OIG REPORT #10-02

The Office of Inspector General's report on the RRB's financial statements begins on page 99 of the Railroad Retirement Board's FY 2009 Performance and Accountability Report.

RAILROAD RETIREMENT BOARD

PERFORMANCE AND ACCOUNTABILITY REPORT

FISCAL YEAR 2009

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Railroad Retirement Board
Performance and Accountability Report
Fiscal Year 2009

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RRB's fiscal year 2009 Performance and Accountability Report is available on the Internet at: www.rrb.gov

MESSAGE FROM THE BOARD MEMBERS

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Message from the Board Members

This fiscal year 2009 Performance and Accountability Report highlights the goals and accomplishments of the Railroad Retirement Board (RRB) in achieving its mission of administering the retirement, disability, and survivor benefit program provided under the Railroad Retirement Act (RRA) and the unemployment and sickness insurance benefit program provided under the Railroad Unemployment Insurance Act (RUIA). This report describes our continuing efforts to provide timely and useful information to RRB managers, the Office of Management and Budget (OMB), the Congress, and our constituents. We are proud of the agency's dedicated employees whose achievements are reflected in this report.

The RRB has a long and distinguished tradition of excellence in serving our customers and safeguarding the agency's trust funds. In recent years, we have achieved high levels of accuracy and timeliness in the benefit programs we administer. This year, we introduced a Nationwide Toll Free Phone Service which provides customers a single access point to claims representatives in the agency's field offices and to our interactive voice response (IVR) system. We also implemented two provisions of the American Recovery and Reinvestment Act (ARRA) of 2009. The ARRA provided a one-time economic recovery payment of $250 to most adult RRA beneficiaries; it also provided an appropriation of $20 million to be used for up to 65 days of additional extended unemployment benefits under the RUIA.

We believe the performance and financial data presented in this report are complete and reliable in accordance with OMB guidance. The adequacy and effectiveness of our management controls and the compliance of our financial management systems with governmentwide requirements are delineated in the Systems and Controls part of the Management's Discussion and Analysis section. That part also provides the status of the actions we are taking and progress we are making to correct Office of Inspector General identified material weaknesses in information technology security, financial reporting, and non-integrated subsystems.

We will continue to apply information technology and innovation to provide excellent customer service to the railroad employers, railroad employees, and the beneficiaries whom we serve. We are also committed to prudent stewardship over the agency trust funds and the administrative resources entrusted to us.

Original signed by:

Michael S. Schwartz, Chairman
V. M. Speakman, Jr., Labor Member
Jerome F. Kever, Management Member

November 9, 2009

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MANAGEMENT'S DISCUSSION AND ANALYSIS

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Management's Discussion and Analysis

Overview of the Railroad Retirement Board (RRB)

Mission

The RRB is an independent agency in the executive branch of the Federal Government. The agency's mission statement is as follows:

> *The RRB's mission is to administer retirement/survivor and unemployment/sickness insurance benefit programs for railroad workers and their families under the Railroad Retirement Act and the Railroad Unemployment Insurance Act. These programs provide income protection during old age and in the event of disability, death or temporary unemployment and sickness. The RRB also administers aspects of the Medicare program and has administrative responsibilities under the Social Security Act and the Internal Revenue Code. In carrying out its mission, the RRB will pay benefits to the right people, in the right amounts, in a timely manner, and will take appropriate action to safeguard our customers' trust funds. The RRB will treat every person who comes into contact with the agency with courtesy and concern, and respond to all inquiries promptly, accurately and clearly.*

Major Program Areas

The RRB was created in the 1930's by legislation establishing a retirement benefit program for the nation's railroad workers. Private industrial pension plans had been pioneered in the railroad industry; the first industrial pension plan in North America was established on a railroad in 1874. By the 1930's, pension plans were far more developed in the rail industry than in most other businesses or industries, but these plans had serious defects which were magnified by the Great Depression.

The economic conditions of the 1930's demonstrated the need for retirement plans on a national basis because few of the nation's elderly were covered under any type of retirement program. While the social security system was in the planning stage, railroad workers sought a separate railroad retirement system which would continue and broaden the existing railroad programs under a uniform national plan. The proposed social security system was not scheduled to begin monthly benefit payments for several years and would not give credit for service performed prior to 1937, while conditions in the railroad industry called for immediate benefit payments based on prior service.

Legislation was enacted in 1934, 1935, and 1937 to establish a railroad retirement system separate from the social security program legislated in 1935. Such legislation, taking into account particular circumstances of the rail industry, was not without precedent. Numerous laws pertaining to rail operations and safety had already been enacted since the Interstate Commerce Act of 1887. Since passage of the Railroad Retirement Acts of the 1930's, numerous other railroad laws have subsequently been enacted.

While the railroad retirement system has remained separate from the social security system, the two systems are closely coordinated with regard to earnings credits, benefit payments, and taxes. The financing of the two systems is linked through a financial interchange under which, in effect, the portion of railroad retirement annuities that is equivalent to social security benefits is coordinated with the social security system. The purpose of this financial coordination is to place the social security trust funds in the same position they would be in if railroad service were covered by the social security program instead of the railroad retirement program.

Legislation enacted in 1974 restructured railroad retirement benefits into two tiers, so as to coordinate them more fully with social security benefits. The first tier is based on combined railroad retirement and social security credits, using social security benefit formulas. The second tier is based on railroad service only and is comparable to the private pensions paid over and above social security benefits in other industries.

The railroad unemployment insurance system was also established in the 1930's. The Great Depression demonstrated the need for unemployment compensation programs, and State unemployment programs had been established under the Social Security Act in 1935. While the State unemployment programs generally covered railroad workers, railroad operations which crossed State lines caused special problems. Unemployed railroad workers were denied compensation by one State because their employers had paid unemployment taxes in another State. Although there were cases where employees appeared to be covered in more than one State, they often did not qualify in any.

A Federal study commission, which reported on the nationwide State plans for unemployment insurance, recommended that railroad workers be covered by a separate plan because of the complications their coverage had caused the State plans. The Congress subsequently enacted the Railroad Unemployment Insurance Act (RUIA) in June 1938. The RUIA established a system of benefits for unemployed railroad workers, financed entirely by railroad employers and administered by the RRB. Sickness insurance benefits were added in 1946.

Railroad Retirement Act

Under the Railroad Retirement Act (RRA), retirement and disability annuities are paid to railroad workers with at least 10 years of service. Such annuities are also payable to workers with 5 years of service if performed after 1995.

Full age annuities are payable at age 60 to workers with 30 years of service. For those with less than 30 years of service, reduced annuities are payable at age 62 and unreduced annuities are payable at full retirement age, which is gradually rising from 65 to 67, depending on the year of birth. Disability annuities can be paid on the basis of total or occupational disability. Annuities are also payable to spouses and divorced spouses of retired workers and to widow(er)s, surviving divorced spouses, remarried widow(er)s, children, and parents of deceased railroad workers. Qualified railroad retirement beneficiaries are covered by Medicare at age 65, or earlier if disabled, in the same way as social security beneficiaries.

Jurisdiction over the payment of retirement and survivor benefits is shared by the RRB and the Social Security Administration (SSA). The RRB has jurisdiction over the payment of retirement benefits if the employee had at least 10 years of railroad service, or 5 years if performed after 1995; for survivor benefits, there is an additional requirement that the employee's last regular employment before retirement or death was in the railroad industry. If a railroad employee or his or her survivors do not qualify for railroad retirement benefits, the RRB transfers the employee's railroad retirement credits to SSA, where they are treated as social security credits.

Payroll taxes paid by railroad employers and their employees are the primary source of funding for the railroad retirement and survivor benefit programs. By law, railroad retirement taxes are coordinated with social security taxes. Employees and employers pay tier 1 taxes at the same rate as social security taxes. In addition, both employees and employers pay tier 2 taxes which are used to finance railroad retirement benefit payments over and above social security levels. Tier 2 taxes are based on the ratio of certain asset balances to the sum of benefit payments and administrative expenses. Historically, railroad retirement taxes have been considerably higher than social security taxes.

Revenues in excess of benefit payments are invested to provide additional trust fund income, and the legislation enacted in 2001 allows for Railroad Retirement Account funds transferred to the National Railroad Retirement Investment Trust (NRRIT) to be invested in non-governmental assets, as well as in governmental securities. Funds transferred from the Social Security Equivalent Benefit (SSEB) Account to the NRRIT are allowed to be invested only in governmental securities. The legislation also established the NRRIT, whose Board of seven trustees oversees these investments. The Board of Trustees is comprised of three members selected by rail labor; three members selected by rail management; and one independent member selected by a majority of the other six members.

Another major source of income to the railroad retirement and survivor benefit program consists of transfers from the social security trust funds under a financial interchange between the two systems. The financial interchange is intended to place the social security trust funds in the same position in which they would have been had railroad employment been covered by the Social Security Act and Federal Insurance Contributions Act (FICA). In fiscal year 2009, the RRB trust funds realized a net of $4.0 billion, representing 43 percent of RRB financing sources (excluding transfers to/from the NRRIT and the decrease in NRRIT net assets), through the financial interchange.

Other sources of income currently include revenue resulting from Federal income taxes on railroad retirement benefits (tier I, tier II and vested dual benefits), and appropriations from general Treasury revenues provided after 1974 as part of a phase-out of certain vested dual benefits.

Railroad Unemployment Insurance Act

Under the RUIA, unemployment insurance benefits are paid to qualified railroad workers who are unemployed but ready, willing, and able to work and sickness insurance benefits to railroad workers who are unable to work because of illness, injury, or pregnancy. The RRB also operates a placement service to assist unemployed railroad workers in securing employment.

A new unemployment and sickness insurance benefit year begins every July 1, with eligibility generally based on railroad service and earnings in the preceding calendar year. Up to 26 weeks of normal unemployment and 26 weeks of sickness insurance benefits are payable to an individual in a benefit year. Additional extended benefits are payable for up to 13 weeks to persons with 10 or more years of service.

The railroad unemployment and sickness insurance benefit program is financed by taxes on railroad employers under an experience rating system initiated in 1991. Each employer's payroll tax rate is determined annually by the RRB on the basis of benefit payments to the railroad's employees.

Reporting Components

The RRB, as an independent agency in the executive branch of the U.S. Government, is responsible for administering the RRA and the RUIA. The financial statements include the accounts of all funds under the control of the RRB and the Office of Inspector General (OIG). These funds consist of two administrative funds, three trust funds, two general funds, one deposit fund, and six American Recovery and Reinvestment Act of 2009 (ARRA) funds.

RRB Organizational Structure

The RRB is headed by three Board Members appointed by the President of the United States, with the advice and consent of the Senate. One member is appointed upon recommendation of railroad employers; one is appointed upon recommendation of railroad labor organizations; and the third, who is the Chairman, is appointed to represent the public interest. The Board Members' terms of office are 5 years and are scheduled to expire in different years. The Chairman of the Board is Michael S. Schwartz, the Labor Member is V. M. Speakman, Jr., and the Management Member is Jerome F. Kever. The President also appoints an Inspector General for the RRB; the Inspector General is Martin J. Dickman.

The primary function of the RRB is the determination and payment of benefits under the railroad retirement and survivor and the unemployment and sickness insurance programs. To this end, the RRB employs field representatives to assist railroad personnel and their families in filing claims for benefits, examiners to adjudicate the claims, and information technology staff, equipment, and programs to maintain earnings records, calculate benefits, and process payments. The RRB also employs actuaries to predict the future income and outlays of the agency's trust funds and accounts, statisticians and economists to provide vital data, and attorneys to interpret legislation and represent the RRB in litigation. Internal administration requires a procurement staff, a budget and accounting staff, quality assurance staff, and personnel specialists. The Inspector General employs auditors and investigators to detect waste, fraud, or abuse in the benefit programs.

The RRB's headquarters is located at 844 North Rush Street in Chicago, Illinois. The RRB field structure is comprised of 53 offices located throughout the United States as shown on page 12.

U.S. RAILROAD RETIREMENT BOARD

THE BOARD
Chairman, Michael S. Schwartz
Labor Member, V.M. Speakman, Jr.
Management Member, Jerome F. Kever

- **OFFICE OF INSPECTOR GENERAL** – Martin J. Dickman
- **OFFICE OF EQUAL OPPORTUNITY** – Lynn E. Cousins
- **CHIEF ACTUARY*** / **BUREAU OF THE ACTUARY** – Frank J. Buzzi

EXECUTIVE COMMITTEE

MEMBER	MEMBER	SENIOR EXECUTIVE OFFICER	MEMBER	MEMBER
Kenneth P. Boehne	Steven A. Bartholow	Henry M. Valiulis	Dorothy A. Isherwood	Terri S. Morgan

- **CHIEF FINANCIAL OFFICER** / **BUREAU OF FISCAL OPERATIONS** – Kenneth P. Boehne
- **OFFICE OF GENERAL COUNSEL** – Steven A. Bartholow
  - **OFFICE OF LEGISLATIVE AFFAIRS** – Margaret S. Lindsley
  - **BUREAU OF HEARINGS AND APPEALS** – Karl Blank
  - **SECRETARY TO THE BOARD** – Beatrice E. Ezerski
- **OFFICE OF ADMINISTRATION** – Henry M. Valiulis
  - **ACQUISITION MANAGEMENT** – Paul T. Ahern
  - **REAL PROPERTY MANAGEMENT** – Scott Rush
  - **PUBLIC AFFAIRS** – Anita Rogers
  - **BUREAU OF HUMAN RESOURCES** – Keith B. Earley
- **OFFICE OF PROGRAMS** – Dorothy A. Isherwood
  - **OPERATIONS** – Robert J. Duda
  - **POLICY AND SYSTEMS** – Ronald Russo
  - **RESOURCE MANAGEMENT CENTER** – Janet M. Hallman
  - **ASSESSMENT AND TRAINING** – Catherine A. Leyser
  - **FIELD SERVICE** – Martha M. Barringer
- **CHIEF INFORMATION OFFICER** / **BUREAU OF INFORMATION SERVICES** – Terri S. Morgan

--------------- The Inspector General reports administratively to the Chairman.

------------ The Director of Equal Opportunity reports administratively to the Director of Administration and programmatically to the Board.

* Non-voting member of the Executive Committee.

October 2009

U.S. RAILROAD RETIREMENT BOARD
District Office Map

Financial Highlights

Amounts in the Railroad Retirement (RR) Account not needed to pay current benefits and administrative expenses are transferred to the NRRIT whose Board of seven trustees is empowered to invest NRRIT assets in non-governmental assets, such as equities and debt, as well as in governmental securities. Amounts in the SSEB Account not needed to pay current benefits and administrative expenses are transferred to either the RR Account or the NRRIT. Amounts transferred from the SSEB Account to the NRRIT may be used only to pay benefits or to purchase obligations that are backed by the full faith and credit of the United States.

On February 17, 2009, President Obama signed the ARRA. Under the ARRA, the RRB has two major benefit programs to administer, economic recovery payments, and extended unemployment insurance benefits. For additional information on the ARRA, see page 36.

Shown on the following page are snapshots of the net position, financing sources, and benefit payments (before elimination of inter-fund transactions) for the RRB accounts. All dollar amounts are in millions.

Net Position, Financing Sources, and Benefit Payments
(In millions)

	2009	2008
NET POSITION AT SEPTEMBER 30		
Social Security Equivalent Benefit Account	$ 577.6	$ 456.8
Railroad Retirement Account 1/	23,399.6	25,610.8
Railroad Retirement Administration Fund	4.2	3.5
Railroad Unemployment Insurance Trust Fund --		
Benefit Payments	27.8	99.9
Administrative Expenses	8.7	10.0
Limitation on the Office of Inspector General	1.3	.5
Dual Benefits Payments Account	7.2	5.7
Federal Payments to the Railroad Retirement Accounts	.5	.5
American Recovery and Reinvestment Act of 2009		
Railroad Unemployment Insurance Extended Benefit Payments – Recovery Act, RRB, no year	9.7	-
Economic Recovery Payments – Recovery Act, RRB	5.5	-
Administrative Expenses – Recovery Act, RRB, no year	-	-
Administrative Expenses – Recovery Act, RRB	-	-
Limitation on Administration – Recovery Act, RRB, no year	-	-
Limitation on Administration – Recovery Act, RRB	.9	-
Total	$24,043.0	$26,187.7
FINANCING SOURCES FOR FISCAL YEAR		
Social Security Equivalent Benefit Account	$ 6,523.0	$ 6,130.5
Railroad Retirement Account 2/	2,022.1	(3,305.7)
Railroad Retirement Administration Fund	113.2	109.2
Railroad Unemployment Insurance Trust Fund --		
Benefit Payments	82.0	79.2
Administrative Expenses	(1.3)	.9
Limitation on the Office of Inspector General	8.2	7.4
Dual Benefits Payments Account	69.5	77.7
Federal Payments to the Railroad Retirement Accounts 3/	321.1	359.1
American Recovery and Reinvestment Act of 2009		
Railroad Unemployment Insurance Extended Benefit Payments – Recovery Act, RRB, no year	10.3	-
Economic Recovery Payments – Recovery Act, RRB	129.5	-
Administrative Expenses – Recovery Act, RRB, no year	.1	-
Administrative Expenses – Recovery Act, RRB	1.4	-
Limitation on Administration – Recovery Act, RRB, no year	.1	-
Limitation on Administration – Recovery Act, RRB	1.4	-
Total	$ 9,280.6	$ 3,458.3
BENEFIT PAYMENTS FOR FISCAL YEAR 4/		
Social Security Equivalent Benefit Account	$ 6,241.5	$ 5,945.2
Railroad Retirement Account	4,232.8	4,036.2
Railroad Unemployment Insurance Trust Fund --		
Unemployment Insurance	106.0	35.3
Sickness Insurance	48.1	44.7
Dual Benefits Payments Account	69.5	77.7
American Recovery and Reinvestment Act of 2009		
Railroad Unemployment Insurance Extended Benefit Payments – Recovery Act, RRB, no year	10.3	-
Economic Recovery Payments – Recovery Act, RRB	129.5	-
Total	$10,837.7	$10,139.1

1/ NRRIT-held net assets are a financing source and are included in the Railroad Retirement Account above.
2/ Change in NRRIT-held net assets is included in the Railroad Retirement Account above.
3/ Includes funds subsequently transferred to other accounts. Such inter-fund transfers are eliminated in the preparation of the consolidated statements.
4/ Net of recoveries and excludes SSA benefit payments.

