Security Administration; the Federal Bureau of Investigation; and the Office of Inspector General for the Department of Veteran's Affairs to investigate Federal benefit fraud. The investigation revealed that the owner of a small financial management firm embezzled Federal funds which were intended for the benefit of their clients.

This case was referred to the United States Attorney's Office for the District of Montana which filed a criminal information against the owner. He subsequently pled guilty to Mail Fraud and was sentenced to 30 months of prison, 3 years of supervised release, almost \$370,000 in restitution, and an identical amount in forfeiture.

Annuitant's Daughter Sentenced to House Arrest

OI's investigation substantiated allegations that an RRB annuitant had passed away in 2002; however, the annuitant's daughter failed to report the death and converted more than \$66,000 in RRB benefits for her own personal use.

This case was referred to the United States Attorney's Office for the Northern District of Illinois. The subject pled guilty to one count Theft of Government Funds and was sentenced to 3 years of probation with the first 30 days being served under house arrest. She was also ordered to pay full restitution plus a special assessment.

Annuitant's Daughter Steals More Than \$268,000 in RRB Benefits

An annuitant's daughter failed to report the annuitant's death to the RRB and fraudulently collected more than \$268,000 in RRB benefits. OI's investigation revealed that the annuitant had passed away in 2002; however, the RRB continued to electronically deposit her annuity checks until 2013. Special Agents determined that on several occasions, including in person, the daughter had posed as her mother in order to further her fraud scheme.



Office of Inspector General for the Railroad Retirement Board

This case was referred to the United States Attorney's Office for the District of New Jersey which filed a criminal information against the daughter. She subsequently pled guilty to one count Theft of Government Funds and was sentenced to eight months of prison, three years of probation, and full restitution.

Railroad Medicare Investigations

During this reporting period, OI obtained one conviction and one civil judgment in Railroad Medicare fraud cases. Defendants in these cases received, in the aggregate, 8 years of prison, 3 years of probation, and were ordered to pay more than \$4.1 million in restitution, fines, and civil damages/penalties.¹²

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.

Descriptions of representative cases completed during this reporting period follow.

Qui Tam Lawsuit Settled for \$2.9 Million

An OI Special Agent worked cooperatively on a multi-agency team investigating allegations contained in a Qui Tam lawsuit filed in the District of Kansas. Agents were able to prove that the subject medical provider fraudulently billed government health care programs, including Railroad Medicare, for services not-rendered as well as billing for grossly inflated pharmaceutical dosages. The United States Attorney's Office for the District of Kansas subsequently intervened in this case and entered into a settlement agreement with the provider for \$2.9 million.

¹² 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.



Office of Inspector General for the Railroad Retirement Board

Durable Medical Equipment Company Owner Sentenced to Eight Years of Prison

Pursuant to a referral from the Medicare Fraud Strike Force, OI initiated this investigation against the owner of a Texas Durable Medical Equipment company. The subsequent joint investigation revealed that the owner submitted false claims to Medicare for durable medical equipment which was never provided to the patients. As a means to further his scheme, he fraudulently used other physicians' Medicare billing numbers to submit false claims.

This case was referred to the United States Attorney's Office for the Southern District of Texas. After a three day trial the owner was convicted of Aiding and Abetting Health Care Fraud and Aggravated Identity Theft. He was sentenced to 96 months of prison, 3 years of probation, and ordered to repay more than \$1.2 million in restitution.

Civil Enforcement Results

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

During this semiannual reporting period, a total of 14 civil judgments were entered by U.S. District Courts for RRB fraud cases totaling more than \$3.2 million in damages and penalties.¹³ 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 including the unemployment-sickness insurance program and the disability program.

