

Office of Inspector General for the Railroad Retirement Board



Semiannual Report to the Congress

October 1, 2012 ■ March 31, 2013



UNITED STATES RAILROAD RETIREMENT BOARD

OFFICE OF INSPECTOR GENERAL

April 30, 2013

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

Dear Mr. Schwartz:

I am pleased to submit our *Semiannual Report to the Congress*. This report provides a descriptive summary of our activities and accomplishments during the period of October 1, 2012 through March 31, 2013. This report is submitted in accordance with Section 5 of the *Inspector General Act of 1978*, as amended. The Act requires that you transmit this report, along with any comments you may wish to make, to the appropriate Congressional committees and subcommittees within 30 days.

During this reporting period, we:

- completed our audit of the RRB's fiscal year 2012 financial statements;
- published our "Letter to Management" detailing matters related to internal control identified during the financial statement audit;
- prepared our statement on *Management and Performance Challenges Facing the Railroad Retirement Board*;
- published the results of our annual evaluation of the agency's information security program;
- audited the agency's compliance with the Improper Payments Elimination and Recovery Act of 2010;
- published our whitepaper on innovation leads to data analytics; and
- completed and published two additional audit reports.

Our criminal investigators achieved 9 arrests, 57 criminal convictions, 20 indictments and informations, 9 civil judgments, and more than \$156 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, unemployment-sickness insurance, and retirement-survivor 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) 2012, the RRB paid approximately \$11.5 billion in retirement-survivor and unemployment-sickness benefits to roughly 600,000 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, awards and monitors the single nationwide Medicare Part B Services contract. During FY 2012, the Railroad Medicare contractor paid approximately \$849 million in Part B medical insurance benefits on behalf of roughly 463,000 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.



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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 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 increased investigative presence and aid 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:

- completed its annual audit of the RRB's comparative financial statements for the FYs ended September 30, 2012 and 2011 along with the related reports on internal control and compliance;
- prepared the Inspector General's statement of *Management and Performance Challenges Facing the Railroad Retirement Board*;
- audited the RRB's job duty verification procedures for Long Island Rail Road occupational disability applicants;
- published the results of their annual audit of the RRB's information security program;



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- published their "Letter to Management" detailing matters related to internal control identified during the financial statement audit;
- audited the agency's compliance with the Improper Payments Elimination and Recovery Act of 2010; and
- audited Railroad Medicare ambulance charges.

OA's activities, during this reporting period, are discussed in further details on pages 4 through 14 of this report. All publicly 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 October 1, 2012 through March 31, 2013, OI achieved:

- 9 arrests;
- 20 indictments and informations;
- 57 convictions;
- 9 civil judgments;
- 24 referrals to the Department of Justice; and
- more than \$156 million¹ in financial accomplishments.

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.



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Defendants, in the aggregate, were sentenced to almost 5 years of prison, 38 years of probation, and 300 hours of community service. Additional details regarding OI's activities are discussed on pages 16 through 24. Of particular interest, OI's continuing Long Island Rail Road occupational disability fraud investigation is discussed on page 19.

OCTOBER 1, 2012 – MARCH 31, 2013 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.

Opinion on the Financial Statements

During this reporting period, OA completed its annual audit of the RRB's comparative financial statements for the FYs ended September 30, 2012 and 2011. Not only were we unable to express an opinion regarding the RRB's financial statements for the FYs ending September 30, 2012 and 2011, we were also compelled to add a disclaimer to our previously unqualified audit opinion for the RRB's FYs 2011 and 2010 financial statements. We were forced to issue this opinion based upon concerns we have regarding the reliability of the National Railroad Retirement Investment Trust's (NRRIT) independently audited financial statements.

Even though the NRRIT's net assets represent approximately 79% of the total assets reported by the RRB for FYs 2012 and 2011, we are statutorily unable to audit their financial statements and must rely solely on financial statements opined by independent auditors retained by the NRRIT.



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During the course of our financial statement audit work, we discovered that the NRRIT's contracted audit firm received a peer review rating of pass with deficiency for its system review report for the year ended March 31, 2011. They were cited for audit policies and procedures adopted and related training not being sufficient to ensure consistent performance and documentation of all necessary procedures on its non-SEC issuer audit engagements and for not consistently demonstrating that sufficient procedures were performed and/or documented in certain substantive areas.

The fact that the NRRIT audit was not sampled as part of their peer review does not negate the deficiency finding and its potential impact on the NRRIT's financial statements especially since the RRB does not scrutinize NRRIT's independent audit process.

See page 28 for additional information regarding the NRRIT.

Report on Internal Control

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

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



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Report on Compliance with Laws and Regulations

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

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

Material Weaknesses

During OA's audit of the agency's financial statements for the FYs ended September 30, 2012 and 2011, they identified material weaknesses in the following areas:

- information technology security – risk management framework;
- information technology security – configuration management;² and
- budgetary reporting.

The agency is working to address these identified areas.

Management and Performance Challenges Facing the Railroad Retirement Board

OA's *Management and Performance Challenges Facing the Railroad Retirement Board* is published in RRB's annual *Performance and Accountability Report*. This statement is prepared pursuant to the Reports Consolidation Act of 2000 and the requirements of OMB Circular A-136. This Circular requires OIGs to identify the most serious

² This material weakness was previously referred to as Information Technology Security Application and Services.



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management challenges facing their parent agency and to briefly assess the agency's progress in addressing those challenges.

OA's identification of challenges facing RRB management is based on recent audits and evaluations; new congressional directives to prevent improper payments and fraud in government programs; and continued lack of audit oversight for the NRRIT, a multi-billion dollar investment enterprise. The following challenges were identified during FY 2012:

- oversight and transparency of invested program assets;
- disability program integrity;
- financial impact of unilateral disability freeze cases;
- information technology security;
- budgetary reporting; and
- preventing and detecting improper payments.

Audit of Job Duty Verification Procedures for Long Island Rail Road Occupational Disability Applicants

OA conducted an audit of the RRB's job duty verification procedures for Long Island Rail Road (LIRR) occupational disability applicants.