The RRB's financial statements are comprised of: Balance Sheet and Statements of Net Cost, Changes in Net Position, Budgetary Resources, and Social Insurance and notes which are an integral part of the statements. We also present as required supplementary information a discussion of the actuarial outlook for the railroad retirement program and the Disaggregate of Budgetary Resources.

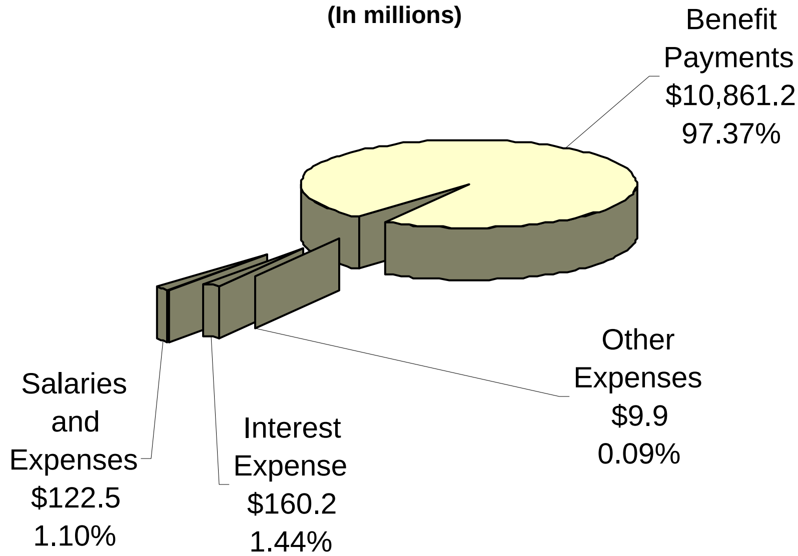
Comparison of Net Cost of Operations and Financing Sources

The net cost of operations for fiscal years 2009 and 2008 was $11,119.5 million and $10,438.6 million, respectively. The details of the net cost of operations by type, amount, increase or decrease, and percentage change from fiscal year 2008 to fiscal year 2009 are shown below. Additional information regarding the net cost of operations and financing sources for fiscal years 2009 and 2008 is shown on the following pages.

NET COST OF OPERATIONS
(In millions)

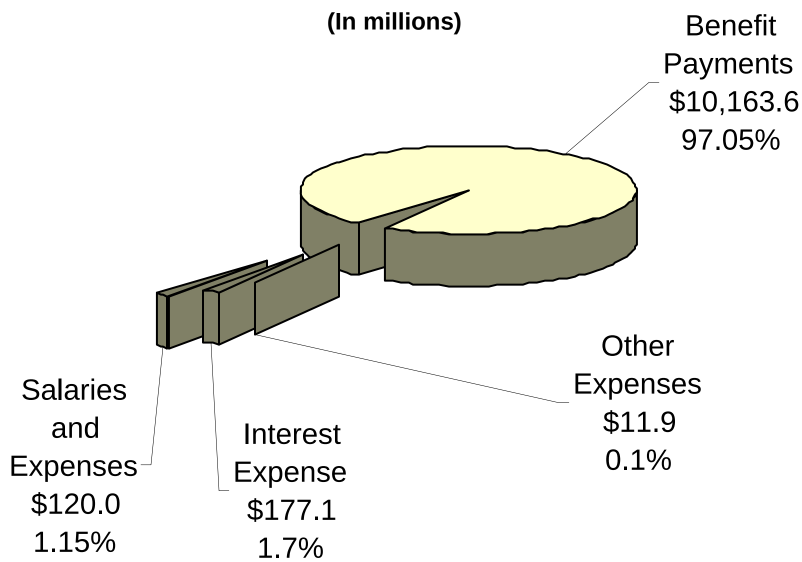
	FY 2009	FY 2008	Amount of Increase (Decrease)	Percent of Increase (Decrease)
Interest expense – Treasury borrowing	$ 160.2	$ 177.1	($16.9)	(9.5%)
Salaries and expenses	122.5	120.0	2.5	2.1%
Benefit payments – RRB	10,861.2	10,163.6	697.6	6.9%
Other expenses	9.9	11.9	(2.0)	(16.8%)
Subtotal	11,153.8	10,472.6	681.2	6.5%
Less: Earned revenues	34.3	34.0	0.3	0.9%
Net cost of operations	$11,119.5	$10,438.6	$680.9	6.5%

FY2009
NET COST OF OPERATIONS
(In millions)



Totals $11,153.8 million, excluding reimbursements and earned revenues of $34.3 million.

FY2008
NET COST OF OPERATIONS
(In millions)



Totals $10,472.6 million, excluding reimbursements and earned revenues of $34 million.

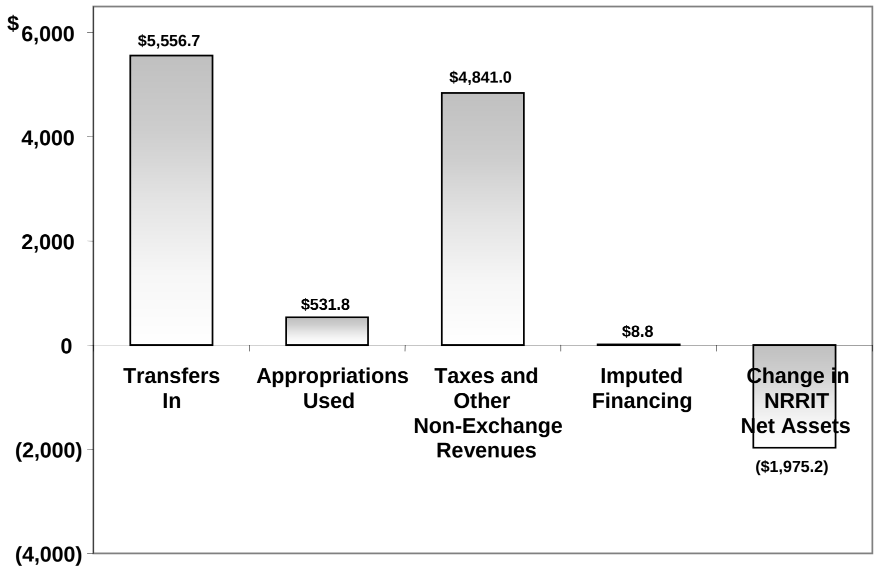
The following table shows financing sources (excluding changes in unexpended appropriations) by type, amount, increase or decrease, and percentage change from fiscal year 2008 to fiscal year 2009.

FINANCING SOURCES
(In millions)

	FY 2009	FY 2008	AMOUNT OF INCREASE (DECREASE)	PERCENT OF INCREASE (DECREASE)
Appropriations used	$ 531.8	$ 436.7	$ 95.1	21.8
Taxes and other non-exchange revenues:				
Payroll taxes	4,710.5	4,938.9	(228.4)	(4.6)
Interest revenue and other income	38.9	45.3	(6.4)	(14.1)
Carriers refunds – principal	(1.2)	(15.5)	14.3	(92.3)
RUI revenue	92.8	93.9	(1.1)	(1.2)
Subtotal	$4,841.0	$5,062.6	($221.6)	(4.4)
Imputed financing (amount to be provided by the Office of Personnel Management to pay future retirement benefits to RRB employees)	8.8	8.6	0.2	2.3
Transfers in:				
Financial Interchange, net	4,003.7	3,633.2	370.5	10.2
NRRIT	1,553.0	1,298.0	255.0	19.6
Subtotal	$5,556.7	$4,931.2	$ 625.5	12.7
Other:				
Change in NRRIT net assets	(1,975.2)	(7,339.9)	5,364.7	(73.1)
Subtotal	$8,963.1	$3,099.2	$5,863.9	189.2
Less: Transfers out to NRRIT	0.0	0.0	0.0	-
Loss Contingency	(5.0)	0.0	(5.0)	-
Subtotal	(5.0)	0.0	(5.0)	-
Total	$8,958.1	$3,099.2	$5,858.9	189.0

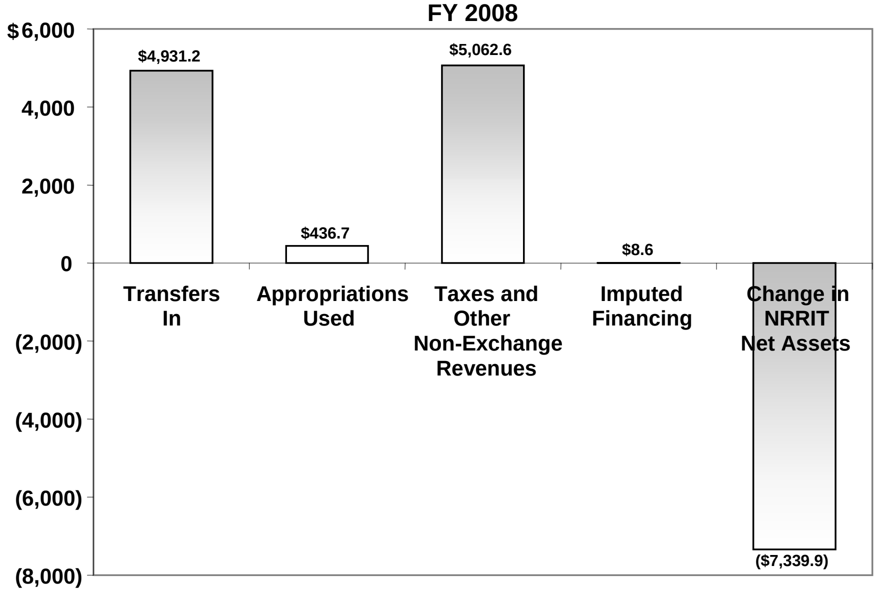
The most significant difference between the RRB's financial statements for fiscal year 2008 and fiscal year 2009 was the change in NRRIT net assets. The decrease in NRRIT net assets of $1,975.2 million is due to market fluctuations during the past year. There is a section on page 20 that describes the NRRIT, and the NRRIT net assets balances for 2008 and 2009 are shown in the RRB's Financial Section of this publication.

FINANCING SOURCES (In Millions)
FY 2009



Total Financing Sources $8,963.1 million, excluding $5 million loss contingency.

FINANCING SOURCES (In Millions)
FY 2008



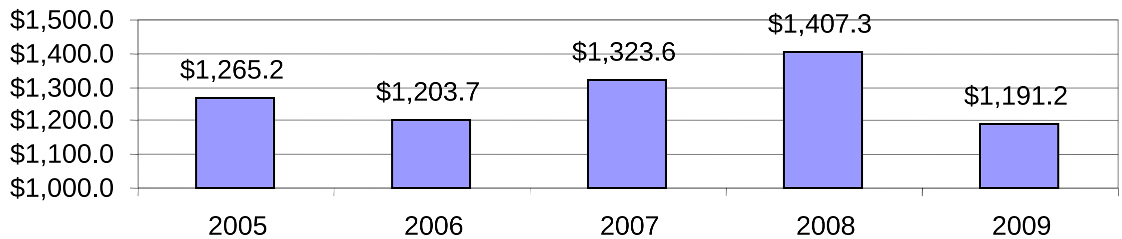
Total Financing Sources $3,099.2 million

Railroad Retirement Investments at Treasury

The book value of all railroad retirement investments, including accrued interest, decreased to $1,191.2 million as of September 30, 2009, from $1,407.3 million on September 30, 2008 (excludes NRRIT net assets). The graph below reflects the book value of the railroad retirement investments from September 30, 2005, through September 30, 2009.

INVESTMENT BALANCES HELD AT TREASURY (AT BOOK VALUE)
AT SEPTEMBER 30, 2005 - 2009

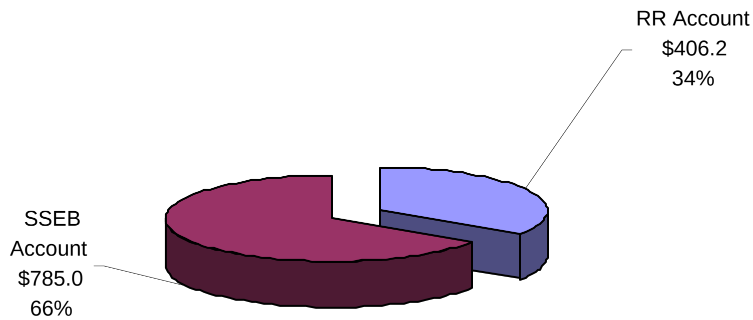
(In millions, excluding NRRIT net assets)



The following chart shows the portfolio of the railroad retirement investments as of September 30, 2009.

RAILROAD RETIREMENT INVESTMENTS HELD AT TREASURY
AS OF SEPTEMBER 30, 2009

(In millions, excluding NRRIT net assets)



AT BOOK VALUE
Total $1,191.2

Railroad Retirement Account

On September 30, 2009 and 2008, the book values of the RR Account investments, excluding NRRIT assets, including accrued interest, totaled $406,196,122 and $624,855,271, respectively. The balance on September 30, 2009, consisted of $405,445,000 in 3.000 percent par value specials (with market value equal to face value) maturing on October 1, 2009, and $751,122 in accrued interest. The balance on September 30, 2008, consisted of $623,809,000 in 3.125 percent par value specials (with market value equal to face value) maturing on October 1, 2008, and $1,046,271 in accrued interest. Par value specials mature on the first working day of the month following the month of issue and have a yield based on the average yield of marketable Treasury notes with maturity dates at least 3 years away.

Social Security Equivalent Benefit Account

On September 30, 2009 and 2008, the book values of the SSEB Account investments, including accrued interest, totaled $784,981,660 and $782,456,367, respectively. The balance on September 30, 2009, consisted of $783,717,000 in 3.000 percent par value specials maturing on October 1, 2009, and $1,264,660 in accrued interest. The balance on September 30, 2008, consisted of $781,162,000 in 3.125 percent par value specials maturing on October 1, 2008, and $1,294,367 in accrued interest.

National Railroad Retirement Investment Trust

The NRRIT was established by the Railroad Retirement and Survivors' Improvement Act of 2001 (RRSIA). The sole purpose of the NRRIT is to manage and invest railroad retirement assets. The NRRIT is a tax-exempt entity, independent from the Federal government and not subject to Title 31, United States Code. The NRRIT is domiciled in and subject to the laws of the District of Columbia.

The NRRIT is comprised of a Board of seven Trustees, three selected by railroad labor unions and three by railroad companies. The seventh Trustee is an independent Trustee selected by the other six. Members of the Board of Trustees are not considered officers or employees of the Government of the United States.

The RRSIA authorizes the NRRIT to invest railroad retirement assets in a diversified investment portfolio in the same manner as those of private sector retirement plans. Prior to the RRSIA, investment of railroad retirement assets was limited to U.S. Government securities.

The NRRIT and the RRB are separate entities. The RRB remains a Federal agency and continues to have full responsibility for administering the railroad retirement program, including eligibility determinations and the calculation of benefit payments. The NRRIT has no powers or authority over the administration of benefits under the railroad retirement program. Under the RRSIA, the NRRIT is required to act solely in the interest of the RRB, and through it, the participants and beneficiaries of the programs funded under the Railroad Retirement Act. The RRSIA does not delegate any authority to the RRB with respect to day-to-day activities of the NRRIT, but the RRSIA provides that the RRB may bring a civil action to enjoin any act or practice of the NRRIT that violates the provisions of the RRSIA or to enforce any provision of the RRSIA.

Under the RRSIA, the financial statements of the NRRIT are required to be audited annually by an independent public accountant. In addition, the NRRIT must submit an annual management report to the Congress on its operations, including a Statement of Financial Position, a Statement of Cash Flows, a Statement on Internal Accounting and Administrative Control Systems, the independent auditor's report, and any other information necessary to inform the Congress about the operations and financial condition of the NRRIT. A copy of the annual report must also be submitted to the President, the RRB, and the Director of the Office of Management and Budget.

Program, Operations, and Financial Performance and Results

During fiscal year 2009 (ended September 30, 2009), railroad retirement and survivor benefit payments totaled $10.5 billion, net of recoveries. Unemployment and sickness insurance benefit payments totaled $154.1 million in fiscal year 2009, net of recoveries. During fiscal year 2009, the RRB also paid benefits on behalf of SSA (for which the RRB is reimbursed) amounting to $1.3 billion to about 115,000 beneficiaries.

In fiscal year 2009, the RRB continued to focus its efforts on providing excellent customer service to current and former railroad workers and their family members. Our regular workloads in fiscal year 2009 included:

- Providing payments to 589,000 retirement and survivor beneficiaries.
- Providing payments to 24,000 unemployment insurance beneficiaries.
- Providing payments to 18,000 sickness insurance beneficiaries.
- Processing 28,158 retirement, survivor, and disability applications for benefits and then determining eligibility (through May 2009).
- Processing 250,366 applications and claims for unemployment and sickness insurance benefits (through May 2009).
- Issuing 276,983 certificates of employee railroad service and compensation (mailed by the contractor on June 12, 2009).

During fiscal year 2009, the RRB used 46 specific program performance objectives, including several with multiple indicators, to manage and track progress in meeting its long-term strategic plan goals. These objectives were accomplished with direct appropriations of $105,463,000 for administration of the RRB. (A breakdown of administrative expenses by strategic goal is not available at the time of this report.) Agency performance with respect to the key performance indicators is covered in the following section. For most performance measures, actual full-year performance results for fiscal year 2009 were not available at the time this report was published. For those objectives, we reported part-year performance information for fiscal year 2009, if available. We also reported actual results from prior years, as applicable.

Summary of Achievement by Strategic Goal

Strategic Goal I: Provide Excellent Customer Service. We aim to satisfy our customers' expectations for quality service both in terms of service delivery options and levels and manner of performance. For fiscal year 2009, we expect that benefit payment accuracy rates will exceed 99 percent, and we are striving to meet or exceed the timeliness goals by year-end.

Strategic Goal II: Serve as Responsible Stewards for Our Customers' Trust Funds and Agency Resources. The RRB is committed to fulfilling its fiduciary responsibilities to the rail community. For fiscal year 2009, we expect to meet or exceed our performance goals.

Strategic Goals and Objectives

The RRB has a long and distinguished tradition of excellence in serving our customers, and we will strive to continue that tradition in the coming years. We have achieved high levels of accuracy and timeliness in the processing of retirement and survivor benefits, while embracing new technology, especially in areas where it can improve customer service and efficiency. We have also achieved very high scores for customer service in independent assessments of our operations related to initial railroad retirement applications, unemployment and sickness insurance benefits, survivor applications and disability applications.