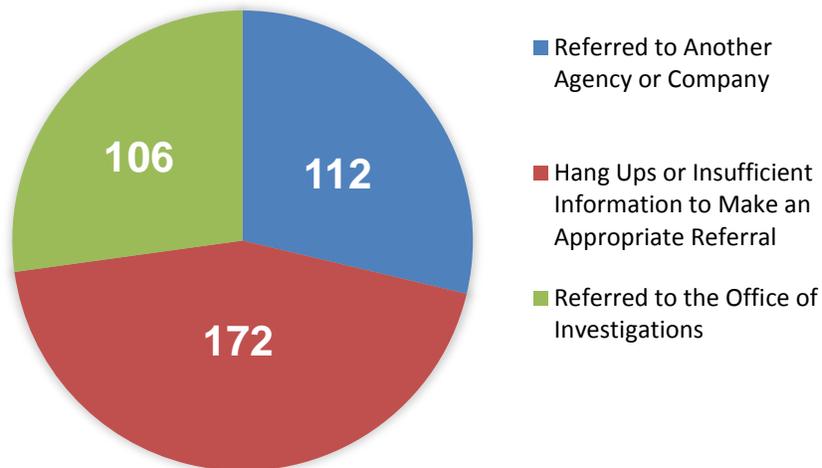
¹³ The total amount of damages and penalties listed reflects fraud amounts related to programs administered exclusively by the RRB and fraud amounts from other Federal programs such as Medicare or Social Security which were included in the disposition resulting from the investigation.



Office of Inspector General for the Railroad Retirement Board

Hotline Contacts

Our office's hotline provides an open line of communication for individuals to report suspected criminal activity and mismanagement/waste of RRB funds. During this reporting period, our hotline received 390 contacts in the following manner: 82% by telephone, 10% by mail, and 8% by email. The following chart summarizes the disposition of hotline contacts received.





Office of Inspector General for the Railroad Retirement Board

OTHER OVERSIGHT ACTIVITIES

Seven–Day Letter to Congress

Section 5(d) of the Inspector General Act of 1978, as amended, requires an Inspector General to immediately report to the agency head “particularly serious or flagrant problems, abuses, or deficiencies relating to the administration of programs and operations of [the agency].”¹⁴ This section also requires the agency head to transmit the Inspector General’s concerns, along with the agency head’s comments, to Congress within seven calendar days.

On February 10, 2014, under the cited statutory provision, the Inspector General alerted the Chairman of the Board to particularly serious or flagrant deficiencies in the administration of the RRB’s occupational disability program. The Board continues to disregard the salient factors that have contributed to ongoing disability program fraud, and the Inspector General continues to seek fundamental changes to the administration of the RRB’s occupational disability program.

OIG Alerts

In June 2012, the Inspector General began issuing OIG Alerts to the agency. OIG Alerts supplement our current audit and investigative processes by providing the Inspector General with a quick and efficient mechanism to suggest recommendations for agency improvement. During this semiannual reporting period, the Inspector General issued five OIG Alerts. The Inspector General addressed a variety of issues through these alerts including RRA and RUIA program integrity and amending 20 CFR § 220.10 (b) to require a third Occupational Disability Advisory Committee physician/member who represents the RRB’s Chairman and his constituents – the public.

In connection with the Inspector General’s concerns transmitted in his seven-day letter to Congress, the OIG contracted with Robert K. McLellan, MD, MPH to conduct an independent limited review of the RRB’s disability program.¹⁵ On June 2, 2014, the Inspector General issued OIG Alert 14-03 which transmitted an outline of Dr. McLellan’s foundational philosophy and principles to enhance the integrity of the RRB’s disability

¹⁴ 5 U.S.C. App. 3, § 5(d).

¹⁵ Dr. McLellan is currently the Chief of the Occupational and Environmental Medicine Section at Dartmouth-Hitchcock Medical Center and is an Associate Professor at the Geisel School of Medicine at Dartmouth.



Office of Inspector General for the Railroad Retirement Board

program. Through this Alert, the Inspector General asked the Board to seriously consider Dr. McLellan's wisdom and to use his ideas to start a dialogue regarding substantial and meaningful change to the RRB's disability program. As of September 30, 2014, the Board has not commented on Dr. McLellan's suggestions.

American Recovery and Reinvestment Act of 2009

During this semiannual period, we continued our efforts to aide in a transparent American Recovery and Reinvestment Act process by preparing progress reports in formats developed by the Recovery Accountability and Transparency Board. These reports are published on the Recovery.gov website and are also available on the RRB's Recovery Act Information webpage.

Since the enactment of the American Recovery and Reinvestment Act of 2009 and various other benefit extending legislation, OI has seen a substantial increase of UI fraud referrals. In fact, almost 89% of OI's current UI fraud cases involve extended UI benefits.

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 Retirement Investment Trust

The National Railroad Retirement Investment Trust (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.¹⁶ RRSIA requires that the NRRIT report to the RRB but does not provide the OIG with oversight authority to conduct audits and investigations of the NRRIT. We have, however, monitored the NRRIT since 2001 and have continually expressed concerns regarding lack of meaningful oversight. Despite these concerns and questionable long-term trust fund solvency, the RRB continues to maintain a passive relationship with the NRRIT.