In the fall of 2008, a series of news reports raised concerns about the large number of workers from LIRR who applied and were approved by the RRB for occupational disability benefits. The OIG had subsequently issued briefing reports related to these findings. One particular report issued in November of 2011, titled *Program Vulnerabilities in the Railroad Retirement Board Occupational Disability Program*, revealed that occupational disability benefits were being awarded despite unverified job information. The finding was expanded into this audit and resulted in the identification of opportunities to improve the effectiveness of controls over the occupational disability process.

The objective of the audit was to determine whether RRB disability examiners granted occupational disability annuities (to LIRR employees) based on unverified job information.



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Findings

Our audit determined that RRB's disability examiners did not always verify job duty information before granting occupational disability annuities. We identified nine individuals who were approved for occupational disability annuities even though their railroad employer, LIRR, did not return the Job Information Forms to the RRB. These nine unverified annuities represent an estimated \$3.8 million in financial risk to the agency. The financial risks to the agency would be significantly higher if we considered all railroad employers that did not return Job Information Forms.

In addition, the RRB's policies and procedures, which are contained in the Disability Manual, were not sufficient to ensure that the job information provided by LIRR employees was appropriately verified by the railroad employer prior to the agency's occupational disability determinations.

Recommendations

To address the identified control weaknesses, we recommended that the Office of Programs work with the agency's three-member Board and/or the Disability Advisory Committee and should do the following.

- Modify occupational disability procedures to comply with the Code of Federal Regulations (CFR) and to ensure that every reasonable effort is made by the District Office staff and/or the Disability staff to obtain the Job Information Forms from the railroad employer during the established response period.
- Revise the wording of the Job Information Forms using stronger language.
- Send or route the Job Information Forms to the applicant's direct supervisor, and require the direct supervisor to certify the information given in the space provided on the appropriate Job Information Form.
- Consider extending the employer response period to forward the Job Information Forms and related documentation to the RRB.
- Perform a study to determine the reasons for the railroad employers' failure to return the Job Information Forms, and take corrective action to elicit better responses based on their findings.



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Management's Response

The Office of Programs stated that they had one significant concern regarding the report. They said that the report gives an incorrect impression with respect to the relationship between the Board's regulations as published in the CFR and the policies and procedures used by disability examiners to evaluate applications for disability benefits. They stated that both the regulations and the procedures were developed in 1997 as part of the same joint labor-management initiative and the procedures were extensively reviewed at that time and properly reflect the regulations.

The Office of Programs also stated that they are unable to comment on the recommendations made in the report at this time. They further stated that the recommendations contained in the draft report differed from those discussed with OIG audit staff in that the recommendations now state that the Office of Programs work with "the agency's three-member Board and/or the Disability Advisory Committee" to implement the five recommendations in the report. Therefore, they stated that their response as to concurrence or non-concurrence for each recommendation will be delayed until they can confer with Board Offices.

RRB-OIG's Comments on Management's Response

We disagree with the Office of Programs' statements that the report gives an incorrect impression with respect to the relationship between the Board's regulations as published in the CFR and the policies and procedures used by disability examiners to evaluate applications for disability benefits. Although we understand that the policies, procedures, and regulations were developed jointly in 1997, we found that current policies and procedures do not strictly adhere to the regulations in the CFR, and consequently, do not fully meet the intent of the regulations.

With regards to the Office of Programs' statements that the recommendations contained in the draft report differ from those we discussed, we disagree. The recommendations themselves did not significantly change. However, when the OIG met with the Office of Programs to detail our audit findings, the Office of Programs management and staff told us that they lacked the authority to change any of the policies and procedures regarding disability determinations. Based on these statements and regulations which specify that the (Disability Advisory) Committee shall periodically review, as necessary, the subpart of the CFR and the Disability Manual (which contains the disability policies and procedures) and make recommendations to the Board with respect to amendments to



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the CFR or the Disability Manual, we expanded the recommendation to include the three-member Board and the Disability Advisory Committee.

Other Related Comments

In connection with the RRB's compliance with the 1995 Paperwork Reduction Act, the RRB submitted a comment request in the Federal Register which invited comments on the RRB's data collection forms for job duty information. In response to the request, LIRR submitted a letter to the agency dated December 17, 2012. In this letter, LIRR made recommendations that were similar to some of those contained in this audit report.

Fiscal Year 2012 Audit of Information Security at the Railroad Retirement Board

OA conducted an audit of information security at the RRB for FY 2012, which is mandated by the Federal Information Security Management Act of 2002 (FISMA). The objectives of this audit included testing the effectiveness of the information security policies, procedures, and practices of a representative subset of the agency's information systems; and preparing a report on selected elements of the agency's information security program in compliance with the Department of Homeland Security's FY 2012 FISMA reporting instructions.

OA's audit determined that the RRB continues to make progress in implementing an information security program that meets the requirements of FISMA; yet a fully effective security program has not been achieved. The significant deficiencies in the internal control structure over the review of the agency's contractor deliverables, associated with the risk management framework, and the security configuration management program remain unresolved. OA also noted some lesser deficiencies in the RRB's security program. In total, OA made 19 detailed recommendations to RRB management related to the following.

- Ensuring compliance with recommended system configuration requirements, including documenting all necessary deviations and adherence to change control procedures for maintaining testing and approval documentation.



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- Strengthening Identity and Access Management by revising procedures to allow for the extension of equipment and account privileges based only on written documentation, and the retention of that documentation.
- Revising procedures relating to Incident Response and Reporting in order to reduce delays in reporting potential personally identifiable information breaches.
- Improving remediation of security weaknesses by developing time standards and controls for entering weaknesses and ensuring all data fields are completed in the agency-wide *Plan of Action and Milestones*, as well as providing access and training to new users.
- Participation of all system owners in disaster recovery testing, comprehensive updates to the Business Impact Analysis and Business Continuity Plan documents, and the development of system specific contingency plans which show the test coverage and frequency.
- Updating appropriate processes and procedures for security awareness training required for RRB employees and contractors.