The two overriding strategic issues for the upcoming planning period relate to customer service and trust fund stewardship. The **service issue** involves our ability to continue to meet our customers' expectations for personal, high quality service, and our ability to position the agency to meet rising customer expectations for new and improved services in the future. The **stewardship issue** has multiple aspects, some of which arise from legislative changes and others which relate to our ongoing ability to meet our program integrity responsibilities and to maintain effective, efficient and secure agency operations. To effectively address these issues, we have established two strategic goals on which we will focus our efforts.

Provide excellent customer service

We aim to satisfy our customers' expectations for quality service both in terms of service delivery options and levels and manner of performance. Our Annual Performance Budget for Fiscal Year 2009 reflects four strategic objectives that focus on the specifics of achieving this goal.

- Pay benefits accurately and timely.
- Provide relevant, timely, and accurate information which is easy to understand.
- Provide a range of choices in service delivery methods.
- Ensure efficient and effective business interactions with covered railroad employers.

Serve as responsible stewards for our customers' trust funds and agency resources

The RRB is committed to fulfilling its fiduciary responsibilities to the rail community. Our performance budget reflects four objectives that direct our focus on this goal.

- Ensure that trust fund assets are projected, collected, recorded and reported appropriately.
- Ensure the integrity of benefit programs.
- Ensure effectiveness, efficiency, and security of operations.
- Effectively carry out the responsibilities of the RRB under the RRSIA with respect to the activities of the NRRIT.

The RRB of the future will continue to be customer-focused, quality-driven, and fiscally responsible. Our overall mission and responsibilities as a Federal agency will remain unchanged, even though our organization may be smaller in terms of staff and budget resources. We will use creativity, automation and innovation to continue to deliver best-in-class service while ensuring cost-effective and efficient operations.

Our customers will have a broad range of choices for conducting their business with the agency, including more Internet options that will allow for private, secure transactions from their homes at any time of the day. Railroad employers will be able to conduct most, if not all, of their routine transactions with the RRB through secure and efficient electronic systems. Direct customer feedback will shape our planning efforts and enhance our responsiveness. Our customer service levels will serve as a standard of excellence for the rest of the Federal community.

The agency's internal culture will reflect a strong commitment to its employees, and a drive to ensure continual learning at all levels. Given the large percentage of employees who will be eligible for retirement in the near future, senior employees will engage in knowledge transfer and sharing as a top priority.

Our ultimate measures of success will be the sustained satisfaction level of our customers and our ability to respond to their needs and concerns.

<u>Validation of Performance Information</u>. RRB has implemented comprehensive administrative procedures to ensure that reported performance information is accurate and valid. Administrative Circular RRB-2 establishes standards and assigns responsibility for collecting, documenting, validating, certifying, reporting and retaining information related to the actual performance data reported for objectives in RRB's Annual Performance Budget and Government Performance and Results Act Report.

The procedures require that reporting managers develop and maintain written procedures for:

- Collecting data related to each objective,
- Testing and validating performance data to ensure accuracy,
- Retaining source documents for future reference, and
- Attesting to the accuracy of performance information reported.

Members of RRB's Planning Council review the certified performance data and attestations for completeness and to identify any problems. The Planning Council also compiles the performance data for agency reports, and monitors compliance with the requirements of Administrative Circular RRB-2.

Members of RRB's Executive Committee review performance issues related to their areas of responsibility and assign follow-up action, as necessary. The Executive Committee also reviews and approves performance reports before releasing the drafts for approval by the Board Members.

The following begins a discussion of our key performance indicators.

Discussion of Key Performance Indicators

The RRB has identified the following 10 key performance indicators, which represent our most important responsibilities.

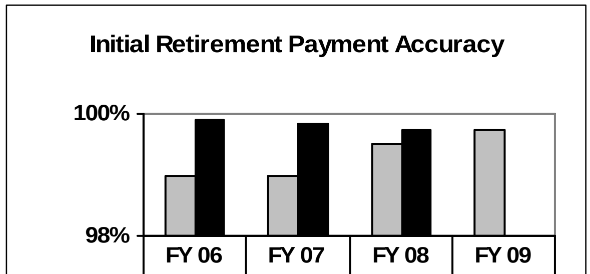
<u>Key performance indicator 1:</u> Initial recurring retirement payment accuracy (Objective I-A-1a)

Our overall strategic goal is to achieve a railroad retirement benefit payment recurring accuracy rate of at least 99 percent on our initial processing of applications for retirement (employee, spouse and widow) benefits.

FY 2009 goal: 99.75%
Our FY 2009 performance: Not available

Full-year data will be available in fiscal year 2010.

FY 2008 goal: 99.50%
Our FY 2008 performance: 99.75%



	FY 06	FY 07	FY 08	FY 09
Goal	99.00%	99.00%	99.50%	99.75%
Actual	99.91%	99.82%	99.75%	N/A

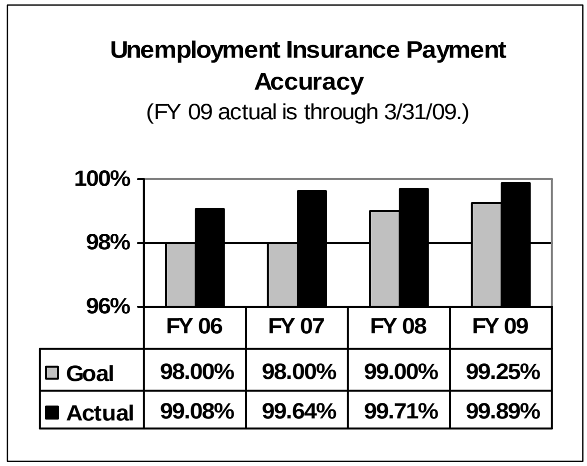
We met our goal. Automation plays a key role in assuring initial benefit payment accuracy by reducing the number of erroneous payments. Automation will become more critical in this area as experienced personnel retire in the coming years.

Data definition: This is the percentage of the dollar value of initial recurring retirement benefit payments paid correctly as a result of adjudication actions performed, based on a review of a sample of cases.

<u>Key performance indicator 2:</u> Unemployment insurance payment accuracy (Objective I-A-2a)

Our overall strategic goal is to achieve a railroad unemployment insurance benefit payment accuracy rate of at least 99 percent.

FY 2009 goal: 99.25%
Our FY 2009 performance: 99.89% through the 2nd quarter



We are achieving our goal. Automation plays a key role in assuring benefit payment accuracy by reducing the number of erroneous payments.

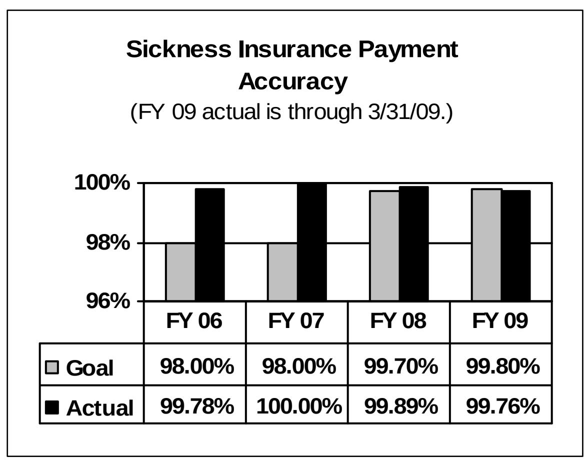
FY 2008 goal: 99.00%
Our FY 2008 performance: 99.71%

Data definition: This is the percentage of the dollar value of unemployment insurance benefit payments paid correctly as a result of adjudication actions performed, based on a review of a sample of cases.

<u>Key performance indicator 3:</u> Sickness insurance payment accuracy (Objective I-A-2b)

Our overall strategic goal is to achieve a railroad sickness insurance benefit payment accuracy rate of at least 99 percent.

FY 2009 goal: 99.80%
Our FY 2009 performance: 99.76% through the 2nd quarter



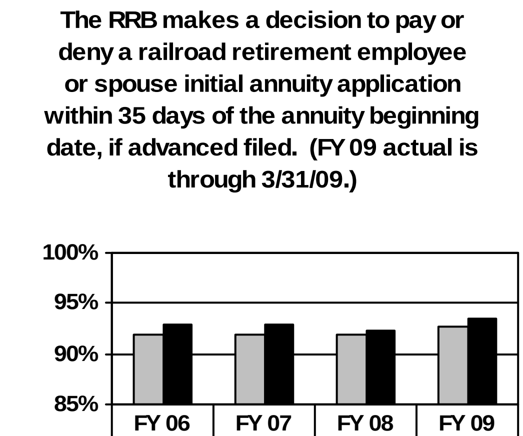
We are near our goal. Automation plays a key role in assuring benefit payment accuracy by reducing the number of erroneous payments.

FY 2008 goal: 99.70%
Our FY 2008 performance: 99.89%

Data definition: This is the percentage of the dollar value of sickness insurance benefit payments paid correctly as a result of adjudication actions performed, based on a review of a sample of cases.

<u>Key performance indicator 4:</u> Timeliness of initial Railroad Retirement annuity payments, when advanced filed (Objective I-A-5)

FY 2009 goal: 92.75%
Our FY 2009 performance: 93.40% through the 2nd quarter



	FY 06	FY 07	FY 08	FY 09
Goal	92.00%	92.00%	92.00%	92.75%
Actual	92.90%	92.80%	92.40%	93.40%

We are exceeding our goal. Automation plays a key role in assuring benefit payment timeliness for this performance indicator.

FY 2008 goal: 92.00%
Our FY 2008 performance: 92.40%

Data definition: This goal is included in the RRB Customer Service Plan. Prior to fiscal year 2008, the goal was stated from the customer's perspective and attempted to measure timeliness to the point of delivery by reporting performance as the percent of retirement age and service applications for which all RRB processing was completed within 30 days, allowing 5 days to account for handling by the Department of the Treasury or U.S. Postal Service (USPS). An audit by the RRB's OIG (05-05, dated May 17, 2005), however, found technical problems with the data, specifically, the time to voucher the case for payment was not included in the measure. Since that time, we qualified the performance report to indicate that, due to system limitations, our tracking did not include all internal processing time, but only measured to 30 days adjudicative processing time. In its audit, the RRB's OIG also found a reporting flaw in our measurement process for 3rd party payment cases, which affected 2 out of 150 cases in the sample. For fiscal years before 2009, the performance level reported is inaccurate for the few cases of this type processed during the reporting period, and is measured as 30 days to the end of the adjudicative process.

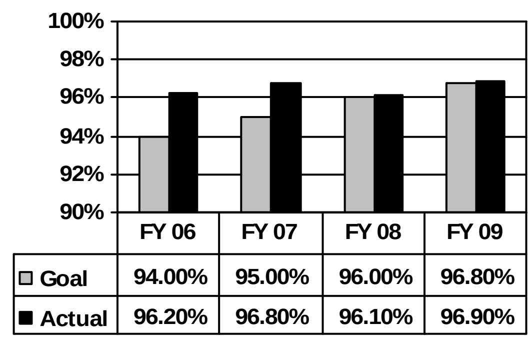
In fiscal year 2008, we reworded the goal to express performance from RRB's perspective. The new goal is stated in the chart above.

Effective October 1, 2008, the system problems described above were corrected allowing us to track performance for the entire internal processing time. Due to the complexity of the system revisions, the system is not to the efficiency level we expect and the data generated still requires some manual adjustment. Therefore, while we are still reviewing system data and will continue to do so through fiscal year 2009, we believe that performance reported for fiscal year 2009 now accurately reflects the percentage of applications processed to the point of payment or denial within 35 days of the annuity beginning date, if advanced filed. Beginning with fiscal year 2009, there is no longer a need to qualify the measure for this objective to refer to "adjudicative processing days." The other errors found by the OIG have also been corrected.

We will continue to disclose the previous problems until the point where the performance for fiscal year 2008 and earlier is no longer included in this report.

<u>Key performance indicator 5:</u> Timeliness of initial Railroad Retirement annuity payments, if not advanced filed (Objective I-A-6)

FY 2009 goal: 96.80%
Our FY 2009 performance: 96.90% through the 2nd quarter



The RRB makes a decision to pay or deny a retirement employee or spouse initial annuity application within 60 days of the date the application was filed. (FY 09 actual is through 3/31/09.)

We are achieving our goal. Automation plays a key role in assuring benefit payment timeliness for this performance indicator.

FY 2008 goal: 96.00%
Our FY 2008 performance: 96.10%

Data definition: This goal is included in the RRB Customer Service Plan. Prior to fiscal year 2008, the goal was stated from the customer's perspective and attempted to measure timeliness to the point of delivery by reporting performance based the percent of retirement age and service applications for which all RRB processing was completed within 60 days, allowing 5 days to account for handling by the Department of the Treasury or U.S. Postal Service (USPS). An audit by the RRB's OIG (05-05, dated May 17, 2005), however, found technical problems with the data, specifically the time to voucher the case for payment was not included in the measure. Since that time, we qualified the performance report to indicate that, due to system limitations, our tracking did not include all internal processing time, but only measured to 60 days adjudicative processing time. While the issues described in detail for Key Indicator 4 apply to these non-advanced filed cases as well, the net impact on actual performance levels was not as significant.

In fiscal year 2008, we reworded the goal to express performance from RRB's perspective. The new goal is stated in the chart above.

Effective October 1, 2008, the system problems described above were corrected allowing us to track performance for the entire internal processing time. Due to the complexity of the system revisions, the system is not to the efficiency level we expect and the data generated still requires some manual adjustment. Therefore, while we are still reviewing system data and will continue to do so through fiscal year 2009, we believe that performance reported for fiscal year 2009 now accurately reflects the percentage of applications processed to the point of payment or denial within 60 days of the date the application was filed. Beginning with fiscal year 2009, there is no longer a need to qualify the measure for this objective to refer to "adjudicative processing days." The other errors found by the OIG have also been corrected.

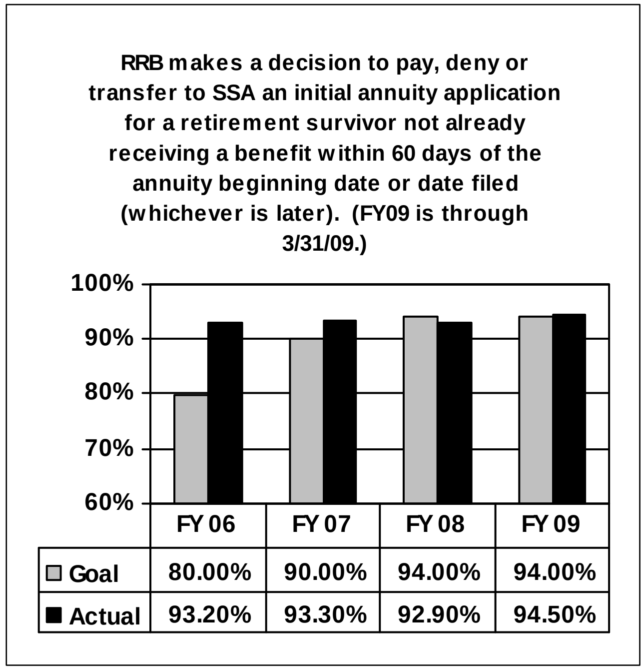
We will continue to disclose the previous problems until the point where the performance for fiscal year 2008 and earlier is no longer included in this report.

<u>Key performance indicator 6:</u> Timeliness of new survivor benefit payments (Objective I-A-7)

FY 2009 goal: 94.00%
Our FY 2009 performance: 94.50% through the 2nd quarter

We are achieving our goal. Automation plays a key role in assuring benefit payment timeliness for this performance indicator.

FY 2008 goal: 94.00%
Our FY 2008 performance: 92.90%

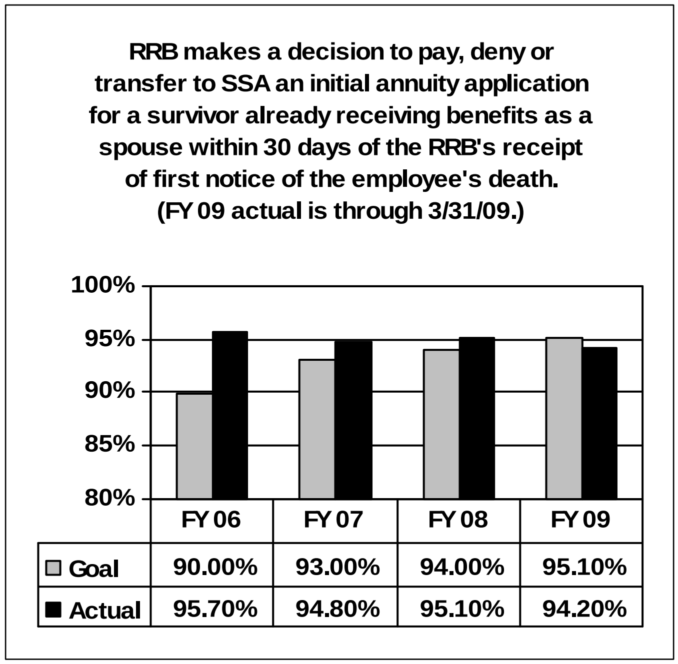


	FY 06	FY 07	FY 08	FY 09
Goal	80.00%	90.00%	94.00%	94.00%
Actual	93.20%	93.30%	92.90%	94.50%

Data definition: This goal is included in the RRB Customer Service Plan. Prior to fiscal year 2008, the goal was stated from the customer's perspective and attempted to measure timeliness to the point of delivery by reporting performance based on the percent of applications where all RRB processing was completed within 60 days, allowing 5 days to account for Treasury or USPS handling. In fiscal year 2008, we reworded the goal to more precisely measure only RRB internal processing time. The indicator was again restated in our final performance budget for fiscal year 2010 to more accurately describe how timeliness is measured. The new goal is stated in the chart above.

<u>Key performance indicator 7:</u> Timeliness of spouse to survivor benefit payment conversions (Objective I-A-8)

FY 2009 goal: 95.10%
Our FY 2009 performance: 94.20% through the 2nd quarter



We have not yet achieved our goal. Automation plays a key role in assuring benefit payment timeliness for this performance indicator.