¹⁶ As of July 31, 2014, the RRB's investments in the NRRIT were valued at approximately \$26.4 billion.



Office of Inspector General for the Railroad Retirement Board

A lack of NRRIT investment fund management accountability, transparency, and stringent financial oversight can be precursors to fraud, waste, or abuse. Yet, the NRRIT fund, which supports the railroad retirement program, continues to remain 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.

Additionally, as previously discussed in our *October 1, 2013 – March 31, 2014 Semiannual Report to the Congress*, the OIG is not able to comply with audit requirements promulgated by the American Institute of Certified Public Accountants, specifically AU-C section 600. Consequently, the OIG must disclaim on the RRB's financial statements since the OIG is unable to perform required audit procedures and undetected misstatements, which could be material and pervasive, may exist. The OIG expects this to be a continuing challenge until changes are made regarding communication between the OIG and, the NRRIT and its auditors.



Office of Inspector General for the Railroad Retirement Board

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. On February 10, 2014, the Inspector General issued a seven-day letter to Congress which stated, in pertinent part, that if the RRB's three-member Board is unwilling or unable to effectuate real and meaningful change in the RRB's disability program, then legislation should be passed to either:

- eliminate the RRB's occupational disability program; or
- to make the occupational disability program a temporary benefit program.

In connection with OA's Management Information Report titled *Financial Impact of Injury Settlements Awarding Service Months to Qualify Railroad Employees for Occupational Disability Benefits*, OA recommended that the Board seek legislative changes to:

- disallow service months credited as pay for time lost through an injury settlement when determining service eligibility for an occupational disability; and
- tax all creditable compensation.

As discussed on page 26, on July 1, 2014, the Inspector General issued OIG Alert 14-05 which recommended amending 20 CFR § 220.10 (b) to require a third Occupational Disability Advisory Committee physician/member who represents the RRB's Chairman and his constituents – the public.

APPENDICES

Appendix	Title	Page No.
A	Office of Inspector General Reports and Other Publicly Available Papers Issued	31
B	Audit Reports with Questioned Costs or with Recommendations that Funds be Put to Better Use	32
C	Report on Receivables, Waivers, and Recoveries	33
D	Significant Matters	35
E	Peer Reviews	37
F	Reports Prepared by Management	38
G	Reporting Requirements	45
H	Acronyms	46
I	Legal References	47

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

- Audit of the General and Application Controls in the Railroad Retirement Board's Financial Management Information System, May 6, 2014
- Audit of Payment Controls over Railroad Medicare Claims Submitted by Physical Therapists, May 16, 2014
- Management Information Report: Financial Impact of Injury Settlements Awarding Service Months to Qualify Railroad Employees for Occupational Disability Benefits, July 18, 2014
- Management Information Report: Railroad Medicare Progress and Challenges, July 25, 2014
- Audit of Business Process Controls in the Financial Management Integrated System, August 1, 2014
- Audit of the Adequacy of Interface Application Controls in the Financial Management Integrated System, August 14, 2014
- Audit of the Data Management Application Controls and Selected General Controls in the Financial Management Integrated System, September 30, 2014

All publicly 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, 2014	1	\$3,800,000	\$3,800,000
B. Which were issued from April 1, 2014 through September 30, 2014	2	\$31,600,000	\$17,300,000
Subtotal (A + B)	3	\$35,400,000	\$21,100,000
C. For which a management decision was made between April 1, 2014 through September 30, 2014	2	\$31,600,000	\$17,300,000
(i) dollar value of disallowed costs		\$14,090,000 ¹⁷	\$0
(ii) dollar value of costs not disallowed		\$210,000 ¹⁷	\$17,300,000
D. For which no management decision had been made by September 30, 2014	1	\$3,800,000	\$3,800,000
E. Report for which no management decision was made within six months of issuance	1	\$3,800,000	\$3,800,000

	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, 2014	0	\$0
B. Which were issued from April 1, 2014 through September 30, 2014	1	\$11,900,000
C. Subtotal (A + B)	1	\$11,900,000
(i) dollar value of recommendations agreed to by management		\$0
(ii) dollar value of recommendations not agreed to by management		\$0
D. For which no management decision had been made by September 30, 2014	1	\$11,900,000
E. Report for which no management decision was made within six months of issuance	0	\$0

¹⁷ These amounts are reflected in one audit report where the management decision was to disallow a portion of the questioned costs.