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

Audit of the Railroad Retirement Board's Fiscal Year 2012 Compliance with the Improper Payments Elimination and Recovery Act of 2010

On July 22, 2010, the President signed the Improper Payments Elimination and Recovery Act of 2010 (IPERA), amending the Improper Payments Information Act of 2002, which is meant to achieve the President's goal of reducing wasteful, improper payments. Subsequently, OMB issued government-wide guidance on the implementation of IPERA and mandated that each agency's Inspector General annually review improper payment reporting in the agency's *Performance and Accountability Report (PAR)* for the most recent fiscal year.

An improper payment is any payment that should not have been made or that was made in an incorrect amount under the statutory, contractual, administrative, or other legally applicable requirements. Incorrect amounts are overpayments or underpayments that are made to eligible recipients. An improper payment also includes any payment that was made to an ineligible recipient or for an ineligible good or service, or payments for goods or services not received. For FY 2011, the RRB reported \$10.9 billion in outlays of which \$65.6 million (0.59%) represents improper payments for the RRA



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program. The RRB also reported \$129 million in outlays of which \$9.3 million (7.2%) represents improper payments for the RUIA program.

Key Findings

OA's audit determined the following.

- The RRB complied with the applicable IPERA reporting requirements.
- The evaluation of the accuracy and completeness of the RRB's improper payment data could not be assessed due to the lack of supporting documentation. Specifically we were unable to validate \$49.2 million of the \$65.6 million in improper payments reported for the RRA program and \$8.1 million of the \$9.3 million reported for the RUIA program. We also found that the RRB reports its outlay amounts on an inconsistent basis for the RRA and RUIA programs which could impact the improper payment reporting threshold.
- The RRB's performance in the reduction of RUIA improper payments has not been effective as it has risen to \$9.3 million and is approaching the \$10 million threshold.

Recommendations

We recommended that the Office of Programs should obtain and maintain (1) individual debtor records that support the total improper payment amounts for the RRA and RUIA programs; and (2) documentation to support the estimated outlay amounts for the RRA and RUIA programs from the Bureau of Actuary.

Additionally, the Office of Programs should standardize their procedures for the RRA and RUIA programs to ensure consistency of improper payment data reported on the PAR and should identify and implement additional initiatives to reduce improper payments for the RUIA program.

Agency Response

The agency concurred with our recommendations.



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Audit of Railroad Medicare Ambulance Charges

OA conducted an audit of Railroad Medicare ambulance charges. Since April 2000, the RRB has contracted with its nationwide contractor Palmetto GBA, LLC (Palmetto) to process the Medicare Part B claims for Qualified Railroad Retirement Beneficiaries. As of September 28, 2012, Palmetto was awarded contract responsibilities as the Railroad Specialty Medicare Administrative Contractor.

The objective of this audit was to determine if adequate controls are in place to ensure the medical review of Railroad Medicare ambulance charges in accordance with Medicare's coverage requirements.

Key Findings

OA identified the following weaknesses:

- charges for Railroad Medicare ambulance services were not always subject to medical prepayment review;
- Palmetto's medical review strategy requires further implementation and development; and
- Palmetto's provider education efforts have not effectively deterred medically unnecessary ambulance services.

Recommendations

To address the identified weaknesses, we recommend that RRB officials perform additional oversight monitoring activities and conduct periodic reviews to ensure the following.

- Palmetto establishes an efficient means of widely addressing the volume workload of Railroad Medicare ambulance services to identify potentially improper or fraudulent payments utilizing medical prepayment reviews, post-payment reviews, and statistical analysis to maximize and expedite recoupment.
- Palmetto revises its medical review strategy to include a risk assessment identifying high risk providers and their error rates; a quantified universe of Railroad Medicare ambulance claims, services, and dollars-at-risk; and the utilization of increased data analysis and statistical sampling techniques.



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- Palmetto administers progressive corrective action to Railroad Medicare providers in accordance with Centers for Medicare and Medicaid Services requirements. These contractor actions include identifying and directly addressing those high risk providers that abuse the system; and issuing timely referrals describing the abuse to those Medicare entities impacted.

Agency Response

The Office of Programs concurred with six of our recommendations and rejected four of our recommendations. The Office of Programs; however, stated that Palmetto is planning corrective action on three of the four rejected recommendations.



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Management Decisions and Implementation

As part of its oversight activities, the OIG tracks the agency’s implementation of audit recommendations. Additionally, OMB Circular No. A-50 (Revised) and the Inspector General Act Amendments of 1988 require the reporting of management decisions and corrective actions for all audit recommendations.

Management Decisions	
Requiring Management Decision on October 1, 2012	0
Pending Management Decision for New Recommendations	5
Management Decision on Previous Recommendations	0
Recommendations Pending Management Decision on March 31, 2013	5

Corrective Action	
Recommendations Requiring Action on October 1, 2012	194 ³
Recommendations Issued During Reporting Period	43
Corrective Actions Completed During Reporting Period	30
Recommendations Rejected During Reporting Period	5
Final Actions Pending on March 31, 2013	202

³ Our previous *Semiannual Report to the Congress* reflected 195 final actions pending as of September 30, 2012; however, this number has been adjusted per the Chief Financial Officer.



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Office of Investigations

OI's primary objective is to identify, investigate, and refer for prosecution or monetary recovery action cases of waste, fraud, 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 continues to pursue 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 87 new cases.