FY 2008 goal: 94.00%
Our FY 2008 performance: 95.10%

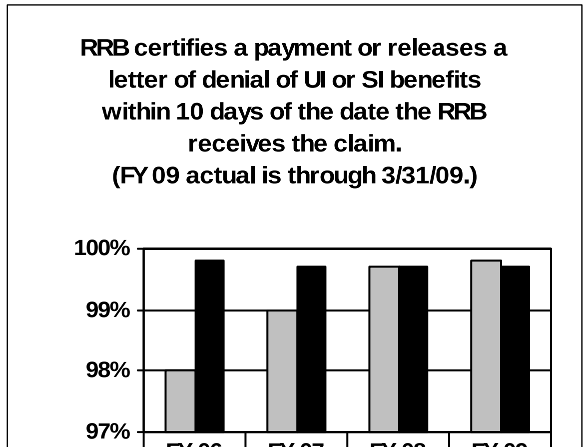
Data definition: This goal is included in the RRB Customer Service Plan. Prior to fiscal year 2008, the goal was stated from the customer's perspective and attempted to measure timeliness to the point of delivery by reporting performance based on the percent of applications where all RRB processing was completed within 30 days, allowing 5 days to account for Treasury or USPS handling. In fiscal year 2008, we reworded the goal to more precisely measure only RRB internal processing time. The indicator was again restated in our final performance budget for fiscal year 2010 to more accurately describe how timeliness is measured. The new goal is stated in the chart above.

<u>Key performance indicator 8:</u> Timeliness of unemployment or sickness insurance payments (Objective I-A-12)

FY 2009 goal: 99.80%
Our FY 2009 performance: 99.70% through the 2nd quarter

We are near our goal. Automation plays a key role in assuring benefit payment timeliness for this performance indicator.

FY 2008 goal: 99.70%
Our FY 2008 performance: 99.70%



	FY 06	FY 07	FY 08	FY 09
Goal	98.00%	99.00%	99.70%	99.80%
Actual	99.80%	99.70%	99.70%	99.70%

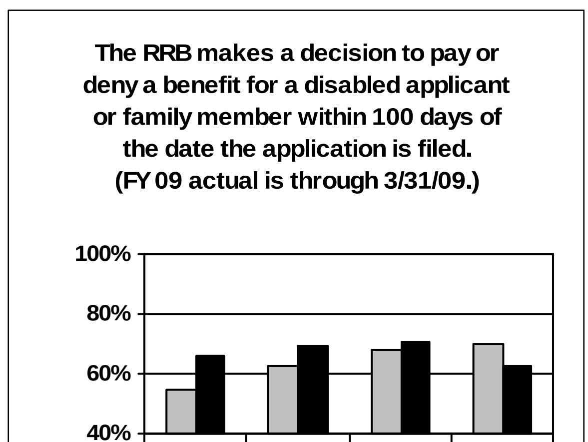
Data definition: This goal is included in the RRB Customer Service Plan. Prior to fiscal year 2008, the goal was stated from the customer's perspective and attempted to measure timeliness to the point of delivery by reporting performance based on the percent of applications where all RRB processing was completed within 10 days, allowing 5 days to account for Treasury or USPS handling. In fiscal year 2008, we reworded the goal to more precisely measure only RRB internal processing time. The new goal is stated in the chart above.

<u>Key performance indicator 9:</u> Timeliness of disability decisions (Objective I-A-13)

FY 2009 goal: 70.00%
Our FY 2009 performance: 62.80% through the 2nd quarter

We have not yet achieved our goal. Loss of staff and reassignment of some examiners to special projects impacted the timeliness of disability decisions this fiscal year. We are taking actions to improve performance including expanded efforts to monitor aging cases, reassignment of staff and use of overtime.

FY 2008 goal: 68.00%
Our FY 2008 performance: 70.40%



	FY 06	FY 07	FY 08	FY 09
Goal	55.00%	63.00%	68.00%	70.00%
Actual	65.90%	69.60%	70.40%	62.80%

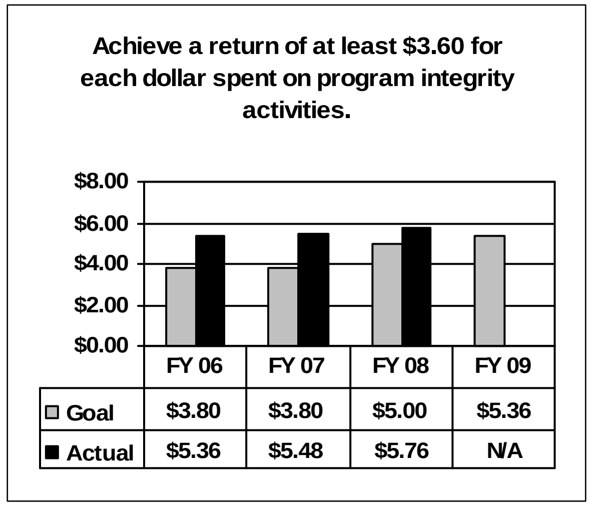
Data Definition: This goal is included in the RRB Customer Service Plan. Prior to fiscal year 2008, the goal was stated from the customer's perspective and attempted to measure timeliness to the point of delivery by reporting performance based on the percent of applications where all RRB processing was completed within 100 days, allowing 5 days to account for Treasury or USPS handling. In fiscal year 2008, we reworded the goal to more precisely measure only RRB internal processing time. The new goal is stated in the chart above.

Key performance indicator 10: **Return on investment in program integrity activities (Objective II-B-1)**

FY 2009 goal: $5.36 : $1
Our FY 2009 performance: Not available

FY 2009 data will be available in FY 2010.

FY 2008 goal: $5.00 : $1
Our FY 2008 performance: $5.76 : $1



We exceeded our goal. Our fiscal year 2008 goal was to achieve a return of $5.00 for each dollar spent on program integrity activities. We achieved a rate of return of $5.76 for each dollar spent.

As part of our fiduciary responsibilities to the rail community, we must ensure that the correct benefit amounts are being paid to the right people. We match our benefit payments against SSA's earnings and benefits database, the Centers for Medicare and Medicaid Services' utilization and death records, the Office of Personnel Management's benefit records, and State wage reports, usually via computer tapes, and administer other benefit monitoring programs to identify and prevent erroneous payments. We also refer some cases to the RRB's OIG for investigation. After investigation, the OIG may pursue more aggressive collection methods, which include civil and criminal prosecution.

Data definition: This is the ratio of the sum of the dollar recoveries and savings, to the labor dollars spent.

Future Plans/Objectives

Program Improvements

- **Medicare Modernization Act** (MMA) The Medicare Prescription Drug, Improvement and Modernization Act of 2003, otherwise known as the Medicare Modernization Act (MMA), added a prescription drug benefit (Part D) to the Medicare program effective January 2006. The MMA provides beneficiaries the option to pay Parts C (Medicare Advantage plan) and D premiums directly to their plans or to have premiums withheld from benefits paid by the Social Security Administration (SSA), the Office of Personnel Management, or the Railroad Retirement Board.

  The RRB renewed working with the Centers for Medicare & Medicaid Services (CMS) in June 2008 to implement Medicare Parts C and D premium withholding from RRB benefits. Work on Parts C and D premium withholding had been suspended while we focused available resources on implementing provisions of the MMA that require certain beneficiaries to pay income-related monthly adjustment amounts (IRMAAs) for their Medicare Part B coverage, and to allow time for CMS to review and resolve problems with the withholding of Parts C and D premiums from benefits paid by SSA.

  A joint RRB and CMS workgroup issued a report in January 2009 that provided a process concept and high level requirements to enable Parts C and D premium withholding from RRB benefits. Along with CMS, we have established a target implementation date of July 2010.

- **Nationwide Toll-Free Service** In fiscal year 2009, the agency successfully implemented a national toll-free telephone service based upon a contract awarded through GSA-Networx Universal to Qwest Government Services, Inc. The features include a single nationwide toll-free number, automatic distribution of customer calls, interactive voice response (IVR) functionality, an upgrade of the existing data network, and implementation of Voice over Internet Protocol (VoIP) telephone service at all RRB field offices. The toll-free number provides a single access point to claims representatives in the agency's field service offices and to IVR services. Future improvements to the toll-free system will include better data collection and analysis regarding customer usage trends. We also have long-term plans to enhance the system to provide additional interactive voice services for various customer transactions.

- **Internet Unemployment and Sickness Insurance Benefit Services** In 2004, the RRB made applications and claims for unemployment insurance benefits available online at www.rrb.gov. In calendar year 2005, the RRB completed a project to automate the processing of unemployment insurance benefit claims that pass mechanical screening for eligibility. In 2005, the RRB also implemented a service enabling unemployment and sickness insurance beneficiaries to view their account statements online. The account statement lists recent forms filed and unemployment and sickness insurance benefit payments. In 2009, the RRB plans to implement a process to allow beneficiaries to submit online biweekly claims for sickness insurance benefits. To increase efficiency, we will then implement an automated eligibility screening process so those claims that pass will be automatically forwarded to employers for prepayment verification.

- **Employer Reporting System (ERS) – Internet Site** In February 2009, we completed the automation of the pre-payment and post-payment verification notices (Forms ID-4k and ID-4e) sent to employers for benefits we pay under the Railroad Unemployment Insurance Act (RUIA).

  There are many opportunities to further enhance the system and add functionality to streamline the business interactions with rail employers and improve timeliness and accuracy of benefit payments. The sequence and schedule for developing these have not yet been determined.

  Currently, the agency is working toward converting the current system and forms to a software language which is compatible with existing standards, and which should enable in-house staff to add new functionality to the system without the need to obtain contractor support.

  In addition, the ERS Internet-based version of Form BA-3, Annual Report of Service and Compensation, will be developed, yielding 7 additional services and replacing several post-reporting requests for information from employers. We also plan to provide additional functionality including automated referrals, alerts, notifications, and electronic information exchanges with employers.

Systems and Controls

The RRB continually evaluates the effectiveness and efficiency of its operations using ongoing assessments and reviews of management controls, internal and external audits, quality control and assurance reviews, program integrity activities, and customer satisfaction surveys.

Under the direction of a Management Control Review Committee (MCRC) composed of senior managers from its program, information services, administrative, and financial operations, the RRB has divided these operations functionally into 43 assessable units. The number of assessable units can vary from year to year as operations are restructured to accommodate changes precipitated by such factors as new and revised missions, reduced resources, and increased automation.

The mission, key performance indicators, workflow, control objectives and techniques, guidance, automated systems support, impact, and vulnerability of each assessable unit are documented. The RRB maintains and annually updates a 5-year plan for review of the assessable units. The official responsible for each assessable unit prepares an annual assessment of key indicators and open or new issues requiring management's attention. High impact and vulnerable assessable units are scheduled for more frequent, in-depth reviews as deemed necessary by the MCRC in consultation with senior management. During fiscal year 2009, responsible officials performed in-depth reviews of 13 assessable units, assessed all 43, and certified 41.

The RRB reported a material weakness relating to deficiencies in Information Technology Security in fiscal year 2002; the remaining action needed to address these deficiencies is implementation of access control recommendations. In fiscal year 2005, the OIG reported on Information Technology Security as a material weakness in the fiscal year 2005 Performance and Accountability Report. It reported on deficiencies in meeting FISMA requirements for risk assessments, and testing and evaluation. The Responsible Official certification for fiscal year 2009 includes information about actions underway to address these deficiencies.

In fiscal year 2008, the OIG identified Financial Reporting as a material weakness. The agency has implemented actions to improve the financial reporting process in fiscal year 2009 and will continue to work with the OIG to implement any necessary additional enhancements to that process.

For fiscal year 2009, the OIG recently identified Non-Integrated Subsystems as a material weakness.

The agency is committed to resolving these reported weaknesses and will closely monitor progress during fiscal year 2010.

Management Assurances

The Railroad Retirement Board states and assures that to the best of our knowledge:

1. In accordance with Office of Management and Budget Circular No. A-123, Section VI (B), we are issuing a qualified statement of assurance considering the OIG-identified material weaknesses indicated under paragraph (4). Except as indicated under (4), the system of internal control of this agency is functioning and provides reasonable assurance as to the: efficiency and effectiveness of programs and operations; reliability of financial and performance information; and compliance with laws and regulations. These controls satisfy the requirements of the Federal Managers' Financial Integrity Act §2.

2. The financial management systems of this agency maintain accountability for assets and provide reasonable assurance that obligations and costs are in compliance with applicable law, and that performance data and proprietary and budgetary accounting transactions applicable to the agency are properly recorded and accounted for to permit the timely preparation of accounts and reliable performance information. The financial management systems at this agency satisfy the requirements of the Federal Managers' Financial Integrity Act §4.

3. The financial management systems of this agency provide the agency with reliable, timely, complete, and consistent performance and other financial information to make decisions and efficiently operate and evaluate programs and substantially satisfy the requirements of the Government Performance and Results Act and OMB Circular No. A-11.

4. The RRB's Inspector General, in his auditor's report, identifies Information Technology Security, Financial Reporting, and Non-Integrated Subsystems as material weaknesses.

Description of OIG-Identified Material Weaknesses

1. Information technology security at the RRB is weakened by deficiencies in risk assessment, testing and evaluation, and access controls in both the general support and major application systems.

   In fiscal year 2010, the plan is to focus on resolving the most significant audit recommendations. We will then evaluate the Information Technology Security material weakness to determine whether it has been eliminated.

2. The OIG also identified Financial Reporting as a material weakness. The Bureau of Fiscal Operations will continue to work with the OIG to implement any necessary enhancements to the financial reporting process.

3. The OIG recently identified Non-Integrated Subsystems as a material weakness. The agency will evaluate this area and determine what action is necessary to address the reported material weakness.

Original signed by:

Michael S. Schwartz, Chairman
V. M. Speakman, Jr., Labor Member
Jerome F. Kever, Management Member

Summary of Actuarial Forecast

The Statement of Social Insurance presents an actuarial analysis of the financial position of the railroad retirement system as of January 1, 2009, under our intermediate employment assumption. The Required Supplementary Information presents sensitivity analyses showing the impact of changes in employment and investment return assumptions. Although under our intermediate assumption no cash flow problems arise over the period 2009-2083, the sensitivity analyses show that, under the current financing structure, actual levels of railroad employment and investment return over the coming years will determine whether additional corrective action is necessary.

Section 7105 of the Technical and Miscellaneous Revenue Act of 1988 requires the RRB to submit an annual report to Congress on the financial status of the railroad unemployment insurance system. Projections were made for the various components of income and outgo under each of 3 employment assumptions for the 11 fiscal years 2009-2019. The results indicate that the Railroad Unemployment Insurance (RUI) Account will be solvent during the 11-year projection period except for small, short-term cash-flow problems in fiscal years 2010 and 2011 under the intermediate and pessimistic assumptions. Full repayment of the loans is expected by the end of fiscal year 2011 for the intermediate assumption or during fiscal year 2012 for the pessimistic assumption.

Limitations of the Financial Statements

The limitations of the principal financial statements are as follows:

1. The principal financial statements have been prepared to report the financial position and results of operations of the entity, pursuant to the requirements of 31 U.S.C. 3515(b).

2. While the statements have been prepared from the books and records of the entity in accordance with U.S. generally accepted accounting principles for Federal entities and the formats prescribed by OMB, the statements are in addition to the financial reports used to monitor and control budgetary resources which are prepared from the same books and records.

3. The statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity.

American Recovery and Reinvestment Act of 2009

Under the ARRA, the RRB has two major benefit programs to administer. These are:

- Economic Recovery Payments (ERP). This program, authorized by Section 2201 of the ARRA, provides for one-time payments of $250 to eligible adult beneficiaries under the RRA. The RRB paid $128,718,500 to 514,874 individuals in late May 2009. We are planning to pay approximately 3,000 additional people through 6 quarterly catch-up runs scheduled through the end of 2010.

  In accordance with guidance from OMB, we have conducted a risk assessment of this program to ensure that funds are being awarded and distributed as authorized by law and that risks of waste, fraud and abuse are mitigated through reasonable and effective management controls. The risk assessment includes descriptions of possible events that could occur in the payment and post-payment process and corresponding descriptions of how those events would be resolved. It also includes a risk matrix to describe the most probable errors that could occur in the ERP program and what controls are in place to mitigate those risks.

The results of the risk assessment indicated that the risks associated with the ERP program are low. This is primarily due to the following factors:

- we are able to use many previously existing, tested and reliable systems to assist in making these payments;
- we have experienced staff in place who are familiar with claims adjudication;
- the benefit to be paid is a standard, fixed amount for all beneficiaries; and
- we are working with other agencies who also have experienced staff and existing systems in place to assist with the overall program.

- Extended Unemployment Benefits. This program, authorized by Section 2006 of the ARRA, provides for up to 13 weeks of additional extended unemployment benefits to rail employees who have already exhausted their unemployment benefits under the RUIA. An appropriation of $20 million is available to fund this program. The RRB began making payments and mailing claims for these special extended unemployment benefits on June 30, 2009.

  Because the Extended Unemployment Benefits program is directly related to the regular unemployment insurance program, it will be assessed as part of our normal quality assurance process for the RUIA program, which will be conducted in fiscal year 2010.

For more detailed information on the RRB's ARRA programs, see http://www.rrb.gov/recovery/default.asp.

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PERFORMANCE SECTION –

GOVERNMENT PERFORMANCE AND RESULTS ACT (GPRA) REPORT

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Performance Section - Government Performance and Results Act (GPRA) Report

The following performance report is based on the major goals and objectives from the RRB's Annual Performance Budget for Fiscal Year 2009. The indicators we developed support our mission and communicate our intentions to meet challenges and seek opportunities for greater efficiency, effectiveness, and economy.

To achieve our performance goals, the RRB holds managers accountable for achieving program results and improving program effectiveness by focusing on results, service quality, and customer satisfaction. In addition, the annual performance budget is used to help managers improve service delivery by requiring that they plan for meeting program objectives and by providing them with information about program results and service quality. To provide reasonable assurance that the reported performance information is relevant and reliable, performance goals are incorporated into performance standards for managers and supervisors, and monitored on an agency-wide basis. We have also implemented an initiative to conduct validation studies on selected indicators, and developed an administrative circular regarding documentation, validation and retention of performance data.

The RRB's two benefit programs (the RRA and the RUIA) were evaluated in fiscal year 2007 under the Program Assessment and Rating Tool (PART) process. Each program earned an overall performance rating of "Effective," which is the highest rating a program can achieve. As a result of the PART process, the agency set more ambitious annual performance targets, defined several long-term goals and laid out three program improvement initiatives which are discussed below. The agency's Performance Improvement Officer, appointed in fiscal year 2008 in response to Executive Order 13450: "Improving Government Program Performance," monitors the progress of those initiatives as well as reviews and evaluates ongoing program performance.