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
2012	\$1,417,125
2013	\$1,922,166
2014	\$1,021,544

Office of Audit

Report	Funds to Be Put to Better Use	Funds Agreed by Management	Receivables Established	Waivers	Recoveries to Date ¹⁸
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	\$23,600,000
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	\$4,468,228	\$339,244	\$3,019,459
05-06	\$10,000	\$10,000	\$0	\$0	\$42,915
05-07	\$1,070,000	\$1,070,000	\$49,943	\$0	\$95,376
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	\$31,455	\$0	\$27,934
09-02	\$600,000	\$600,000	\$320	\$0	\$1,806,195
10-09	\$3,355,408	\$3,355,408	\$0	\$0	\$3,355,408
10-13	\$212,038	\$92,412	\$0	\$0	\$18,614
12-03	\$3,483	\$3,483	\$0	\$0	\$3,483
13-03	\$112,600	\$112,600	\$0	\$0	\$0
13-08	\$2,440	\$2,440	\$0	\$2,440	\$0
13-09	\$9,927 ¹⁹	\$9,927	\$4,330 ²⁰	\$0	\$10,004
14-04	\$866,000	\$866,000	\$51,490	\$0	\$0
14-08	\$11,900,000 ²¹				

¹⁸ Both overpayments and underpayments are included in this column.

¹⁹ Amount includes additional monies reported by the RRB.

²⁰ Amount reflects correction of previously reported receivables by the RRB.

²¹ Amount is associated with an unresolved audit recommendation.

Appendix D – Significant Matters

The OIG has identified deficiencies in controls over budgetary reporting as a significant matter and has reclassified a previously cited significant deficiency in information security as no longer being significant. A summary of the issues and related recommendations for corrective action follow.

Budgetary Reporting

The agency's Statement of Budgetary Resources (SBR) remains a concern. The OIG observed that through June 2014, the Bureau of Fiscal Operations had not been able to produce the SBR through the FMIS. Although the Bureau of Fiscal Operations has taken some corrective action, including the migration to FMIS and the implementation of the Department of the Treasury's Government-wide Treasury Account Symbol Adjusted Trial Balance System, further corrective actions still need to be taken to ensure the accuracy of calculations, consistency in recorded amounts, and effectiveness of controls.

Issue Area

Budgetary Reporting

Date of Report

January 31, 2012

Report and Recommendations

Report OIG 12-04, 2

Information Security

Risk Management Program

In FY 2014, the OIG evaluated the RRB's information security program pursuant to the provisions of the Federal Information Security Management Act of 2002 (FISMA). OIG auditors determined that the RRB has strengthened controls in their risk management and continuous monitoring program to mitigate the material weakness regarding the review of contractor deliverables. The RRB's program now includes sufficient review of the deliverables obtained from their independent contractor, and coordination among the various system owners to ensure adequate coverage and consideration of inherited controls. While this deficiency is no longer considered to be significant, open audit recommendations continue to exist.

<u>Issue Area</u>	<u>Date of Report</u>	<u>Report and Recommendations</u> ²²
Internal Control Over the Risk Management Program ²³	July 18, 2005	Report OIG 05-08, #4
	September 28, 2011	Report OIG 11-10, #1 – 3
	September 28, 2011	Report OIG 11-11, #1
	September 29, 2011	Report OIG 11-12, #1 – 4
	January 5, 2012	Report OIG 12-02, #2 & 5
	September 21, 2012	Report OIG 12-08, #2 – 4

Configuration Management

In FY 2014, the OIG evaluated the RRB's information security program pursuant to the provisions of FISMA. OA determined that the RRB has taken appropriate configuration management actions to remove unsupported Windows 2000 servers and migrate away from the unsupported operating system. The completion of the project to upgrade impacted applications and the decommissioning of all of the Windows 2000 servers allows the OIG to consider this weakness in configuration management remediated. All related audit recommendations are now considered implemented.

²² Online report abstracts summarize the results of the noted evaluations. The full reports include information protected from disclosure and have been designated for limited distribution pursuant to 5 U.S.C. § 552.

²³ Previously known as Certification and Accreditation.