Investigative Caseload Data	
Investigative Cases Open as of October 1, 2012	455
Investigative Cases Opened During Reporting Period	87
Investigative Cases Closed During Reporting Period	100
Investigative Cases Open as of March 31, 2013	442

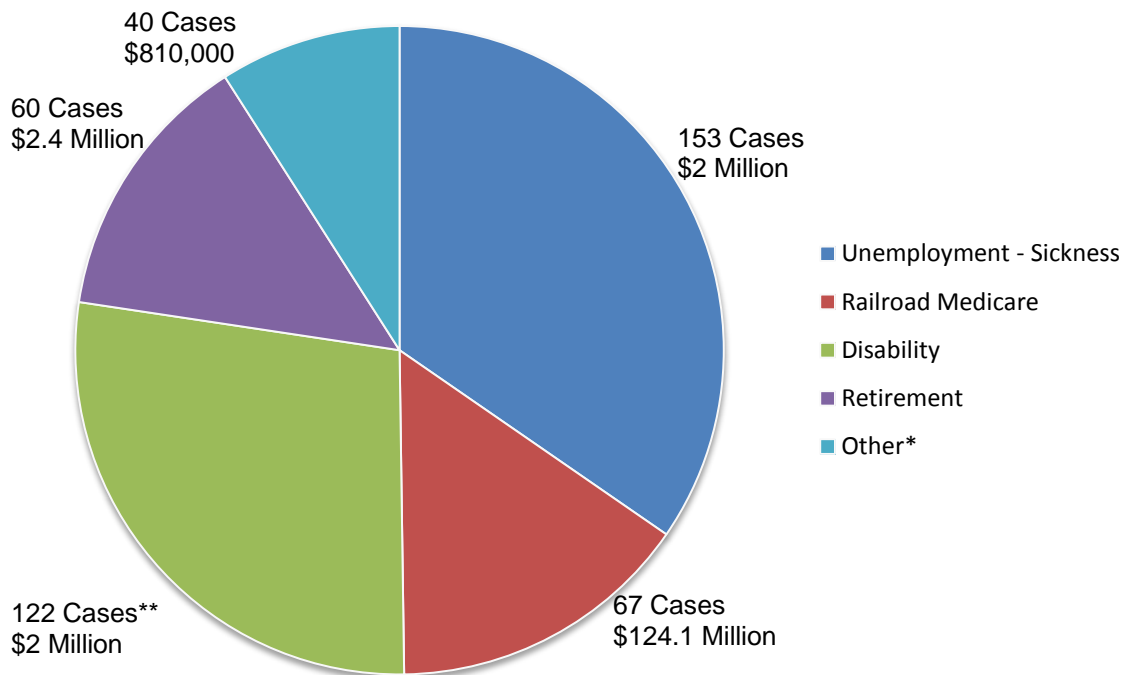
As of March 31, 2013, OI's investigative case load totaled 442 matters which represent approximately \$131.3 million⁴ in potential fraud losses. The chart located on the next page reflects the distribution of OI cases and potential fraud losses by RRB major program area.

⁴ 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.



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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.*

***Our case tracking system counts the Long Island Rail Road occupational disability fraud investigation (discussed in further details on page 19) as a single case; however, this case has the potential to manifest into more than 1,000 investigations. Additionally, this potential is not reflected in the above fraud loss.*



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Investigative Accomplishments

Action	October 1, 2012 – March 31, 2013
Referrals to the Department of Justice	24
Indictments/Informations	20
Arrests	9
Convictions	57
Civil Complaints	11
Civil Judgments	9
Restitution and Fines ⁵	\$152 Million
Civil Damages and Penalties ⁶	\$202,510
Investigative Recoveries ⁷	\$3.7 Million
Community Service Hours	300

⁵ 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.

⁶ See above footnote.

⁷ RRB benefits that are overpaid due to fraud and can be recouped through RRB administrative recovery action are expressed as investigative recoveries.



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***October 1, 2012 – March 31, 2013
Representative Investigations***

Disability Investigations

OIG 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 reporting period, OIG obtained 45 convictions in disability fraud cases. The defendants received, in the aggregate, sentences totaling almost 2 years of prison, 11 years of probation, 300 hours of community service, and were ordered to pay more than \$4.1 million in restitution, fines, and civil damages/penalties. Furthermore, 20 additional individuals have pled guilty to charges stemming from our ongoing occupational disability fraud investigation described below.⁸

Descriptions of representative cases completed during this reporting period follow.

A Total of Twenty-Three Defendants Plead Guilty in Connection with OIG's Continuing Long Island Rail Road Occupational Disability Fraud Investigation

As of March 31, 2013, 32 individuals have been indicted and arrested for their alleged role in a brazen occupational disability fraud scheme involving former LIRR employees, doctors, and disability facilitators. During this semiannual reporting period, an additional 20 individuals have pled guilty thereby bringing the total to 23 guilty pleas.

Of significant importance, these included a guilty plea entered by one of the doctors implicated in the scheme. The doctor admitted to preparing medical narratives used to fraudulently qualify LIRR employees for RRB occupational disability annuities. For his role in this scheme, the doctor agreed to forfeit \$116.5 million and to pay \$116.5 million in restitution. He faces a maximum of 30 years in prison and will be sentenced later this year. In connection with the doctor's guilty plea, the OIG has recommended that the

⁸ All charges are accusations and the defendants are presumed innocent until proven guilty.



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RRB immediately terminate benefits (including Railroad Medicare coverage, if applicable) for all RRB annuitants whose disability awards were granted based upon fraudulent medical documentation submitted by this doctor. Termination of these benefits will save the RRB millions of dollars in improper payments.

Additionally, the first LIRR defendant was sentenced on March 8, 2013. He was sentenced to 20 months of prison, 3 years of supervised release, and more than \$247,000 in restitution.

This investigation remains ongoing.

Annuitant Prosecuted Both Criminally and Civilly

Special Agents investigated an RRB disability annuitant who failed to report his partial ownership of several successful businesses to the RRB. His failure to report this information caused him to fraudulently receive approximately \$93,000 in RRB disability payments.

This case was referred to the United States Attorney's Office for the Eastern District of North Carolina which filed a criminal information against the annuitant. He subsequently pled guilty to one count False Statement and was sentenced to 5 months of jail, 3 years of probation, and full restitution. In addition to criminal prosecution, the United States Attorney's Office filed a civil False Claims Act complaint against the annuitant. He entered into a settlement agreement with the United States Attorney's Office agreeing to pay \$232,000.