PART program improvement plans

Data optimization – During 2008 and 2009, the RRB developed a new database representing master data for all lines of business. We also used business intelligence software to synchronize the agency's legacy databases with the new master data. The data optimization project was completed in February 2009, and we are now going forward with a long-term systems modernization initiative, under which applications will be adapted to address the master database and the individual legacy databases will be retired.

Expansion of field imaging – In 2007, the RRB conducted a pilot project to image documents in 4 of the 53 field offices. The purpose of the project was to determine the feasibility of using the technology to make field office documents available online to all RRB staff for processing benefit payments and responding to inquiries from our beneficiaries. The pilot was successful and the new technology was expanded to 25 more field offices in 2008. Imaging was implemented in the remaining 24 offices by the end of September 2009.

Nationwide toll-free service – In 2007, the RRB awarded a contract to Qwest Government Services for a managed nationwide toll-free telephone service. This contract was one of the first in the Federal government under the GSA-Networx Universal program. The features of the new service include a single nationwide toll-free number, automatic distribution of incoming customer calls to available field claims representatives, interactive voice response (IVR) functionality, an upgrade of the existing data network, and implementation of *Voice* *over Internet Protocol (VoIP)* telephone service in all RRB field offices. The design of the nationwide toll-free service supports all of the self-service options and features of the former RRB HelpLine which it replaced. System development began in 2008, and was fully implemented in all RRB field offices by February 2009.

Automation and e-Government initiatives

In addition to the initiatives being tracked under the PART, over the last several years, the RRB has also implemented significant automation initiatives and other improvements. Because of these accomplishments, the RRB is able to operate with reduced resources and continue to streamline its operations with the assistance of information technology. We believe that significant new investments in information technology and further management improvements will help us to meet or exceed our customer service goals efficiently.

In 2009, the RRB implemented a reference identification number in its RRAILS correspondence system to replace the use of the social security number (SSN) in many instances. The unique reference number, derived from the SSN by a complex algorithm, helps to protect personally identifiable information and enables RRB staff to quickly identify the correct SSN and to take action on returned correspondence.

In 2009, we completed improvements to the System to Process Excess Earnings Deductions (SPEED) which allow users to enter any annuitant's earnings information online, and store the information in a database. The system allows the RRB to adjust annuity payments for earnings on a timely basis, which minimizes potential underpayments or overpayments that may result from changes in earnings. Future improvements are also planned to automatically record and adjust the annuity as a result of changes in the beneficiary's working status and earnings.

Work continued during fiscal year 2009 on an enhanced automated retirement payment system which will replace the current legacy system that processes retirement applications. The enhanced process will improve the accuracy and efficiency of retirement initial claims, as it will automatically interface with the Social Security Administration's (SSA) benefit payment system to provide real-time offset data. The new system will also allow for the payment of such application types as divorced spouse annuitants, which previously could not be processed automatically. The target for completion of the enhanced system is fall of 2010. Future enhancements include the development of a system interface to ensure the accurate use of military service in the calculation of benefits.

Work began during fiscal year 2009 on an initiative to convert an outdated dBase overpayment recovery correspondence application to automatically interface with other online and mainframe applications. The streamlined process will provide for online data retrieval of pertinent information that was previously entered manually. We also plan to create a letter writing module which will improve the timeliness and accuracy of the overpayment process. This initiative is targeted for completion in 2010.

During fiscal year 2009, we completed the automation of the pre-payment and post-payment verification notices (Forms ID-4k and ID-4e) sent to employers for benefits we pay under the Railroad Unemployment Insurance Act (RUIA).

The RRB expanded its web-based training facility during fiscal year 2008 in order to provide brief presentations to the public and to rail employers on www.rrb.gov. Through June 2009, there were 20 presentations available for viewing on topics of interest to those applying for benefits, filing reports, or anticipating retirement. To validate the success of the presentations, monthly reports are collected to track the number of views per presentation. We have also started to add a simple survey to the newest presentations to get some basic customer feedback. We are also in the process of upgrading our equipment and recording software. The upgrade will provide enhanced features for recording, tracking and reporting, and broader post production editing capabilities.

Succession planning

The agency has continued to make good progress on workforce and succession planning. The Executive Committee completed workforce planning documents that identified the current staffing levels, projected attrition and planned hiring in fiscal years 2008, 2009 and 2010. We are currently in the process of updating the workforce planning documents for fiscal years 2009, 2010 and 2011.

Because the agency's current budget was approved late in fiscal year 2009, and due to the overwhelming need to fill a large number of mission-critical positions, the Executive Committee agreed to plan from a broader perspective, one that spans two fiscal years. The Board Members approved the Executive Committee's hiring plan on April 2, 2009. We are in the process of aggressively implementing the plan, completing 46 new hires in fiscal year 2009 and projecting 42 new hires in fiscal year 2010, pending available funds.

Systems security

Information security is a critical consideration for government agencies where maintaining the public's trust is essential. The RRB relies extensively on computerized systems to support its mission operations and store the sensitive information that it collects. The RRB's information security program is established and maintained to reasonably protect systems data and resources against internal failures, human errors, attacks and natural catastrophes that might cause improper disclosure, modification, destruction, or denial of services.

To ensure mission continuity, plans and procedures exist to maintain continuity of operations in the event of a calamity affecting information systems that support the operations and assets of the RRB. The RRB's Continuity of Operations Plan consists of a number of components, including an Occupant Emergency Plan, a Business Continuity Plan, a Crisis Communication Plan, and technically specific plans for mainframe, local area network (LAN), data communications, and desktop recovery. The agency regularly conducts semi-annual off-site disaster recovery exercises. System programmers restore the systems and applications of the agency from back-ups retrieved from an alternate data storage facility. Program libraries are re-created and production databases established. Finally, business analysts verify that the systems recovered correctly.

Federal agencies are required to provide annual computer security awareness training for employees and contractors. Security awareness efforts are designed to change behavior or reinforce good security practices by focusing attention on security. We continue to develop new approaches for refreshing the awareness initiative by providing updated and innovative presentations for the agency staff. The *Information Systems Security Awareness Training for the Railroad Retirement Board* pamphlet was updated and expanded with additional information to make it a comprehensive computer security-training document. We have a full training program that combines a security awareness presentation with additional role-based training appropriate to the RRB's information technology environment. Every employee and contractor with computer network access participates in this annual event. Individuals who do not use a computer receive physical security awareness information. In addition to the awareness presentation, computer analysts, software developers and network/system engineers also receive specialized technical education necessary to maintain their skills and enhance proficiency. The formal awareness-training program is supplemented by a weekly Security News feature story, prominently headlined on the Intranet's home page, reminding employees to protect their computers and information throughout the year. In June 2009, the Chief Information Officer issued a special security memorandum emphasizing RRB policy prohibiting computer games. Every year, the RRB awareness program has been able to report exemplary levels of participation. In 2009, the agency reached 100% compliance with more than 1,000 agency employees and contractors completing security awareness training.

Faced with an increasingly dangerous threat environment, the RRB relies on a sophisticated hardware and software defense that utilizes carefully monitored and maintained firewall technology, anti-virus software and intrusion detection systems to prevent viruses, worms, spam and malicious content from infiltrating the network, as well as to ensure that critical data and sensitive information are not compromised. To buttress these proactive threat management resources in the event of a successful malware attack, the agency has implemented a robust incident response capability. Utilizing the capabilities of a special forensic analysis workstation, the RRB Computer Emergency Response Team has the ability to conduct forensic collection and analysis of electronic evidence from almost any type of digital media in use today. The RRB has also established an Agency Core Response Group to determine if there is a reasonable expectation that an incident may be a data breach with the potential for identity theft, and notifies the Board Members who will make final decisions regarding breach notification.

The RRB continued to strengthen its security posture by addressing access-control audit recommendations. The RRB completed migrating all LAN-based programs to newer computer servers with upgraded operating systems. Network engineers redesigned the architecture for the Active Directory, an operating system database that controls the resources, services and functions on the network domain, to improve LAN security. Also, owners of all LAN applications re-examined access rights to ensure only appropriate users have specific privileges.

Another access-control requirement is the OMB Federal Desktop Core Configuration directive to limit the granting of workstation administrative rights. The project to accomplish this began with test implementations of operating system settings and was first expanded to a cross-selection of agency workstations. Now, most of the RRB workstations are in compliance, and before the end of fiscal year 2009, every agency workstation will conform to the standards of the directive.

Certification and Accreditation are important activities integral to the information security programs of Federal agencies. Performing certification and accreditation helps provide an understanding of the risks and other factors that could adversely affect agency missions. In fiscal year 2007, the RRB LAN/PC general support system underwent security certification, an assessment of the information system's management, operational and technical security controls, to determine whether controls are implemented properly, operating as intended and satisfy system security requirements. After evaluating the certification results, the Chief Information Officer, as the designated accrediting authority, authorized operation of the LAN/PC system through a formal accreditation decision that affirmed the operation of that system was an acceptable risk to agency operations, agency assets, or individuals based upon the implementation of the defined set of security controls. In fiscal year 2008, the RRB's mainframe general support system and four of the major applications of the agency were assessed in a similar certification and accreditation process. In fiscal year 2009, the Financial Interchange and Financial Management major applications complete the initial certification and accreditation process, and post-accreditation control monitoring is starting on other appropriate systems. Achievement of accreditation for all general support systems and major applications, together with the initiation of the periodic control assessment process, positions the RRB in full compliance with a major provision of the Federal Information Security Management Act, a fiscal responsibility law holding agencies to a high degree of responsibility and accountability for the information resources they manage.

Program Evaluations

Program Evaluation	Results in Fiscal Year 2009
Federal Managers' Financial Integrity Act Reports	See "Systems and Controls" in the "Management's Discussion and Analysis" section.
Twenty-fourth actuarial valuation of the railroad retirement system	The Chief Actuary's report describes the results of three valuations, each valuation differing from the others as to the employment assumption on which it is based. Cash flow problems occur only under the most pessimistic employment assumption. Even under that assumption, the cash flow problems do not occur until the year 2031.
Railroad Unemployment Insurance System, annual report required by section 7105 of the Technical and Miscellaneous Revenue Act of 1988	The report, which was released in June 2009, indicates that with the exception of small, short-term cash flow problems in 2010 and 2011, experience-based contributions rates maintain solvency. Projections show quick repayment of the loans even under the most pessimistic assumption. The report did not include any recommendations for financing changes.
Program Assessment and Rating Tool (PART) Review	In fiscal year 2007, the Office of Management and Budget conducted a comprehensive assessment of RRB programs and operations through the PART review. The PART review resulted in a rating of "effective" for both the railroad retirement/survivor program and the unemployment/ sickness insurance program. During 2008, the RRB established long-term performance targets through 2013 and short-term goals through 2010. We also posted the fiscal year 2008 results against the goals, and updated the funding and the status of our performance improvement plans.
Customer service performance reports	The RRB continuously monitors the timeliness and accuracy of our performance in managing program workloads. These results are reflected in the performance objectives shown in the chart on the following pages.
Program integrity report	The RRB's program integrity report for fiscal year 2008, released in October 2008, showed that program integrity activities resulted in the establishment of about $12.7 million in recoverables, recovery of $11 million, benefit savings of $794,000, and referral of 141 cases to the Office of Inspector General.
Quality assurance reviews and special studies	RRA adjudicative and payment accuracy is measured in regular diagnostic reviews conducted by quality assurance staff within the RRB's Assessment and Training (A&T) component. A&T also evaluates policies and processes through special studies, as needed. A&T reports to the Director of Programs and is independent of the organizations it assesses.
Occupational disability reviews	Advisory doctors, representing the rail industry (labor and management), are authorized by law to review agency medical decisions. An audit was done in 2000; another audit was completed in 2008. In addition, consulting physicians from Consultative Examinations, Ltd. perform a quarterly quality review of disability documentation to ensure it is adequate to support medical decisions.

Program Evaluation	Results in Fiscal Year 2009
RRB Office of Inspector General audits	See “Inspector General’s Statement on Management and Performance Challenges” and “Management’s Comments” in the “Other Accompanying Information” section.
Performance budget monitoring	Results of performance budget monitoring are shown in the chart of performance objectives on the following pages. Actual performance data are reviewed, validated and certified prior to inclusion in this report. Validation and certification processes are documented as part of the RRB’s management control review process.
Enterprise architecture assessment	The RRB completed an enterprise architecture assessment in February 2009, reporting a total assessment value of 2.98 out of a possible 5.00.
Computer security and privacy assessment	See performance goals II-C-2, II-C-3, II-C-4 and II-C-13 in the chart of performance objectives on the following pages. We have completed certification and accreditation of the RRB‘s general support systems and five of six major applications. The sixth major application is in progress.
Electronic government (E-Gov) activities	See “Program Improvements” in the “Management’s Discussion and Analysis” section.
Improper payment evaluation	See “Improper Payments Information Act (IPIA)” in the “Other Accompanying Information” section.

The next page begins a consolidated presentation of our actual performance in fiscal year 2006 through March 31, 2009 (except as noted), followed by a discussion of our unmet performance goals and objectives for fiscal year 2008. At the time this report was prepared, we had incomplete information on our fiscal year 2009 performance. The discussion of any unmet fiscal year 2009 performance goals and indicators will be presented in next year’s report. This performance report was prepared by RRB employees.

RAILROAD RETIREMENT BOARD FY 2009 ANNUAL PERFORMANCE REPORT		2006 Actual (At $101.5m) 1/	2007 Actual (At $103.7m) 1/	2008 Actual (At $101.9m) 1/	2009 Projected (At $105.5m) 1/	2009 Actual (At $105.5m) 1/
Strategic Goal I: Provide Excellent Customer Service						
Performance Goal I-A: Pay benefits accurately and timely.						
I-A-1. Achieve a railroad retirement benefit payment accuracy rate [2/] of at least 99%. (Measure: % accuracy rate)	a) Initial recurring payments:	99.91%	99.82%	99.75%	99.75%	Data not available
	recurring payments:	99.94%	100%	99.97%	99.80%	Data not available
I-A-2. Achieve a railroad unemployment/sickness insurance benefit payment accuracy rate [2/] of at least 99%. (Measure: % accuracy rate)	b) Sample post a) Unemployment:	99.08%	99.64%	99.71%	99.25%	99.89%
	b) Sickness:	99.78%	100%	99.89%	99.80%	99.76%
I-A-3. Achieve a railroad retirement case accuracy rate [2/] of at least 94%. (Measure: % of case accuracy)	a) Initial	94.5%	94.9%	96.1%	94.0%	Data not available
		96.3%	98.7%	96.8%	96.0%	Data not available
I-A-4. Achieve a railroad unemployment/sickness insurance case accuracy rate [2/] of at least 98%. (Measure: % of case accuracy)	a) Unemployment: cases:	97.5%	98.01%	98.55%	97.5%	99.06%
	b) Sickness:	99.03%	100%	99.03%	99.0%	98.08%
I-A-5. Railroad retirement employee or spouse receives initial annuity payment, or a decision, within 35 days of annuity beginning date, if advanced filed. (Measure: % ≤ 30 adjudicative processing days [3/] [4/])		92.9%	92.8%			

b) Post
cases:

RAILROAD RETIREMENT BOARD FY 2009 ANNUAL PERFORMANCE REPORT	2006 Actual (At $101.5m) [1/]	2007 Actual (At $103.7m) [1/]	2008 Actual (At $101.9m) [1/]	2009 Projected (At $105.5m) [1/]	2009 Actual (At $105.5m) [1/]
Revised goal for 2008 and later I-A-5. RRB makes a decision to pay or deny a railroad retirement employee or spouse initial annuity application within 35 days of the annuity beginning date, if advanced filed. (Measure for fiscal year 2008: % ≤ 30 adjudicative processing days. Measure starting with fiscal year 2009: % ≤ 35 days. [3/])				92.75%	93.4%
I-A-6. Railroad retirement employee or spouse receives initial annuity payment, or notice of denial, within 65 days of the date the application was filed, if not advanced filed. (Measure: % ≤ 60 adjudicative processing days [3/] [4/])	96.2%	96.8% 92.4%			
Revised goal for 2008 and later I-A-6. The RRB makes a decision to pay or deny a railroad retirement employee or spouse initial annuity application within 60 days of the date the application was filed. (Measure for fiscal year 2008: % ≤ 60 adjudicative processing days. Measure starting with fiscal year 2009: % ≤ 60 days. [3/])				96.8%	96.9.%
I-A-7. Survivor annuitant not already receiving a benefit receives initial payment, a decision, or notice of transfer to SSA within 65 days of the annuity beginning date, or date filed (whichever is later). (Measure: % ≤ 60 processing days [4/])	93.2%	93.3% 96.1%			
Revised goal for 2008 and later I-A-7. RRB makes a decision to pay, deny or transfer to SSA an initial annuity application for a railroad retirement survivor not already receiving a benefit within 60 days of the annuity beginning date or date filed (whichever is later). (Measure: % ≤ 60 days [5/])				94.0%	94.5%
I-A-8. Survivor annuitant receiving benefits as spouse receives payment as survivor, notice of denial, or notice of application transfer to SSA, within 35 days of RRB receipt of the notice of employee's death. (Measure: % ≤ 30 processing days [4/])	95.7%	94.8% 92.9%			

RAILROAD RETIREMENT BOARD FY 2009 ANNUAL PERFORMANCE REPORT	2006 Actual (At $101.5m) 1/	2007 Actual (At $103.7m) 1/	2008 Actual (At $101.9m) 1/	2009 Projected (At $105.5m) 1/	2009 Actual (At $105.5m) 1/
Revised goal for 2008 and later I-A-8. RRB makes a decision to pay, deny or transfer to SSA an initial annuity application for a railroad retirement survivor already receiving the benefits as a spouse within 30 days of the RRB's receipt of first notice of the employee's death.[5/] (Measure: % ≤ 30 days.)				95.1%	94.2%
I-A-9. Applicant for any railroad retirement death benefit receives payment, or notice of denial, within 65 days of date filed. (Measure: % ≤ 60 processing days [4/])	97.5%	97.5% 95.1%			
Revised goal for 2008 and later I-A-9. RRB makes a decision to pay or deny a lump sum death benefit within 60 days of the date the application was filed. [5/] (Measure: % ≤ 60 days)				97.25%	96.96%
I-A-10. Unemployed railroad worker receives UI claim form, or notice of denial, within 15 days of the date application filed. (Measure: % ≤ 10 processing days [4/])	99.5%	99.5%			
Revised goal for 2008 and later I-A-10. RRB releases a UI claim form or letter of denial within 10 days of receiving an application for unemployment benefits. (Measure: % ≤ 10 days.)		97.0%		99.5%	99.0 %
I-A-11. Railroad employee unable to work due to temporary illness or injury receives SI claim form, or notice of denial, within 15 days of the date application filed. (Measure: % ≤ 10 processing days [4/])	99.5%	99.2% 99.5%			