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 organizations 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, 2012) were transmitted on November 21, 2012. OA received a peer review rating of pass. This peer review did not contain any recommendations.

During this semiannual reporting period, OA completed their peer review of the audit organization for the Smithsonian Institution. OA concluded that the system of quality control for the Smithsonian Institution, in effect for the year ended March 31, 2014, has been suitably designed and complied with to provide the Smithsonian Institution with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. The Smithsonian Institution earned a peer review rating of pass. No recommendations were identified in the peer review report.

Office of Investigations

During the peer review process, Federal OIG investigative organizations, in general, may receive a peer review rating of 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, 2014) were transmitted in May 2014. OI received a peer review rating of compliant. OI did not conduct any peer reviews during this semiannual reporting period.

Appendix F – Reports Prepared by Management

Final Action on Audits with Disallowed Costs

For the 6-Month Period Ending September 30, 2014	<u>Number of Audit Reports</u>	<u>Disallowed Costs</u>
A. Audit reports, with management decisions, on which final action had not been taken at the beginning of the period.	0	\$ 0
B. Audit reports on which management decisions were made during the period.	0	\$ 0
C. Total audit reports pending final action during the period. (A + B)	0	\$ 0
D. Audit reports on which final action was taken during the period.		
1. Recoveries		
(a) Collections and offsets	0	\$ 0
(b) Property	0	\$ 0
(c) Other	0	\$ 0
2. Recovery Waived	0	\$ 0
3. Total of 1 and 2	0	\$ 0
E. Audit reports needing final action at the end of the period (C - D.3).	0	\$ 0

Management Report on Final Action on Audits with Recommendations to Put Funds to Better Use for the 6-Month Period Ending September 30, 2014

	<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.	4	\$894,512 ²⁴
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)	4	\$894,512
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.	4	\$894,512

²⁴ 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*; 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, 2014**

Report	Date	Disallowed Costs	Funds to be Put to Better Use	Reason Action Not Completed
Review of Information Security at the Railroad Retirement Board (02-04)	02/5/02	NONE	NONE	Information Services has closed 26 out of 28 recommendations. Servers are scheduled to be replaced once remaining project on server is completed.
Review of Internal Control Over the Actuarial Projection Process (05-04)	05/5/05	NONE	NONE	The Chief Actuary continues to review work plan prior to submission to OIG.
Review of Access Controls in the End-User Computing General Support System (05-08)	07/18/05	NONE	NONE	Information Services has closed 14 of 15 recommendations in this confidential report. Documentation is currently being finalized for submission to OIG.
Fiscal Year 2005 Evaluation of Information Security at the Railroad Retirement Board (05-11)	09/28/05	NONE	NONE	Contractor for Bureau of Information Services is currently developing Plan of Action & Milestones process for implementation. Target for completion is FY2015.
Review of Compliance with the Provisions of the Railroad Retirement Act Governing the Initial Award of Benefits (06-05)	04/12/06	NONE	\$2,100	Programs staff closed four of the five recommendations. Last recommendation on hold due to resources diverted to higher priority project.
Review of the Termination and Suspension of Benefits Paid Under the Railroad Retirement Act (06-06)	05/24/06	NONE	\$200,000	No change in status. Resources diverted to higher priority project.
Review of Incident Handling and Reporting at the Railroad Retirement Board (06-09)	08/24/06	NONE	NONE	Agency currently reviewing documentation, and will submit to OIG for closeout in FY15.
Audit of the DAISY/CHICO Component Application of the RRA Benefit Payment Major Application System (07-02)	03/9/07	NONE	NONE	Resources were diverted to higher priority projects on one recommendation. On the other, contract was awarded with work underway on requirement definitions and project plan.
Audit of Federal Income Taxes Withheld from Railroad Retirement Annuities (07-07)	07/30/07	NONE	NONE	Coordination is required with another organization. Five of the six recommendations have been closed, with the remaining one targeted for completion in FY15.