Annuitant Fraudulently Collected Disability Benefits

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 Northern District of California. The annuitant pled guilty to one count Theft of Government Property and was subsequently sentenced to 300 hours of community service, full restitution, a fine, and a special assessment.



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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.

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, more than 90% of OI's current UI fraud cases involve extended UI benefits.

During this reporting period, OI obtained eight convictions and eight civil judgments for UI-SI fraud cases. Defendants in these cases received, in the aggregate, 22 years of probation, and were ordered to pay almost \$300,000 in restitution, fines, and civil damages/penalties.

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

UI Claimant Enters into Pretrial Diversion

OI initiated an investigation of an RRB UI claimant based upon an agency referral. OI's subsequent investigation determined that during the period of October 2008 through November 2009, the claimant applied for RRB UI benefits on many of the same days he was working for a private employer. His actions resulted in the theft of more than \$11,000 in UI benefits.

This case was referred to the United States Attorney's Office for the Northern District of Illinois. The claimant entered into a 24 month Pretrial Diversion agreement with the United States Attorney's Office. Under this agreement, the claimant must pay full restitution and report regularly to a U.S. Pretrial Services Officer for the duration of the agreement or until full restitution has been paid to the government.



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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 2009 through February 2010, the claimant collected RRB UI benefits on the same days he was working for private employers. The claimant's failure to report his work and earnings to the RRB caused him to fraudulently receive more than \$10,000 in UI benefits.

This case was referred to the United States Attorney's Office for the Northern District of Ohio. The United States Attorney's Office filed an one count information against the annuitant for submitting False Claims to the RRB. He pled guilty and was sentenced to 1 day of jail and the immediate payment of full restitution.

UI Claimant Agrees to Pay Treble Damages

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 2010 through April 2011, the claimant applied for RRB UI benefits on the same days he was working and being paid by a private employer. The claimant's failure to report his work and earnings to the RRB caused him to fraudulently receive more than \$12,000 in UI benefits.

This case was referred to the United States Attorney's Office for the District of Kansas. The United States Attorney's Office filed a civil complaint against the annuitant. This case was subsequently settled for treble damages and the District Court entered a consent judgment for over \$38,000 against the claimant.

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



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- 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 recovered more than \$7,000 in RRB benefits which were improperly diverted by a representative payee.

Railroad Medicare Investigations

During this reporting period, OI obtained three convictions in Railroad Medicare fraud cases. Defendants in these cases received, in the aggregate, 3 years of prison, 5 years of probation, and were ordered to pay more than \$151.5 million in restitution, fines, and civil damages/penalties.⁹

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 More than \$15.3 Million

OI Special Agents worked cooperatively as members of a multi-agency team investigating allegations contained in a Qui Tam lawsuit filed in the Western District of Kentucky. Agents were able to substantiate the allegations contained in the Qui Tam. Specifically the investigative team was able to prove that the subject medical provider knowingly submitted false claims to the Medicare program for sleep diagnostic services that were performed by individuals who lacked the required credentials. The U.S. Attorney's Office for the Western District of Kentucky intervened in the case.

The provider entered into a settlement agreement with the U.S. Attorney's Office for the Western District of Kentucky consenting to pay more than \$15.3 million to the government. Additionally, the provider entered into a comprehensive five year

⁹ 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.



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Corporate Integrity Agreement with the U.S. Department of Health and Human Services, Office of Inspector General.

Pharmaceutical Company Pleads Guilty to Violation of the FDCA

OIG worked cooperatively on a multi-agency team investigating allegations that a pharmaceutical company aggressively marketed the off-labeling use of a drug in violation of the Food, Drug and Cosmetics Act (FDCA). This investigation revealed that the pharmaceutical company had promoted the off-label use even though the Food and Drug Administration had rejected their application to utilize the drug in this manner.

The United States Attorney's Office for the Eastern District of New York, the United States Attorney's Office for the Western District of Washington, and the Department of Justice's Consumer Protection Branch cooperated in the successful prosecution of the pharmaceutical company which pled guilty to a single count information for violating the FDCA. They agreed to pay a \$136 million criminal fine and \$14 million in criminal forfeiture.

Civil Enforcement Results

OIG 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 \$5,500 to \$11,000 for each false claim submitted.

During this semiannual reporting period, a total of 9 civil judgments were entered by U.S. District Courts for RRB fraud cases totaling more than \$202,000 in damages and penalties.¹⁰ 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.

¹⁰ 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.

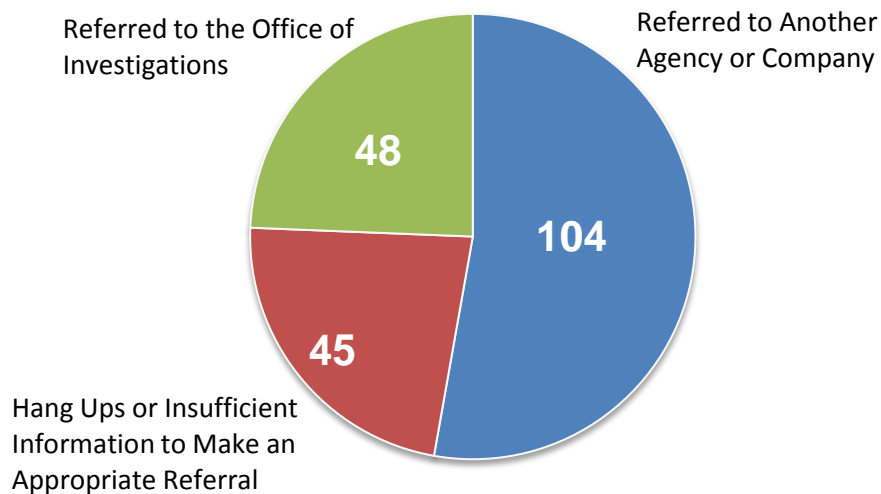


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Hotline Contacts

Our office 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.

During this reporting period, our hotline received 197 contacts in the following manner: 85% by telephone, 12% by email, and 3% by mail. The following chart summarizes the disposition of hotline contacts received.