RAILROAD RETIREMENT BOARD FY 2009 ANNUAL PERFORMANCE REPORT	2006 Actual (At $101.5m) 1/	2007 Actual (At $103.7m) 1/	2008 Actual (At $101.9m) 1/	2009 Projected (At $105.5m) 1/	2009 Actual (At $105.5m) 1/
Revised goal for 2008 and later I-A-11. RRB releases an SI claim form or letter of denial within 10 days of receiving an application for sickness insurance benefits. (Measure: % ≤ 10 days.)				99.25%	99.03%
I-A-12. Railroad employee, unemployed or unable to work due to temporary illness or injury, receives a payment for unemployment or sickness insurance benefits, or a decision, within 15 days of claim receipt. (Measure: % ≤ 10 processing days 4/)	99.8%	99.7% 99.2%			
Revised goal for 2008 and later I-A-12. RRB certifies a payment or releases a letter of denial of UI or SI benefits within 10 days of the date RRB receives the claim. (Measure: % ≤ 10 days)			99.7%	99. 8%	99.7%
I-A-13. Disabled applicant or family member receives notice of decision to pay or deny within 105 days of the date application for disability is filed. (Measure: % ≤ 100 processing days 4/)	65.9%	69.6%			
Revised goal for 2008 and later I-A-13. RRB makes a decision to pay or deny a benefit for a disabled applicant or family member within 100 days of the date the application is filed. (Measure: % ≤ 100 days)				70.0%	62.8%
I-A-14. Disabled applicant receives payment within 25 days of decision or earliest payment date (whichever is later). (Measure: % ≤ 20 processing days 4/ 6/)	95.2%	95.3%	94.8%		

70.4%

RAILROAD RETIREMENT BOARD FY 2009 ANNUAL PERFORMANCE REPORT	2006 Actual (At $101.5m) 1/	2007 Actual (At $103.7m) 1/	2008 Actual (At $101.9m) 1/	2009 Projected (At $105.5m) 1/	2009 Actual (At $105.5m) 1/
Revised goal for 2009 and later I-A-14. The RRB makes a payment to a disabled applicant within 25 days of the date of decision or earliest payment date, whichever is later. (Measure: % ≤ 25 days 6/)				95.0%	96.4%
I-A-15. Reduce the number of days elapsed between the date the appeal is filed and a decision is rendered. (Measure: average elapsed days) 7/	Not available	Not available	239 (Estimated)	190	212 (Estimated)
Performance Goal I-B: Provide relevant, timely, and accurate information which is easy to understand.					
I-B-1. Achieve quality and accuracy of correspondence, publications, and voice communications. (Measure: surveys and reviews; number of valid challenges to published data)	Completed a survey of initial disability decisions. RRB's score was 85.	ACSI survey deferred	ACSI survey deferred	Conduct an ACSI survey	Recent retirees to be surveyed in 9/09
	No challenges to published data	No challenges to published data	No challenges to published data	No more than two valid challenges to published data in FY 2009	No valid challenges to published data
Performance Goal I-C: Provide a range of choices in service delivery methods.					
I-C-1. Offer electronic options to our customers, allowing them alternative ways to perform primary services via the Internet or interactive voice response systems. (Measure: # of services available through electronic media)	16 services available	16 services available	17 services available	18 services available	18 services available
Performance Goal I-D: Ensure efficient and effective business interactions with covered railroad employers.					
I-D-1. Improve timeliness and efficiency in posting service and compensation data to agency records. (Measure: % of service and compensation records posted by April 15)	99.6%	99.81%	67.5%	90.0% 8/	97.0%
I-D-2. Improve accuracy in posting service and compensation data to agency records. (Measure: % of service and compensation records posted accurately)	99.9%	99.5%	96.3%	95.0% 8/	91.0%

RAILROAD RETIREMENT BOARD FY 2009 ANNUAL PERFORMANCE REPORT	2006 Actual (At $101.5m) 1/	2007 Actual (At $103.7m) 1/	2008 Actual (At $101.9m) 1/	2009 Projected (At $105.5m) 1/	2009 Actual (At $105.5m) 1/
I-D-3. Covered employer annual reports of employees filed electronically, or on magnetic media. (Measure: % of employee records filed electronically, or on magnetic media)	97.8%	98.2%	98.7%	98.0%	99.0%
I-D-4. Enable employers to use the Internet to conduct business with the RRB, in support of the Government Paperwork Elimination Act. (Measures: % of employers who use the new online reporting process; # of services available through electronic media)	58.0% 6 Internet services available	62.0% 7 Internet services available	69.0% 8 Internet services available	73.0% 18 Internet services available	68.0% 10 Internet services available
Strategic Goal II: Serve as Responsible Stewards for Our Customers' Trust Funds and Agency Resources					
Performance Goal II-A: Ensure that trust fund assets are projected, collected, recorded and reported appropriately.					
II-A-1. Debts will be collected through billing, offset, reclamation, referral to outside collection programs and a variety of other collection efforts. (Measure: funds collected vs. total debts outstanding)	62%	59%	58%	55%	37%
II-A-2. Release quarterly and annual notices accurately and timely to employers regarding their experience rating-based contributions. (Measure: Yes/No)	Yes	Yes	Yes	Yes	Yes
II-A-3. Complete compensation reconciliations at least 1 year before the statute of limitations expires. (Compensation reconciliations involve a comparison of compensation reported by railroad employers to the RRB for benefit calculation purposes with compensation reported to the IRS for tax purposes.) (Measure: % completed)	100% of the 2003 reconciliations by 12/15/05	100% of the 2004 reconciliations by 12/11/06	100% of the 2005 reconciliations by 2/26/08	100% of the 2006 reconciliations by 2/28/09	100% of the 2006 reconciliations were completed by 1/27/09.
II-A-4. Perform monthly reasonableness tests comparing railroad retirement taxes deposited electronically, which represent over 99 percent of all railroad retirement taxes, against tax receipts transferred to the RRB trust funds by the Department of the Treasury (Treasury) to provide reasonable assurance the RRB trust funds are receiving appropriate tax funds. (Measure: reasonableness test performed and anomalies reconciled with Treasury (Yes/No))	Yes	Yes	Yes	Yes	Yes

RAILROAD RETIREMENT BOARD FY 2009 ANNUAL PERFORMANCE REPORT	2006 Actual (At $101.5m) 1/	2007 Actual (At $103.7m) 1/	2008 Actual (At $101.9m) 1/	2009 Projected (At $105.5m) 1/	2009 Actual (At $105.5m) 1/
II-A-5. Prepare annual Performance and Accountability Report (including audited financial statements and other financial and performance reports) by the required due dates. (Measure: Yes/No)	Yes. The FY 2005 Performance and Accountability Report was released on 11/10/05.	Yes. The FY 2006 Performance and Accountability Report was released on 11/15/06.	Yes. The FY 2007 Performance and Accountability Report was released on 11/15/07.	Yes	Yes. The FY 2008 Performance and Accountability Report was released on 11/17/08.
II-A-6. Take prompt corrective action on audit recommendations. (Measure: % of audit recommendations implemented by target date)	97.2%	93.2%	94.0%	95.0%	95.0%
Performance Goal II-B: Ensure the integrity of benefit programs.					
II-B-1. Achieve a return of at least $3.60 for each dollar spent on program integrity activities. (Measure: $ recoveries & savings per $ spent)	$5.36 : $1.00	$5.48 : $1.00	$5.76 : $1.00	$5.36 : $1.00	Data will be not be available until November 2009.
Performance Goal II-C: Ensure effectiveness, efficiency, and security of operations.					
II-C-1. Continue succession planning by ensuring there is a cadre of highly skilled employees available for key positions. (Measure: structured succession planning activities are continuing. (Yes/No))	Yes	Yes	Yes	Yes	Yes
II-C-2. Annually assess/update all computer security, disaster recovery, and business resumption plans for the agency. (Measure: Yes/No)	No. The BCP was updated with alternate non-IT site information in January 2006, and Appendix H of the BCP, the Emergency Management Organization, was updated in February 2006. An IT Disaster Recovery Plan was in draft status at the end of the fiscal year.	Yes. RRB met its performance goal for fiscal year 2007. RRB certified and accredited one general support system. The agency also hired an information availability analyst and completed a training test and exercise of the Continuity of Operations Plan.	Yes. With contractor assistance, the certification and accreditation of the Mainframe General Support System and 5 of 6 major applications were completed. The 6th was in progress at the end of the fiscal year. An assessment of agency-wide common controls was performed. Contingency planning was tested and disaster recovery training was conducted off-site.	Yes. All systems will be certified and accredited. Self-assessments will be performed on selected control components of the systems. The business impact assessment reports will be examined and revised as necessary. The Business Continuity Plan will be updated to maintain currency with the organizational structure.	Yes. Certification and accreditation of both RRB general support systems and 5 of 6 major applications was completed. The 6th is in progress and nearing completion. Updated disaster recovery information provided by agency business components was used to prepare the RFP for recompeting the alternate IT recovery site contract. Proposals are being evaluated.

RAILROAD RETIREMENT BOARD FY 2009 ANNUAL PERFORMANCE REPORT	2006 Actual (At $101.5m) 1/	2007 Actual (At $103.7m) 1/	2008 Actual (At $101.9m) 1/	2009 Projected (At $105.5m) 1/	2009 Actual (At $105.5m) 1/
II-C-3. Develop and implement new procedures for responding to and reporting computer security incidents. (Measure: Yes/No)	Yes. The Department of Energy's Computer Incident Advisory Center began vulnerability assessment testing in January 2006, and completed testing of the RRB's LAN general support system.	Yes. The Intrusion Detection System was upgraded to Intrusion Prevention. A network access control device was installed on the agency LAN/WAN general support system to provide increased security management capabilities.	Yes. Components of the Core Intrusion Detection/ Prevention System were updated to improve the stability and uptime of back-end processes. Tuning of network access control was competed. A Vulnerability Remediation Task Force was formed to improve the RRB's security incident response capability.		
Revised goal for 2009 and later II-C-3. Maintain an incident response program for responding to and reporting computer security incidents. (Measure: All cyber security incidents will be reported to US-CERT. Yes/No)				Yes	Yes

RAILROAD RETIREMENT BOARD FY 2009 ANNUAL PERFORMANCE REPORT	2006 Actual (At $101.5m) 1/	2007 Actual (At $103.7m) 1/	2008 Actual (At $101.9m) 1/	2009 Projected (At $105.5m) 1/	2009 Actual (At $105.5m) 1/
II-C-4. Assess computer security training requirements and implement an ongoing training program for agency staff. (Measure: Yes/No)	Yes. A total of 181 RRB employees with computer security responsibilities received Web-based training at the OPM USALearning site, with a second training track for specialized technical education. All RRB staff annually complete a computer security awareness program.	Yes. All staff with computer security responsibilities received role-based security training at OPM;s GoLearn.gov. Technical IT specialists participate in a track that requires security-specific technical education associated with their job. The annual computer awareness program for all employees and contractors with network access was completed.	Yes. The annual RRB computer security awareness program was launched in March 2008. As of 7/02/08, the OPM GoLearn.gov role-based security training program was completed. Specialized technical education was approved for all training designated as critical or vital for achieving performance goals.	Yes. The two-track training concept will be maintained. All agency staff with computer security responsibilities will receive role-based security training with a second training track for specialized technical education. Also, all RRB staff will complete a computer security awareness program.	Yes. The annual FISMA computer security awareness training and specialized security training was completed. This training program had 100% participation with 1,013 employees and contractors accounted for.
II-C-5. Implement a methodology to successfully estimate, track and monitor total costs and time schedules for information technology investments through the project life cycle, incorporating both web and mainframe investments. (Measure: Yes/No)	A post-implementation review was completed in FY 2006 to tune the system to ensure that project measures were working in the IT environment. Some best practices were developed.	This objective has been completed with full implementation of the project management system in the Bureau of Information Services.	Completed	Completed	Completed
II-C-6. Assemble and publicize an annual inventory of RRB commercial activities on the RRB Website. (Measure: Yes/No)	Yes	Yes	Yes	Yes	Yes
II-C-7. Complete public-private competitions on the required activities listed on the Federal Activities Inventory Reform (FAIR) Act inventory. (Measure: % of the FTEs listed on the FAIR Act inventory for which competitions completed) 9/	OMB did not establish a target for FY 2006. RRB has competed about 5% of the FTEs on the FAIR Act inventory.	OMB did not establish a target for FY 2007. RRB has competed about 5% of the FTEs on the FAIR Act inventory.	OMB did not establish a target for 2008. RRB has competed about 3.5% of the FTEs on the FAIR Act inventory.	Meet target level established by OMB	OMB did not establish a target for FY 2009.
II-C-8. Meet government percentage goal for use of performance-based contracting techniques for eligible service contract funds. (Measure: Yes/No)	Yes	Yes	Yes	Yes	Yes

RAILROAD RETIREMENT BOARD FY 2009 ANNUAL PERFORMANCE REPORT	2006 Actual (At $101.5m) 1/	2007 Actual (At $103.7m) 1/	2008 Actual (At $101.9m) 1/	2009 Projected (At $105.5m) 1/	2009 Actual (At $105.5m) 1/
II-C-9. Support government-wide procurement of E-Government initiatives using the point of entry vehicle of www.FedBizOpps.gov for all eligible actions. (Measure: Yes/No)	Yes	Yes	Yes	Yes	Yes
II-C-10. Complete migration from the agency's current mainframe database management system (IDMS) to DB2, and initiate efforts to optimize the performance of those databases and further reduce data redundancy. (Measure: Meet target dates for the migration. Yes/No)	New indicator for FY 2007	Yes. The IDMS/DB2 database conversion was successfully completed as of 8/18/07.	Completed	Completed	Completed
II-C-11. Complete data optimization to optimize the performance of DB2 databases for future developmental efforts, and to further reduce and document the data. (Measure: Meet target dates for the project. Yes/No)	New indicator for FY 2007	Yes. RRB contracted for this effort.	Yes	Yes	Yes. The project was completed by the revised target date of 2/28/09
II-C-12. Complete modernization of RRB processing systems in accordance with long-range planning goals. (Measure: Meet target dates for each phase of the project. Yes/No)	New indicator for FY 2009	New indicator for FY 2009	New indicator for FY 2009	Yes	Yes. The project is in the analysis and planning phase and is on schedule as anticipated.
II-C-13. Complete 16 corrective actions to correct the RRB's material weakness related to information security. (Measure: Meet target dates for the project. Yes/No)	New indicator for FY 2008	New indicator for FY 2008	Three corrective actions were completed.	All corrective actions will be completed.	Seven corrective actions are completed, one is under OIG review and eight are in progress.
Performance Goal II-D: Effectively carry out the responsibilities of the Railroad Retirement Board under the Railroad Retirement and Survivors' Improvement Act of 2001 with respect to the activities of the National Railroad Retirement Investment Trust.					
II-D-1. Review monthly reports submitted by the Trust. (Measure: Yes/No)	Yes	Yes	Yes	Yes	Yes
II-D-2. Review annual management reports submitted by the Trust. (Measure: Yes/No)	Yes	Yes	Yes	Yes	Yes
II-D-3. Review annual audit reports of the Trust's financial statements. (Measure: Yes/No)	Yes	Yes	Yes	Yes	Yes

Footnotes begin on the following page.

1/ Dollar amounts shown are funds obligated or appropriated for the fiscal year. Actual results for fiscal year 2009 represent status as of 3/31/09 unless otherwise noted.

2/ Payment Accuracy Rate – the percentage of **dollars** paid correctly as a result of adjudication actions performed. Case Accuracy Rate – the percentage of **cases** that do not contain a material payment error. Case accuracy rates reflect only those errors that are detected as a result of reviewing award actions performed during the fiscal year being studied. (A material error is (1) an incorrect payment of $5.00 or more at the point the error is identified, (2) an incorrect payment of less than $5.00 totaling 1 percent or more of the monthly rate, or (3) any situation in which a non-entitled benefit is paid.)

3/ In audit report 05-05, dated May 17, 2005, the RRB's OIG found problems with the performance data for these indicators. One significant problem was resolved immediately, allowing us to report performance for fiscal year 2005, and later. However, there were still some system limitations that prevented inclusion of all internal processing time in the performance data prior to fiscal year 2009. Another program error caused a small number (less than 1 percent) of spouse applications to be calculated incorrectly. Effective October 1, 2008, these system problems were corrected. As a result of these system changes, beginning in fiscal year 2009, we measure timeliness by *calendar days* rather than *adjudicative processing days* as in previous years.

4/ Measure does not include the time for customer receipt (from U.S. Treasury or Postal Service).

5/ This objective was restated as of April 2009, to more accurately describe how timeliness is measured. For objective I-A-9, the term "railroad retirement death benefit" was changed to "lump sum death benefit" to correspond with references to this benefit in the RRB's regulations.

6/ This indicator includes both retirement and survivor disability payments. The employee payments are impacted by the system limitations identified in footnote 3 above. Effective October 1, 2008, these system problems were corrected.

7/ In fiscal year 2009, system testing disclosed inaccuracies in the computer program used to calculate the average time from the filing of an appeal to decision. Due to these errors, timeliness data is not available for fiscal years 2006 and 2007. Estimated actual data reported for fiscal years 2008 and 2009, reflects the latest output available from the program in question, although further system corrections are still pending.

8/ The target for 2009 was adjusted from the level shown in the RRB's Final Annual Performance Budget for Fiscal Year 2009, which was released in February 2008. Actual performance fell below the target in 2008 due to significant changes in annual reporting formats required of the rail employers and corresponding internal processing changes. As a result, the 2009 target was adjusted to reflect more realistic expectations based on 2008 experience.

9/ This objective was discontinued, and the following objectives were renumbered, effective with the annual performance budget for fiscal year 2010, released on May 8, 2009.