**Management Statement on Resolved Audit Reports Over
12 Months Old with Final Action Pending as of
September 30, 2014**

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)	09/27/07	NONE	NONE	Work continues and is targeted for completion in FY15.
Audit of Controls to Safeguard Sensitive Personally Identifiable Information (07-09)	09/27/07	NONE	NONE	Work and coordination continues with outside contractor. Target for completion is FY15.
Fiscal Year 2007 Financial Statement Audit Letter to Management (08-01)	03/6/08	NONE	NONE	Bureau of Fiscal Operations implemented enhanced controls in FY10. FMIS implemented changes in financial statement preparation. New procedures developed in FY14. Work continues.
Evaluation of Information Security for the RRB's Financial Interchange Major Application – Abstract (08-03)	09/26/08	NONE	NONE	Work continues on work plans, policy and/or procedures.
Fiscal Year 2008 Evaluation of Information Security at the RRB (08-05)	09/26/08	NONE	NONE	Documentation is currently being reviewed prior to submission to 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 the Railroad Medicare Integrity Program at Palmetto Government Benefits Administrators (09-04)	09/25/09	NONE	NONE	Coordination continues with outside agency.
Audit of the General and Application Controls in the Financial Management Major Application System (09-05)	09/30/09	NONE	NONE	Work is near completion on worksheet to validate self-processed transactions for one recommendation, and work continues on the other recommendation with target completion in FY15.
Fiscal Year 2009 Evaluation of Information Security (10-01)	11/12/09	NONE	NONE	Documentation currently being reviewed for submission to OIG. Target completion in FY15.

**Management Statement on Resolved Audit Reports Over
12 Months Old with Final Action Pending as of
September 30, 2014**

Report	Date	Disallowed Costs	Funds to be Put to Better Use	Reason Action Not Completed
Review of Statistical Methods Employed in the Financial Interchange Determination (10-06m)	05/04/10	NONE	NONE	The Bureau of Actuary is reviewing documentation and will take the necessary action(s). They will 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).
Review of the Accuracy of the Financial Interchange as Executed for the Year Ended September 30, 2008 (10-10m)	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. Target completion in FY15.
Audit of the Account Benefits Ratio (10-12)	09/29/10	NONE	NONE	The Bureau of Actuary is reviewing and will take the necessary action(s).
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.
Audit of Controls Over Railroad Medicare Contract Costs (11-06)	04/20/11	NONE	NONE	Coordination with outside organization is required.
Audit of Railroad Retirement Act Benefits Overpayments and Internal Controls (11-07)	06/29/11	NONE	NONE	Chart of controls for RBD and SBD to be updated and tested prior to submission to OIG for closeout on one recommendation, and on the other, a review of planned changes is required to address recommendation.
Review of the Railroad Retirement Board's Security Patch Management Process – Abstract (11-08)	07/07/11	NONE	NONE	Work continues on five recommendations, and documentation was submitted to OIG for implementation on the other.

**Management Statement on Resolved Audit Reports Over
12 Months Old with Final Action Pending as of
September 30, 2014**

Report	Date	Disallowed Costs	Funds to be Put to Better Use	Reason Action Not Completed
Inspection of the Railroad Retirement Board's Agency Enterprise General Information Support System Certification and Accreditation – Abstract (11-10)	09/28/11	NONE	NONE	Documentation is currently being reviewed and finalized for submission to OIG.
Inspection of the Railroad Retirement Board's Financial Management System's Continuous Monitoring Program – Abstract (11-11)	09/28/11	NONE	NONE	Contract has been awarded and work is in progress with outside contractor. Target completion for last recommendation is FY15.
Evaluation of the Railroad Retirement Board's Benefit and Payment Operations System Continuous Monitoring – Abstract (11-12)	09/29/11	NONE	NONE	Documentation is currently being reviewed and finalized for submission to OIG.
Fiscal Year 2011 Evaluation of Information Security at the Railroad Retirement Board - Abstract (12-02)	01/05/12	NONE	NONE	Documentation is currently being reviewed and finalized for submission to OIG.
Fiscal Year 2011 Financial Statement Audit Letter to Management (12-04)	02/31/12	NONE	NONE	Work continues on review of procedures.
Audit of the Application Express (APPLE) System's Date of Death Reliability (12-06)	03/30/12	NONE	NONE	Policies and procedures are in final stages of review on one recommendation, and a review of resource availability to be done for the other.
Inspection of the Railroad Retirement Board's Representative Payee Monitoring (12-07)	07/27/12	NONE	NONE	Work continues on five recommendations, and documentation will be submitted to OIG for closeout on two other recommendations.
Inspection of the Railroad Retirement Board's Financial Interchange System Continuous Monitoring (12-08)	09/21/12	NONE	NONE	The Bureau of Actuary is currently reviewing 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, 2014**