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OTHER OVERSIGHT ACTIVITIES

Occupational Disability Program

The prevention of improper payments remains our priority and we continue to devote investigative and audit resources to strengthening the integrity of the RRB's benefit programs including the occupational disability program. In fact, over the last several years, the Inspector General has identified a wide range of recommendations to strengthen the integrity of this program; however, a vast majority of these recommendations have not been implemented and vulnerabilities continue to threaten program integrity.¹¹

The agency owes it to the nation's railroad workers and their families to fulfill their mission by paying "benefits to the right people, in the right amounts, in a timely manner, and ... [taking] appropriate action to safeguard [their] customers' trust funds."¹²

OIG Alerts

In June 2012, the Inspector General began issuing OIG Alerts to the agency. OIG Alerts supplement our current investigative and audit 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 three OIG Alerts. These recommendations included:

- enhancing certifications and fraud warnings on applications for Railroad Medicare benefits;
- requiring names of individuals contacting the agency with questions to be recorded;
- amending controls in the RRB's representative payee program to enhance the agency's ability to assess an applicant's suitability to serve as a representative payee; and

¹¹ See page 19 for details relating to our ongoing Long Island Rail Road occupational disability fraud investigation.

¹² Railroad Retirement Board, *Mission Statement*. (Chicago, Illinois: September 2003). Retrieved from <http://www.rrb.gov/general/mission.asp>. Accessed March 31, 2013.



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- establishing a process, in situations where an RRB beneficiary does not live with their representative payee, to verify that RRB funds are actually being used for the needs of the beneficiary.

Exploring Innovation Leads to Data Analytics

In response to the Federal government's mandate to become more innovative, we developed a data analytics team within OA to explore how the RRB does business while considering best practices for streamlining agency business processes and developing a new approach for identifying areas of change.

To meet our objectives, we:

- researched innovative accomplishments of other government and private organizations;
- solicited ideas for innovation from OIG audit and investigative staff;
- met with agency officials to discuss current practices;
- visited with other Federal OIG organizations to observe and discuss their data warehousing accomplishments;
- met with private consulting and data management firms to discuss methods and software tools they provide for data warehousing and analytics; and
- met with private corporations and auditing organizations to discuss innovative advances they have made in the area of data analytics.

Based on our current level of staffing and resources, we determined the best approach for implementing innovation and reducing waste, fraud, and abuse at the RRB is to start with improving our own methods and abilities for data analytics. This would allow us to implement data-mining and analytic techniques to support our audits and investigations with minimal disruption to our normal operations. Additionally, efforts are underway at the RRB to modernize their database systems; essentially, the beginnings for creating a viable data warehouse. We are implementing a plan for data analytics using auditing software which will allow us to identify opportunities for reducing waste, fraud, and abuse, as well as areas for innovative change at the RRB.



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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 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.

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, more than 90% 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

During this semiannual reporting period, we were unable to express an opinion regarding the RRB's financial statements for the FYs ending September 30, 2012 and 2011, and we were also compelled to add a disclaimer to our previously unqualified audit opinion for the RRB's FYs 2011 and 2010 financial statements. We were forced to issue this opinion based upon concerns we have regarding the reliability of the NRRIT's independently audited financial statements.

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.¹³ RRSIA does not provide OIG with oversight authority to conduct audits and investigations of the NRRIT; however, RRSIA does require that the NRRIT report to the RRB. We have monitored the NRRIT since 2001 and have continually expressed concerns regarding lack of

¹³ As of February 28, 2013, the RRB's investments in the NRRIT were valued at approximately \$24 billion.



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meaningful oversight. Despite these concerns and questionable long-term trust fund solvency, the RRB continues to maintain a passive relationship with the NRRIT.

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. 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.

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 has nothing to report for this reporting period.

APPENDICES

<i>Appendix</i>	<i>Title</i>	<i>Page No.</i>
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
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Appendix A – Office of Inspector General Reports and Other Publicly Available Papers Issued

- Report on the Railroad Retirement Board's Fiscal Year 2012 Financial Statements, November 15, 2012
- Audit of Job Duty Verification Procedures for Long Island Rail Road Occupational Disability Applicants, January 15, 2013
- Fiscal Year 2012 Financial Statement Audit Letter to Management, January 28, 2013
- Fiscal Year 2012 Audit of Information Security at the Railroad Retirement Board, February 12, 2013
- Exploring Innovation Leads to Data Analytics Phase I, February 14, 2013
- Audit of the Railroad Retirement Board's Fiscal Year 2012 Compliance with the Improper Payments Elimination and Recovery Act of 2010, March 15, 2013
- Audit of Railroad Medicare Ambulance Charges, March 29, 2013

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 October 1, 2012	0	0	0
B. Which were issued from October 1, 2012 through March 31, 2013	3	\$198.7 million	\$198.7 million
Subtotal (A + B)	3	\$198.7 million	\$198.7 million
C. For which a management decision was made between October 1, 2012 through March 31, 2013	2	\$194.9 million	\$194.9 million
(i) dollar value of disallowed costs	0	0	0
(ii) dollar value of costs not disallowed	2	\$194.9 million	\$194.9 million
D. For which no management decision had been made by March 31, 2013	1	\$3.8 million	\$3.8 million
E. Report for which no management decision was made within six months of issuance	0	0	0

	Audit Reports With Recommendations that Funds Be Put to Better Use	Dollar Value
A. For which no management decision had been made by October 1, 2012	0	0
B. Which were issued from October 1, 2012 through March 31, 2013	1	\$112,600
C. Subtotal (A + B)	1	\$112,600
(i) dollar value of disallowed costs	0	0
(ii) dollar value of costs not disallowed	1	\$112,600
D. For which no management decision had been made by March 31, 2013	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 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
October 1, 2012 – March 31, 2013	\$1,242,940

Office of Audit

Report	Funds to be put to better use	Funds Agreed by Management	Receivables Established	Waivers	Recoveries to Date ¹⁴
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	\$21,100,000
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	\$4,485,715	\$339,244	\$2,663,639
05-06	\$10,000	\$10,000	\$0	\$0	\$42,915
05-07	\$1,070,000	\$1,070,000	\$49,943	\$0	\$94,049
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	\$21,206
09-02	\$600,000	\$600,000	\$320	\$0	\$1,365,744
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	\$0	\$0	\$0	\$0

¹⁴ Both overpayments and underpayments are included in this column.