Discussion of Unmet Performance Goals and Indicators for Fiscal Year 2008

INDICATOR	DISCUSSION OF VARIANCE
Performance indicator I-A-7. RRB makes a decision to pay, deny or transfer to SSA an initial annuity application for a railroad retirement survivor not already receiving a benefit within 60 days of the annuity beginning date. (Measure: % ≤ 60 days) Our goal for fiscal year 2008 was 94.0% and the actual was 92.9%.	We were unable to meet our goal for processing initial applications for recurring survivor benefits due to reduced staffing levels and limited automation. Less than 50 percent of all initial recurring applications are processed automatically, leaving a significant volume that must be processed manually by claims examiners. In fiscal year 2008, we had an initial survivor staffing level of only 6.5 full-time equivalent staff years (FTEs). We have established a Survivor Processing Improvement Team to discuss and implement enhancements to the survivor automated systems. We are hiring additional survivor claims examiners to fill vacancies.
Performance indicator I-A-15. Reduce the number of days elapsed between the date the appeal is filed and a decision is rendered. (Measure: average elapsed days) Our goal for fiscal year 2008 was 190 days. The estimated actual was 239 days.	In fiscal year 2008, actual performance fell below the target level due to staff vacancies resulting from medical leave and retirements. Employees formerly on leave have returned, and one of the vacancies due to retirement has since been filled, and timeliness is improving.
Performance indicator I-C-1. Offer electronic options to our customers, allowing them alternative ways to perform primary services via the Internet or interactive voice response systems. (Measure: number of services available through electronic media) Our goal for fiscal year 2008 was to offer 18 services. We provided 17.	Implementation of a process to allow beneficiaries to submit biweekly claims for sickness insurance benefits online (web SI-3) is now scheduled for fiscal year 2010. The delay is due to staff working on higher priority projects.
Performance indicator I-D-1. Improve timeliness and efficiency in posting service and compensation data to agency records. (Measure: % of service and compensation records posted by April 15) Our goal for fiscal year 2008 was 99.0% and the actual was 67.5%.	In fiscal year 2008, actual performance fell below the target level due to significant changes in the annual reporting formats required of the rail employers and corresponding internal processing changes. We are working with the rail employers to avoid future problems.

INDICATOR	DISCUSSION OF VARIANCE
Performance indicator I-D-2. Improve accuracy in posting service and compensation data to agency records. (Measure: % of service and compensation records posted accurately) Our goal for fiscal year 2008 was 99.0% and the actual was 96.3%.	Fiscal year 2008 was the first year using an expanded format for the BA-3, Annual Report of Service and Compensation. Employers had some difficulty with the changes. We are working with them to avoid future problems.
Performance indicator I-D-4. Enable employers to use the Internet to conduct business with the RRB, in support of the Government Paperwork Elimination Act. (Measure: % of employers who use the new online reporting process; # of services available through electronic media) Our goal for fiscal year 2008 was 9 Internet services available and the actual was 8 Internet services available.	Phase 3 of the Employment Reporting System (ERS) project to implement pre-payment and post-payment verification (ID-4K and ID-4E) notices was delayed due to additional unanticipated programming needs for notices that are released to multiple employers for the same employee. Phase 3 was implemented in February 2009.
Performance indicator II-A-6. Take prompt corrective action on audit recommendations. (Measure: % of audit recommendations implemented by target date) Our goal for fiscal year 2008 was 95.0% and the actual was 94.0%.	The agency implemented 63 recommendations out of 67 with target dates in fiscal year 2008. Had one additional recommendation been completed before the end of the fiscal year, the agency would have exceeded the target. Of the four not completed, three were extended into fiscal year 2009, and one was closed in January 2009.

FINANCIAL SECTION

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Financial Section

Message from the Chief Financial Officer

I am pleased to present the RRB's Performance and Accountability Report for fiscal year 2009. This report incorporates the annual performance report under the Government Performance and Results Act of 1993, the internal control report under the Federal Managers' Financial Integrity Act, and audited consolidated financial statements under OMB guidance.

The RRB is committed to integrated and automated financial management systems that focus on the agency's mission and accountability. RRB strives to maintain an environment in which program and financial managers work in partnership to ensure the integrity of financial information and use that information to make decisions, measure performance, and monitor outcomes. In this environment, we envision integrated financial management systems with appropriate internal review and controls that provide agency managers with timely, accurate, and easily accessible information. We expect managers throughout the agency to use that information to achieve program objectives in a cost-effective manner and to ensure accountability.

The RRB continued to provide high quality financial management and financial reporting during fiscal year 2009. The RRB:

- Achieved an unqualified, or clean, audit opinion on its consolidated financial statements for fiscal year 2009. We also continued to prepare unaudited quarterly financial statements and met the accelerated schedule of releasing these statements to OMB.

- Implemented audit recommendations as follows:

  At the beginning of fiscal year 2009, the agency's audit follow-up tracking system reported 164 audit recommendations as being open. During the fiscal year, audit reports containing another 75 recommendations were issued. As a result, the total number of open recommendations during the year was 239. At the same time, final action was completed on 51 audit recommendations and 8 audit recommendations were rejected, resulting in a balance at the end of the fiscal year of 180 open recommendations. Many of the open recommendations deal with information technology, including several security-related recommendations, and require ongoing, long-term corrective actions to bring them to closure. Additionally, the status of the OIG-identified material weaknesses and planned corrective action are presented in the Management's Discussion and Analysis' Management Assurance section.

In fiscal year 2010, the RRB plans to contract for a requirements analysis to evaluate potential and/or actual performance gaps in our financial system. The analysis will be used to provide the basis for estimating the cost of any changes required, if any actual or potential performance gaps call for modernization.

The RRB will continue to provide financial information that is timely, accurate and useful in the coming years. We are committed to continuing our tradition of providing high quality financial services to agency management, the Congress, OMB, and the constituents we serve.

Original signed by:

Kenneth P. Boehne
Chief Financial Officer

RAILROAD RETIREMENT BOARD
CONSOLIDATED BALANCE SHEET
AS OF SEPTEMBER 30, 2009 AND 2008
(in dollars)

	FY 2009	FY 2008
ASSETS		
Intragovernmental:		
Fund Balance with Treasury (Note 3)	$81,044,123	$40,683,215
Investments (Note 4)	1,191,177,782	1,407,311,638
Accounts Receivable (Note 6)	4,349,093,749	4,047,203,316
Total Intragovernmental	**5,621,315,654**	**5,495,198,169**
NRRIT Net Assets (Note 5)	23,345,568,274	25,320,737,474
Accounts Receivable, Net (Note 6)	36,674,092	32,248,714
Inventory and Related Property, Net (Note 7)	97,803	97,452
General Property, Plant and Equipment, Net (Note 8)	1,504,964	1,432,927
Other	36,955	32,936
TOTAL ASSETS	**$29,005,197,742**	**$30,849,747,672**
LIABILITIES (Note 9)		
Intragovernmental:		
Accounts Payable	$493,138,638	$509,991,700
Debt	3,416,875,148	3,164,768,904
Other	1,252,314	1,094,480
Total Intragovernmental	**3,911,266,100**	**3,675,855,084**
Accounts Payable	642,061	619,370
Benefits Due and Payable	928,291,008	874,547,337
Other	122,027,274	111,055,144
TOTAL LIABILITIES	**4,962,226,443**	**4,662,076,935**
COMMITMENTS AND CONTINGENCIES (Note 10)		
NET POSITION		
Unexpended Appropriations - Earmarked Funds (Note 17)	522,250	504,921
Unexpended Appropriations - Other Funds	22,376,577	5,699,982
Cumulative Results of Operations - Earmarked Funds (Note 17)	24,019,150,744	26,181,465,834
Cumulative Results of Operations - Other Funds	921,728	
TOTAL NET POSITION	**24,042,971,299**	**26,187,670,737**
TOTAL LIABILITIES AND NET POSITION	**$29,005,197,742**	**$30,849,747,672**

The accompanying notes are an integral part of these financial statements.

RAILROAD RETIREMENT BOARD
CONSOLIDATED STATEMENT OF NET COST
FOR THE YEARS ENDED SEPTEMBER 30, 2009 AND 2008
(in dollars)

	FY 2009	FY 2008
Program Costs		
Railroad Retirement Program		
Gross Costs (Note 11)	$10;948,154,773	$10,350,267,409
Less: Earned Revenue	10,987,532	9,663,267
Net Program Costs	10,937,167,241	10,340,604,142
Railroad Unemployment and Sickness Insurance Program		
Gross Costs (Note 11)	205,640,078	122,293,690
Less: Earned Revenue	22,989,207	24,054,840
Net Program Costs	182,650,871	98,238,850
Costs Not Assigned to Programs	0	0
Less: Earned Revenues Not Attributed to Programs	346,558	290,031
NET COST OF OPERATIONS	**$11,119,471,554**	**$10,438,552,961**

The accompanying notes are an integral part of these financial statements.

RAILROAD RETIREMENT BOARD
CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION
FOR THE YEAR ENDED SEPTEMBER 30, 2009
(In dollars)

FY 2009

	Earmarked Funds	All Other Funds	Eliminations	Consolidated Total
Cumulative Results of Operations:				
Beginning Balances	$26,181,465,834			$26,181,465,834
Budgetary Financing Sources:				
Appropriations Used	321,053,337	210,780,989		531,834,326
Non-Exchange Revenue	5,161,946,484	1,485	(321,053,337)	4,840,894,632
Transfers in from NRRIT (Note 12)	1,553,000,000			1,553,000,000
Transfers in/out Without Reimbursement	4,003,733,000	1,480,000	(1,480,000)	4,003,733,000
Other Financing Sources (Non-Exchange):				
Imputed Financing	8,786,495			8,786,495
Change in NRRIT Assets	(1,975,169,200)			(1,975,169,200)
Loss Contingency	(5,000,000)			(5,000,000)
Other	(1,061)			(1,061)
Total Financing Sources	9,068,349,055	212,262,474	(322,533,337)	8,958,078,192
Net Cost of Operations	11,230,664,145	211,340,746	(322,533,337)	11,119,471,554
Net Change	(2,162,315,090)	921,728		(2,161,393,362)
Cumulative Results of Operations	**24,019,150,744**	**921,728**		**24,020,072,472**
Unexpended Appropriations:				
Beginning Balances	504,921	5,699,982		6,204,903
Budgetary Financing Sources:				
Appropriations Received	$321,150,000	$228,480,000		$549,630,000
Other Adjustments	(79,334)	(1,022,416)		(1,101,750)
Appropriations Used	(321,053,337)	(210,780,989)		(531,834,326)
Total Budgetary Financing Sources	17,329	16,676,595		16,693,924
Total Unexpended Appropriations	**522,250**	**22,376,577**		**22,898,827**
Net Position	**$24,019,672,994**	**$23,298,305**		**$24,042,971,299**

The accompanying notes are an integral part of these financial statements.

RAILROAD RETIREMENT BOARD
CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION
FOR THE YEAR ENDED SEPTEMBER 30, 2008
(in dollars)

	FY 2008			
	Earmarked Funds	**All Other Funds**	**Eliminations**	**Consolidated Total**
Cumulative Results of Operations:				
Beginning Balances	$33,520,774,182			$33,520,774,182
Budgetary Financing Sources:				
Appropriations Used	359,073,113	77,657,616		436,730,729
Non-Exchange Revenue	5,421,697,351	1,915	(359,073,113)	5,062,626,153
Transfers in from NRRIT (Note 12)	1,298,000,000			1,298,000,000
Transfers in/out Without Reimbursement	3,633,185,000			3,633,185,000
Other Financing Sources (Non-Exchange):				
Imputed Financing	8,559,257			8,559,257
Change in NRRIT Assets	(7,339,856,526)			(7,339,856,526)
Total Financing Sources	3,380,658,195	77,659,531	(359,073,113)	3,099,244,613
Net Cost of Operations	10,719,966,543	77,659,531	(359,073,113)	10,438,552,961
Net Change	(7,339,308,348)			(7,339,308,348)
Cumulative Results of Operations	**26,181,465,834**			**26,181,465,834**
Unexpended Appropriations:				
Beginning Balances	495,477	6,132,482		6,627,959
Budgetary Financing Sources:				
Appropriations Received	$359,150,000	$80,404,670		$439,554,670
Other Adjustments	(67,443)	(3,179,554)		(3,246,997)
Appropriations Used	(359,073,113)	(77,657,616)		(436,730,729)
Total Budgetary Financing Sources	9,444	(432,500)		(423,056)
Total Unexpended Appropriations	**504,921**	**5,699,982**		**6,204,903**
Net Position	**$26,181,970,755**	**$5,699,982**		**$26,187,670,737**

The accompanying notes are an integral part of these financial statements.

RAILROAD RETIREMENT BOARD
COMBINED STATEMENT OF BUDGETARY RESOURCES
FOR THE YEARS ENDED SEPTEMBER 30, 2009 AND 2008
(in dollars)

	FY 2009	FY 2008
BUDGETARY RESOURCES		
Unobligated balance, brought forward, October 1	$9,638,020	$10,693,589
Beginning Balance Adjustment	$214	$0
Adjusted unobligated balance, brought forward, October 1	$9,638,234	$10,693,589
Recoveries of prior year unpaid obligations	588,678	315,745
Budget authority		
Appropriation	11,494,637,575	11,082,467,857
Borrowing authority	3,661,300,000	3,385,800,000
Spending authority from offsetting collections		
Earned		
Collected	34,312,055	34,065,154
Change in receivables from Federal sources	52,119	(776)
Expenditure transfers from trust funds	114,749,000	108,930,154
Subtotal	15,305,050,749	14,611,262,389
Nonexpenditure transfers, net, anticipated and actual	(7,565)	(13,514)
Temporarily not available pursuant to Public Law	(305,916,734)	(445,444,583)
Permanently not available	(3,395,018,713)	(3,232,812,162)
TOTAL BUDGETARY RESOURCES	**$11,614,334,649**	**$10,944,001,464**
STATUS OF BUDGETARY RESOURCES		
Obligations incurred (Note 18)		
Direct	$11,573,730,354	$10,925,290,386
Reimbursable	9,578,424	9,073,058
Subtotal	11,583,308,778	10,934,363,444
Unobligated balance		
Apportioned	22,405,143	1,489,724
Unobligated balance not available	8,620,728	8,148,296
TOTAL STATUS OF BUDGETARY RESOURCES	**$11,614,334,649**	**$10,944,001,464**
CHANGE IN OBLIGATED BALANCE		
Obligated balance, net		
Unpaid obligations, brought forward, October 1	$926,432,936	$910,619,388
Uncollected customer payments from Federal sources, brought forward, October 1	(1,000,000)	(5,794,654)
Total unpaid obligated balance, net	**$925,432,936**	**$904,824,734**
Obligations incurred, net	$11,583,308,778	$10,934,363,444
Gross outlays	(11,537,323,798)	(10,912,440,273)
Recoveries of prior year unpaid obligations, actual	(588,678)	(315,745)
Change in uncollected customer payments from Federal sources	(1,773,591)	(999,224)
Obligated balance, net, end of period		
Unpaid obligations (Note 13)	$971,829,238	$926,432,936
Uncollected customer payments from Federal sources	(2,773,591)	(1,000,000)
Total, unpaid obligated balance, net, end of period	**$969,055,647**	**$925,432,936**
NET OUTLAYS (Note 14)		
Gross outlays	$11,537,323,798	$10,912,440,273
Offsetting collections	(147,339,583)	(141,995,308)
Distributed offsetting receipts	(4,324,733,000)	(3,992,185,000)
Net Outlays	**$7,065,251,215**	**$6,778,259,965**

The accompanying notes are an integral part of these financial statements.

Statement of Social Insurance (Note 15, Note 16)

Actuarial Surplus or (Deficiency)

75-year Projection as of January 1, 2009

(Present values in billions of dollars)

	1/1/2009	1/1/2008	1/1/2007	1/1/2006	Unaudited 1/1/2005
Estimated future income (excluding interest) received from or on behalf of:					
Current participants not yet having attained retirement age	$75.9	$69.6	$66.7	$65.0	$56.8
Current participants who have attained retirement age	69.0	66.2	63.4	62.5	56.9
Those expected to become participants	57.2	43.3	43.1	44.3	31.3
Subtotal - future income for the 75-year period	202.1	179.1	173.1	171.8	145.0
Estimated future expenditures:					
Current participants not yet having attained retirement age	91.2	88.4	86.0	84.1	72.9
Current participants who have attained retirement age	102.1	97.0	92.8	91.7	84.1
Those expected to become participants	29.5	26.0	25.5	25.0	15.8
Subtotal - future expenditures for the 75-year period	222.8	211.5	204.2	200.8	172.8
Estimated future excess of income over expenditures:	(20.7)	(32.3)	(31.1)	(29.0)	(27.8)
Fund balance:	21.8	33.2	32.0	30.0	28.6
Fund balance plus estimated future excess of income over expenditures:	1.1	0.9	0.9	1.0	0.8

<u>Notes to the Financial Statements</u>: Fiscal Years Ended September 30, 2009 and 2008

1. <u>Summary of Significant Accounting Policies</u>

A. Basis of Presentation

Public Law 107-289, the Accountability of Tax Dollars Act of 2002, added the Railroad Retirement Board (RRB) as an agency required to prepare audited financial statements for fiscal year 2003 and subsequent years. Office of Management and Budget (OMB) guidance requires that Performance and Accountability Reports (P&AR) for fiscal year 2009 are to be submitted to the President, the Congress, and the Director of OMB by November 16, 2009. As required by law, OMB has also prescribed the form and content of financial statements under OMB Circular A-136. The RRB's financial statements were prepared in accordance with the form and content prescribed by OMB and with generally accepted accounting principles and standards prescribed by the Federal Accounting Standards Advisory Board (FASAB).

The principal statements (prepared on a consolidated basis, except for the Statement of Budgetary Resources which was prepared on a combined basis, and eliminating all significant interfund balances and transactions) are comprised of the Balance Sheet and Statements of Net Cost, Changes in Net Position, Budgetary Resources, and Social Insurance. These statements are different from the financial reports, also prepared by the RRB pursuant to OMB directives, used to monitor and control the RRB's use of budgetary resources.

B. Reporting Entity

The railroad retirement and the railroad unemployment and sickness insurance programs are financed through the following accounts:

- Railroad Retirement (RR) Account, 60X8011, funds retirement, survivor, and disability benefits in excess of social security equivalent benefits from payroll taxes on employers and employees and other income sources. Account 60X8011 is considered an earmarked fund. Our authority to use these collections is 45 United States Code (USC) §231(F)(c)(1).

- Social Security Equivalent Benefit (SSEB) Account, 60X8010, funds the portion of railroad retirement benefits equivalent to a social security benefit from various income sources related to these benefits. Account 60X8010 is considered an earmarked fund. Our authority to use these collections is 45 USC §231N-1(c)(1).