Report	Date	Disallowed Costs	Funds to be Put to Better Use	Reason Action Not Completed
Audit of Job Duty Verification Procedures for Long Island Rail Road Occupational Disability Applicants (13-02)	01/15/13	NONE	NONE	Currently reviewing policies and procedures.
Fiscal Year 2012 Financial Statement Audit Letter to Management (13-03)	01/28/13	NONE	NONE	Four of the five recommendations have been closed. Work continues on last recommendation.
Fiscal Year 2012 Audit of Information Security at the Railroad Retirement Board (13-04)	02/12/13	NONE	NONE	Documentation is being reviewed and finalized for seven recommendations, and work continues on remaining.
Audit of the Railroad Retirement Board's Internal Controls over Widow(er) Annuities (13-09)	07/31/2013	NONE	NONE	Currently reviewing information required to address recommendation, and finalizing outline to conduct refresher training.
Audit of the Railroad Retirement Board's Compliance with the Government Charge Card Abuse Prevention Act of 2012 (13-10)	09/19/2013	NONE	NONE	In the process of reviewing policies and procedures to develop control for when and how often for reviews of charge card holders.
Audit of the Railroad Retirement Board's Privacy Program (13-11)	09/20/2013	NONE	NONE	Documentation is currently being reviewed and finalized for submission to OIG.

Appendix G – Reporting Requirements

Act Reference	Inspector General Reporting Requirements	Page(s)
Section 4(a) (2)	Review of Legislation and Regulations	29
Section 5(a) (1)	Significant Problems, Abuses, and Deficiencies	26 - 29, 35 - 36
Section 5(a) (2)	Recommendations With Respect to Significant Problems, Abuses, and Deficiencies	26 - 29, 35 - 36
Section 5(a) (3)	Prior Significant Recommendations Not Yet Implemented	35 – 36
Section 5(a) (4)	Matters Referred to Prosecutive Authorities	4, 17
Section 5(a) (5)	Instances Where Information Was Refused	None
Section 5(a) (6)	List of Audit Reports	31
Section 5(a) (7)	Summary of Each Significant Report	5 – 13
Section 5(a) (8)	Statistical Tables on Management Decisions on Questioned Costs	32
Section 5(a) (9)	Statistical Tables on Management Decisions on Recommendations That Funds be Put to Better Use	32
Section 5(a) (10)	Summary of Each Audit Report Over 6 Months Old for Which No Management Decision Has Been Made	14
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	26 – 28

Act Reference	Management Reporting Requirements	Page(s)
Section 5(b) (1)	Management Comments	Management's Transmittal
Section 5(b) (2)	Statistical Table on Final Action on Disallowed Costs	38
Section 5(b) (3)	Statistical Table on Final Action to Put Funds to Better Use	39
Section 5(b) (4)	Statement on Audit Reports With Final Action Pending	40 – 44

Appendix H – Acronyms

Acronym	Explanation
CMS	Center for Medicare and Medicaid Services
FISMA	Federal Information Security Management Act of 2002
FMIS	Financial Management Integrated System
FY	Fiscal Year
LIRR	Long Island Rail Road
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
SBR	Statement of Budgetary Resources
SI	Sickness Insurance
SMAC	Specialty Medicare Administrative Contractor
UI	Unemployment Insurance

Appendix I – Legal References

Federal:

Aiding and Abetting Health Care Fraud – 18 U.S.C. §§ 2, 1347
Aggravated Identity Theft – 18 U.S.C. § 1028A
American Recovery and Reinvestment Act of 2009 – P.L. 111–5
Conspiracy to Commit Mail Fraud, Wire Fraud, and Health Care Fraud – 18 U.S.C. § 1349
Conspiracy to Defraud the Railroad Retirement Board – 18 U.S.C. § 371
Conversion of Government Funds – 18 U.S.C. § 641
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.
Inspector General Act of 1978, as amended – 5 U.S.C. App. 3
Mail Fraud – 18 U.S.C. § 1341
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 Retirement 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

REPORT

FRAUD, WASTE, AND ABUSE



Call the OIG Hotline:

1-800-772-4258

Email: hotline@oig.rrb.gov

The OIG cannot ensure confidentiality to persons who provide information via email. Do not send information by email that you do not want a third party to read.

**Write: RRB, OIG Hotline Officer
844 N. Rush Street
Chicago, Illinois 60611-2092**