Appendix D – Significant Matters

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

Budgetary Reporting

In FY 2011, we reported a material weakness for budgetary reporting and recommended that the Bureau of Fiscal Operations (BFO) provide training for the preparation of the statement and implement a review process to ensure the accuracy of calculations, consistency in recorded amounts, and effectiveness of controls. In an effort to address this material weakness, BFO staff conducted budgetary training for the accountants in March 2012. Although BFO has made an effort to address this weakness, the training was not sufficient to prevent the financial reporting errors found in the June 30, 2012 *Statement of Budgetary Resources*. In addition, corrective action remains to be taken regarding an improved review process to ensure the accuracy of calculations, consistency in recorded amounts, and effectiveness of controls.

<u>Issue Area</u>	<u>Date of Report</u>	<u>Report and Recommendations</u>
Budgetary Reporting	January 31, 2012	Report OIG 12-04, #1 & 2

Information Security

Risk Management Program

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.

<u>Issue Area</u>	<u>Date of Report</u>	<u>Report and Recommendations</u> ¹⁵
Internal Control Over the Risk Management Program ¹⁶	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 – 4
	September 29, 2011	Report OIG 11-12, #1 – 4
	January 5, 2012	Report OIG 12-02, #2 & 5

¹⁵ The online report abstract summarizes the results of the evaluation. The full report includes information protected from disclosure and has been designated for limited distribution pursuant to 5 U.S.C. § 552.

¹⁶ Previously known as Certification and Accreditation.

Configuration Management

The OIG also identified a material weakness regarding information technology security application services because the RRB continues to use an unsupported server for some major applications. Although the agency has moved some of the servers to the virtual environment, this action does not alleviate the problems associated with processing data in an unsupported environment. Uncertainties exist in determining the timeframe in which this situation will be corrected as well as the necessary resources for completion.

<u>Issue Area</u>	<u>Date of Report</u>	<u>Report and Recommendations</u> ¹⁷
Security Configuration Management	January 5, 2012	Report OIG 12-02, #7 & 8

¹⁷ The online report abstract summarizes the results of the evaluation. The full report includes information protected from disclosure and has been designated for limited distribution pursuant to 5 U.S.C. § 552.

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.

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

Office of Investigations

During the peer review process, Federal OIG investigative organizations, in general, 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, 2011) were transmitted on February 9, 2012. OI received a peer review rating of pass. This peer review did not contain any recommendations.

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 March 31, 2013	<u>Number of Audit Reports</u>	<u>Disallowed Costs</u>
A. Audit reports, with management decisions, on which final action had not been taken at the beginning of the period.	0	\$ 0
B. Audit reports on which management decisions were made during the period.	0	\$ 0
C. Total audit reports pending final action during the period. (A + B)	0	\$ 0
D. Audit reports on which final action was taken during the period.		
1. Recoveries		
(a) Collections and offsets	0	\$ 0
(b) Property	0	\$ 0
(c) Other	0	\$ 0
2. Recovery Waived	0	\$ 0
3. Total of 1 and 2	0	\$ 0
E. Audit reports needing final action at the end of the period (C - D.3).	0	\$ 0

***Management Report on Final Action on Audits with
Recommendations to Put Funds to Better Use for the
6-Month Period Ending March 31, 2013***

	<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.	6	\$4,253,403*
B. Audit reports on which management decisions were made during the period.	1	\$3,483
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)	1	\$3,483
2. Value of recommendations that management concluded should not or could not be implemented (completed)	0	\$0
3. Total of 1 and 2	1	\$3,483
E. Audit reports needing final action at the end of the period	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*; \$92,412 from 10-13 *Railroad Medicare Services Billed with Dates of Service after Beneficiaries' Dates of Death*; and \$3,483 from 12-03 *Evaluation of the Railroad Retirement Board's Oversight of Railroad Employer Compliance*.

Management Statement on Resolved Audit Reports Over 12 Months Old with Final Action Pending as of March 31, 2013

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. Currently in the process of updating all pc's and servers with new software and procedures are being reviewed.
Review of Internal Control Over the Actuarial Projection Process (05-04)	05/5/05	NONE	NONE	The Chief Actuary is still reviewing their options to best implement this recommendation.
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. Risk assessment was done and it was determined that contractor assistance will remediate last remaining recommendation by FY2013.
Fiscal Year 2005 Evaluation of Information Security at the Railroad Retirement Board (05-11)	09/28/05	NONE	NONE	Bureau of Information Services is taking steps to train IT owners to use SharePoint POAM website with the assistance of contractor. Work continues.
Accuracy and Reliability of GPRA Performance Measures: Timeliness of Non-Disability Survivor Annuity Payments (06-03)	01/30/06	NONE	NONE	Programs have closed six of the seven recommendations. Last recommendation has been delayed due to higher priority project.
Review of Compliance with the Provisions of the Railroad Retirement Act Governing the Initial Award of Benefits (06-05)	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	Analysis completed and draft report submitted for review prior to request for IT changes. Coding work is in progress.
Review of Incident Handling and Reporting at the Railroad Retirement Board (06-09)	08/24/06	NONE	NONE	Contract option to draft incident response plan was approved however staff was reassigned to another project. Once project is done, work will proceed on this.

Management Statement on Resolved Audit Reports Over 12 Months Old with Final Action Pending as of March 31, 2013

Report	Date	Disallowed Costs	Funds to be Put to Better Use	Reason Action Not Completed
Audit of the DAISY/CHICO Component Application of the RRA Benefit Payment Major Application System (07-02)	03/9/07	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)	03/28/07	NONE	NONE	Coordination with outside agencies is required. Programs completed and implemented one of the two remaining recommendations. The last recommendation is schedule to be completed in FY13.
Evaluation of the Railroad Retirement Board's Privacy Program (07-06)	07/30/07	NONE	NONE	New CPO was appointed. Additional funding and resources are needed. Of the 16 recommendations, 15 have been closed. Work continues on last recommendation.
Audit of Federal Income Taxes Withheld from Railroad Retirement Annuities (07-07)	07/30/07	NONE	NONE	Coordination is required with another org. Five of the six recommendations have been closed, with the remaining one targeted for completion in FY13.
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 FY13.
Audit of Controls to Safeguard Sensitive Personally Identifiable Information (07-09)	09/27/07	NONE	NONE	Work and coordination continues along with outside contractor. Target for completion is FY13.
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. 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 for completion in FY13.
Fiscal Year 2008 Evaluation of Information Security at the RRB (08-05)	09/26/08	NONE	NONE	Coordination is required with outside contractor.

Management Statement on Resolved Audit Reports Over 12 Months Old with Final Action Pending as of March 31, 2013

Report	Date	Disallowed Costs	Funds to be Put to Better Use	Reason Action Not Completed
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	Remaining recommendation is dependent on the replacement of FFS.
Audit of the Railroad Medicare Integrity Program at Palmetto Government Benefits Administrators (09-04)	09/25/09	NONE	NONE	Additional documentations were requested which requires coordination with outside agency.
Audit of the General and Application Controls in the Financial Management Major Application System (09-05)	09/30/09	NONE	NONE	Of the 3 recommendations, 1 was closed by the OIG, 1 requires additional work and the last is on hold due to other priority workloads. Target completion in FY13.
Fiscal Year 2009 Evaluation of Information Security (10-01)	11/12/09	NONE	NONE	Contractor assistance is needed and as soon as all testing is completed documentation will be sent to OIG for review. Target completion in FY13.
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	2 of the 4 recommendations have been closed with 1 pending OIG review and the last is awaiting additional documentation.

Management Statement on Resolved Audit Reports Over 12 Months Old with Final Action Pending as of March 31, 2013

Report	Date	Disallowed Costs	Funds to be Put to Better Use	Reason Action Not Completed
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	Documentations were submitted to OIG for review on 3 recommendations and the remaining 2 are awaiting Board approval. Target completion in FY13.
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).
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.
Fiscal Year 2010 Evaluation of Information Security at the Railroad Retirement Board - Abstract (11-01)	11/05/10	NONE	NONE	Additional documentation was requested by OIG on last recommendation.
Audit of Controls Over Railroad Medicare Contract Costs (11-06)	04/20/11	NONE	NONE	Coordination is required with outside organization.
Audit of Railroad Retirement Act Benefits Overpayments and Internal Controls (11-07)	06/29/11	NONE	NONE	Programs is working with Bureau of Information Services pending implementation of systems changes and is coordinating with an outside organization.
Review of the Railroad Retirement Board's Security Patch Management Process – Abstract (11-08)	07/07/11	NONE	NONE	Of the 12 recommendations, 2 required additional documentations, 5 are awaiting new FTE replacement from contractor, work continues on 1 and 4 have been closed.
Inspection of the Railroad Retirement Board's Agency Enterprise General Information Support System Certification and Accreditation – Abstract (11-10)	09/28/11	NONE	NONE	Bureau of Information Services is currently reviewing the recommendations to develop work plans, policy, and/or procedures.

Management Statement on Resolved Audit Reports Over 12 Months Old with Final Action Pending as of March 31, 2013

Report	Date	Disallowed Costs	Funds to be Put to Better Use	Reason Action Not Completed
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.
Evaluation of the Railroad Retirement Board's Benefit and Payment Operations System Continuous Monitoring – Abstract (11-12)	09/29/11	NONE	NONE	Work plans, policy, and/or procedures are currently pending, in addition to coordination is required with outside contractor.
Fiscal Year 2011 Evaluation of Information Security at the Railroad Retirement Board - Abstract (12-02)	01/05/12	NONE	NONE	Analysis deferred due to work committed to other priority project.
Fiscal Year 2011 Financial Statement Audit Letter to Management (12-04)	02/31/12	NONE	NONE	Additional documentation was submitted on 1 recommendation and work is being reviewed on remaining recommendations.
Audit of the Application Express (APPLE) System's Date of Death Reliability (12-06)	03/30/12	NONE	NONE	Analysis is deferred due to work committed to other priority project and additional documentation was requested by OIG on 1 recommendation.

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	35 – 36
Section 5(a) (2)	Recommendations With Respect to Significant Problems, Abuses, and Deficiencies	35 – 36
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Section 5(a) (4)	Matters Referred to Prosecutive Authorities	3, 18
Section 5(a) (5)	Instances Where Information Was Refused	None
Section 5(a) (6)	List of Audit Reports	31
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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	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	4, 9

Act Reference	Management Reporting Requirements	Page(s)
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Appendix H – Acronyms

Acronym	Explanation
BFO	Bureau of Fiscal Operations
CFR	Code of Federal Regulations
FDCA	Food, Drug and Cosmetic Act
FISMA	Federal Information Security Management Act of 2002
FY	Fiscal Year
IPERA	Improper Payments Elimination and Recovery Act of 2010
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
OMB	Office of Management and Budget
PAR	Performance and Accountability Report
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.
Food, Drug and Cosmetics Act – P.L. 75-717
Improper Payments Elimination and Recovery Improvement Act of 2010 – P.L. 111-204
Improper Payments Information Act of 2002 – P.L. 107-300
Inspector General Act of 1978, as amended – 5 U.S.C. App. 3
Paperwork Reduction Act of 1995 – P.L. 104-13
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
Reports Consolidation Act of 2000 – P.L. 106-531
Social Security Act – 42 U.S.C. § 301, et seq.
Theft of Public Money/Government Funds/Government Property – 18 U.S.C. § 641

REPORT

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