- Dual Benefits Payments (DBP) Account, 60 0111, funds the phase-out costs of certain vested dual benefits from general appropriations. Account 60 0111 is considered a general fund. Our authority to use these collections is 45 USC §231(N)(d).

- Federal Payments to the Railroad Retirement Accounts, 60X0113, was established by OMB, not by legislation, and is used as a conduit for transferring certain income taxes on benefits and receiving credit for the interest portion of uncashed check transfers. Account 60X0113 is considered an earmarked fund. This account has no basis in law.

- Limitation on Administration Account, 60 8237, pays salaries and expenses to administer the railroad retirement program and the railroad unemployment and sickness insurance program. This account is financed by the RR Account, the SSEB Account, and the Railroad

Unemployment Insurance Trust Fund, Administrative Expenses. Account 60 8237 is considered an earmarked fund. Our authority to use these collections is 45 USC §231N-1(c) and 45 USC §231N-(H).

- Limitation on Administration Account, 60X8237, Public Law 107-217, Sec. 121(d)(3), authorizes Federal agencies to retain indefinitely as "no-year money" any unexpended portion of the fiscal year appropriated funds, up to the estimated cost of the operation and maintenance (O&M) of the delegated properties. Funds carried over may only be expended for O&M and repair of the facility. Account 60X8237 is considered an earmarked fund.

- Railroad Unemployment Insurance Trust Fund, Benefit Payments, 60X8051.001, funds railroad unemployment and sickness insurance benefits from contributions by railroad employers. Account 60X8051.001 is considered an earmarked fund. Our authority to use these collections is 45 USC §360.

- Railroad Unemployment Insurance Trust Fund, Administrative Expenses, 60X8051.002, was established to pay salaries and expenses to administer the program. Account 60X8051.002 is considered an earmarked fund. This fund is financed by contributions from railroad employers. Monies are transferred from this fund, based on cost accounting estimates and records, to the Limitation on Administration Account (60 8237) from which salaries and expenses are paid for both the railroad retirement program and the railroad unemployment and sickness insurance program. Our authority to use these collections is 45 USC §361.

- Limitation on the Office of Inspector General, 60 8018, was established to fund the administration of the Inspector General's Office. Account 60 8018 is considered an earmarked fund. Our authority to use these collections is Public Law 111-8.

- City and State Taxes (6275) was established as a holding account for amounts withheld from employees' salaries but not yet paid to the appropriate institutions.

- Railroad Unemployment Insurance Extended Benefit Payments – Recovery Act, 60X0114: Funds provided under Public Law 111-5, American Recovery and Reinvestment Act of 2009.

- Economic Recovery Payments – Recovery Act, 60 0115: Funds provided under Public Law 111-5, American Recovery and Reinvestment Act of 2009.

- Administrative Expenses – Recovery Act, 60X0116: Funds provided under Public Law 111-5, American Recovery and Reinvestment Act of 2009.

- Administrative Expenses – Recovery Act, 60 0116: Funds provided under Public Law 111-5, American Recovery and Reinvestment Act of 2009.

- Limitation on Administration – Recovery Act, 60X8262: Funds provided under Public Law 111-5, American Recovery and Reinvestment Act of 2009.

- Limitation on Administration – Recovery Act, 60 8262: Funds provided under Public Law 111-5, American Recovery and Reinvestment Act of 2009.

C. Budgets and Budgetary Accounting

Budget requests are prepared and submitted by the RRB in accordance with OMB Circular A-11 and other specific guidance issued by OMB. The RRB prepares and submits to OMB Apportionment and Reapportionment Requests (SF-132) in accordance with OMB Circular A-11 for all funds appropriated by the Congress or permanently appropriated. Although OMB may apportion funds by category, time period, or object class of expense, the RRB controls and allocates all apportioned funds by three-digit object class codes of expense. For budgetary accounting, all receipts are recorded on a cash basis of accounting and obligations are recorded against the object class codes when they are incurred, regardless of when the resources acquired are to be consumed. Obligations are amounts of orders placed, contracts awarded, services received, and similar transactions during a given period that will require payments during the same or a future period. Quarterly, the RRB prepares and submits Reports on Budget Execution (SF-133) to OMB, reporting all obligations incurred against the amounts apportioned.

D. Basis of Accounting

As required by law, the DBP Account is on a cash basis of accounting. Payroll taxes and unemployment contributions are recorded on a modified cash basis in accordance with Statement of Federal Financial Accounting Standards (SFFAS) No. 7. All other transactions are recorded on an accrual basis of accounting and a budgetary basis. Under the accrual method, revenues (except payroll taxes and unemployment contributions which are on a modified cash basis) are recognized when earned and expenses are recognized when a liability is incurred. For budgetary accounting, financial transactions are recorded when obligations are incurred, regardless of when the resources acquired are to be consumed.

The accompanying consolidated financial statements of the RRB include all funds maintained by the RRB, after elimination of all significant interfund balances and transactions.

E. Concepts

The Fund Balance with Treasury (FBWT) is the aggregate amount of funds on deposit with the Treasury, excluding seized cash deposited. The FBWT is increased by (1) receiving appropriations, reappropriations, continuing resolutions, appropriation restorations, and allocations; and (2) receiving transfers and reimbursements from other agencies. It also is increased by amounts borrowed from the Bureau of the Public Debt (BPD), the Federal Financing Bank, or other entities, and amounts collected and credited to appropriation or fund accounts. The FBWT is reduced by (1) disbursements made to pay liabilities or to purchase assets, goods, and services; (2) investments in U.S. securities (securities issued by BPD or other Federal Government agencies); (3) cancellation of expired appropriations; (4) transfers and reimbursements to other entities or to the General Fund of the Treasury; and, (5) sequestration or rescission of appropriations.

F. Earmarked Funds

SFFAS No. 27, Identifying and Reporting Earmarked Funds, requires separate presentation and disclosure of earmarked funds balances in the financial statements. Earmarked funds are financed by specifically identified revenues, often supplemented by other financing sources, which remain available over time. Earmarked funds meet the following criteria:

- A statute committing the Federal Government to use specifically-identified revenues and other financing sources only for designated activities, benefits, or purposes;
- Explicit authority for the earmarked fund to retain revenues and other financing sources not used in the current period for future use to finance the designated activities, benefits, or purposes; and
- A requirement to account for and report on the receipt, use, and retention of the revenues and other financing sources that distinguishes the earmarked funds from the Government's general revenues.

Refer to Note 17, Earmarked Funds, for additional information.

2. Related Parties

The RRB has significant transactions with the following governmental and nongovernmental entities:

- The Department of the Treasury (Treasury) collects payroll taxes from the railroads on behalf of the RRB. The taxes collected are credited by Treasury to the RRB's trust fund account via an appropriation warrant. In fiscal years 2009 and 2008, net payroll taxes transferred to the RRB by Treasury were $4.7 billion and $4.9 billion, respectively.

  Treasury provides payment services to Federal agencies and operates collections and deposit systems. The RRB invests in government account securities through BPD. In fiscal years 2009 and 2008, investments, including accrued interest, totaled $1.2 billion and $1.4 billion, respectively. In addition, Treasury advances funds to the RRB for the financial interchange which are repaid annually. The amount paid by the RRB to Treasury in fiscal year 2009 due to the financial interchange advances during fiscal year 2008 included principal of $3.4 billion and interest of $171 million. The amount paid by the RRB to Treasury in fiscal year 2008 due to the financial interchange advances during fiscal year 2007 included principal of $3.2 billion and interest of $181.4 million.

- The Social Security Administration (SSA) and RRB participate in an annual financial interchange. The financial interchange is intended to place the social security trust funds in the same position in which they would have been had railroad employment been covered by the Social Security Act and Federal Insurance Contributions Act (FICA). In fiscal year 2009, the RRB trust funds realized $4.1 billion through the financial interchange.

  Under Section 7(b)(2) of the Railroad Retirement Act of 1974, the RRB is required to pay certain individuals, described in this section, monthly social security benefits on behalf of SSA. SSA reimburses the RRB for benefits paid on behalf of SSA. The amounts reimbursed in fiscal years 2009 and 2008 were $1.3 billion and $1.2 billion, respectively.

- The Centers for Medicare & Medicaid Services (CMS) participates in the annual financial interchange in the same manner as described for SSA. The RRB transferred $524 million and $526 million to CMS in fiscal years 2009 and 2008, respectively. In addition to the financial interchange transactions, CMS reimburses the RRB for certain expenses it incurs associated with administering the Medicare program. The amounts reimbursed in fiscal years 2009 and 2008 were $10.5 million and $9.2 million, respectively.

- The General Services Administration (GSA) provides payroll processing and human resources services to the RRB. In addition, the RRB paid rent to GSA in the amount of $3.3 million for fiscal year 2009 and $3.4 million in 2008.

- The Department of Labor (DOL) invests Railroad Unemployment Insurance Act (RUIA) contributions. Accounts receivable with the DOL amounted to $36 million and $110 million for fiscal years 2009 and 2008, respectively.

- The National Railroad Retirement Investment Trust (NRRIT) transfers funds to the RRB for payment of railroad retirement benefits. During fiscal years 2009 and 2008, the NRRIT transferred $1,553 million and $1,298 million, respectively, to the RR Account. The NRRIT holds and invests funds not immediately needed to pay benefits under the RRA. The net assets of the NRRIT are reported on the RRB's balance sheet as a non-governmental investment. The RRB reports this information based on information provided by the NRRIT for that purpose.

3. Fund Balances with Treasury

Fund balances with Treasury at September 30 consisted of:

	2009	2008
A. Fund Balances:		
(1) Trust Funds	$58,103,826	$34,467,960
(2) General Funds	22,940,297	6,204,903
(3) Other Fund Types	0	10,352
Total	$81,044,123	$40,683,215
B. Status of Fund Balance with Treasury (FBWT)		
(1) Unobligated Balance		
(a) Available	$22,405,143	$ 1,489,724
(b) Unavailable	8,620,728	8,148,296
(2) Obligated Balance not yet Disbursed	50,018,252	31,034,843
(3) Non-Budgetary FBWT	0	10,352
Total	$81,044,123	$40,683,215

C. Other Information: The above represents cash held in Treasury. Unobligated and obligated funds not held in cash are invested in Treasury securities.

4. Investments

The investments in Treasury securities represent the investments of two of the RRB's earmarked funds, the RR and the SSEB Accounts.

	Amounts for Balance Sheet Reporting		
	Cost	Interest Receivable	Investments Net
Intragovernmental Securities:			
Non Marketable Par Value 2009	$1,189,162,000	$2,015,782	$1,191,177,782
Non Marketable Par Value 2008	$1,404,971,000	$2,340,638	$1,407,311,638

The balance on September 30, 2009, consisted of investments in 3.000 percent par value specials (with market value equal to face value) maturing on October 1, 2009. The balance on September 30, 2008, consisted of investments in 3.125 percent par value specials (with market value equal to face value) maturing on October 1, 2008. Par value specials mature on the first working day of the month following the month of issue and have a yield based on the average yield of marketable Treasury notes with maturity dates at least 3 years away.

The Federal Government does not set aside assets to pay future benefits or other expenditures associated with the RR and SSEB Accounts. The cash receipts from the railroads for the RR and SSEB Accounts are deposited in the Treasury, which uses the cash for general government purposes. Treasury securities are issued to the RRB as evidence of its receipts. Treasury securities are an asset to the RRB and a liability to the Treasury. Because the RRB and the Treasury are both parts of the government, these assets and liabilities offset each other from the standpoint of the government as a whole. For this reason, they do not represent an asset or a liability in the U.S. government-wide financial statements.

Treasury securities provide the RRB with authority to draw upon the Treasury to make future benefit payments or other expenditures. When the RRB requires redemption of these securities to make expenditures, the government finances those expenditures out of accumulated cash balances, by raising taxes or other receipts, by borrowing from the public or repaying less debt, or by curtailing other expenditures. This is the same way that the government finances all other expenditures.

5. NRRIT Net Assets

The balance sheet amounts represent the net asset value of NRRIT assets, at fair value, as of September 30, 2009 and 2008. These figures were provided to the RRB by the NRRIT for the fiscal years ended September 30, 2009 and 2008.

Readers of these financial statements should be aware that the RRSIA authorizes the NRRIT to invest railroad retirement assets in a diversified investment portfolio in the same manner as those of private sector retirement plans.

6. Accounts Receivable

• *Intragovernmental*

Accounts receivable - Intragovernmental at September 30 consisted of:

	2009	2008
Financial Interchange – Principal	$4,186,600,000	$3,826,800,000
Financial Interchange – Interest	122,800,000	109,700,000
Department of Labor	35,552,013	110,455,311
CMS – Refund of Medicare Part B Premiums	3,946,313	0
Social Security Administration - OASI/DI Benefits (Old Age and Survivors Insurance/Disability Insurance)	195,423	248,005
Total	$4,349,093,749	$4,047,203,316

• *Accounts Receivable, Net*

Accounts receivable, net at September 30 consisted of:

	2009	2008
Accounts receivable - Benefit overpayments	$45,632,597	$40,161,656
Accounts receivable – Past due RUI contributions and taxes	241,565	54,511
Accounts receivable – Interest, penalty & administrative costs	315,979	241,736
Total	$46,190,141	$40,457,903
Less: Allowances for doubtful accounts	9,516,049	8,209,189
Net Total	$36,674,092	$32,248,714

The RRB's September 30, 2009, accounts receivable balance (after deducting currently not collectible (CNC) receivables but prior to the application of the allowance for doubtful accounts) of $46,190,141 includes $41,431,006 (90%) in railroad retirement program receivables and $4,759,135 (10%) in railroad unemployment insurance program receivables. The total allowance for doubtful accounts is $9,516,049. This includes $8,199,197 (86%) for the railroad retirement program and $1,316,852 (14%) for the unemployment insurance program receivables.

The allowance for doubtful accounts for the railroad retirement program was calculated, excluding debts classified as CNC, as follows: (1) categorizing the accounts receivable by cause and age, (2) analyzing each category using historical data, (3) determining the percentage of amounts due the RRB that would probably not be collected, and (4) applying the determined percentages against accounts receivable.

7. Inventory and Related Property

Operating materials and supplies are valued on the cost basis. The recorded values are adjusted for the results of physical inventories taken periodically. Expenditures are recorded when inventories are consumed.

8. General Property, Plant and Equipment

These assets are stated at cost less accumulated depreciation/amortization. Acquisitions are capitalized if the cost is $5,000 or more and the service life is 2 years or greater. Depreciation/amortization is computed on the straight-line method. These assets consisted of:

		At September 30, 2009		
Classes of Fixed Assets	Service Lives	Cost	Accumulated Depreciation	Net Book Value
Structures, facilities and leasehold improvements	15 years	$ 2,723,731	$ 2,638,317	$ 85,414
ADP software	5 years	19,601,720	19,562,554	39,166
Equipment	5-10 years	5,275,125	5,142,977	132,148
Internal-Use Software in Development		1,248,236	0	1,248,236
		$28,848,812	$27,343,848	$1,504,964

Classes of Fixed Assets	Service Lives	At September 30, 2008 Cost	Accumulated Depreciation	Net Book Value
Structures, facilities and leasehold improvements	15 years	$ 2,723,731	$ 2,612,979	$ 110,752
ADP software	5 years	19,578,768	19,521,668	57,100
Equipment	5-10 years	5,412,577	5,250,276	162,301
Internal-Use Software in Development		1,102,774	0	1,102,774
		$28,817,850	$27,384,923	$1,432,927

9. Liabilities

Liabilities at September 30 consisted of:

	2009	2008
Intragovernmental:		
Other – Unfunded Federal Employees' Compensation Act Liability	$ 393,968	$ 343,470
Public:		
Other – Accrued Unfunded Leave	$ 7,200,668	$ 6,888,788
Total Liabilities Not Covered by Budgetary Resources	$ 7,594,636	$ 7,232,258
Total Liabilities Covered by Budgetary Resources	4,954,631,807	4,654,844,677
Total Liabilities	$4,962,226,443	$4,662,076,935

- *Debt*

Intragovernmental debt results from borrowing from Treasury to fund benefit payments from the SSEB Account.

	2009	2008
Beginning Balance, Principal	$3,096,200,000	$2,944,600,000
New Borrowing	3,656,700,000	3,381,000,000
Repayments	(3,393,700,000)	(3,229,400,000)
Ending Balance, Principal	3,359,200,000	3,096,200,000
Accrued Interest	57,675,148	68,568,904
Total	$3,416,875,148	$3,164,768,904

- *Benefits Due and Payable*

Benefits due and payable are accrued for all benefits to which recipients are entitled for the month of September, which, by statute, are not paid until October. Also, liabilities are accrued on benefits for past periods that have not completed processing, such as benefit payments due but not paid. The amounts include uncashed checks of $11,628,885 and $11,132,404, at September 30, 2009 and 2008, respectively. Under Public Law 100-86, the amount of RRB benefits represented by checks which remain uncashed for 12 months after the check issue date are credited (including interest thereon) to the accounts from which the checks were drawn. The principal amount of uncashed checks must remain in a liability account until the RRB determines that entitlement no longer exists or another check is issued to the beneficiary. A special workload of approximately 15,000 benefit cases, estimated at $6 million to $10 million, has been identified and will be processed over the next few years.

• *Other Liabilities*

Other liabilities at September 30 consisted of:

	Non-Current	Current	2009 Total
Intragovernmental:			
Employer Contributions & Payroll Taxes Payable	$ 0	$ 858,346	$ 858,346
Unfunded FECA Liability	0	393,968	393,968
Total Intragovernmental	0	1,252,314	1,252,314
Accrued Unfunded Liabilities	0	7,200,668	7,200,668
Accrued Payroll	0	3,949,442	3,949,442
Accrued RRB Contributions – Thrift Savings Plan	0	95,867	95,867
Withholdings Payable	0	41,392	41,392
Contingent Liability (see Note 10 for details)	105,000,000		105,000,000
Capital Lease Liability	0	0	0
Other	0	5,739,905	5,739,905
Total Other Liabilities	$105,000,000	$18,279,588	$123,279,588

	Non-Current	Current	2008 Total
Intragovernmental:			
Employer Contributions & Payroll Taxes Payable	$ 0	$ 751,010	$ 751,010
Unfunded FECA Liability	0	343,470	343,470
Total Intragovernmental	0	1,094,480	1,094,480
Accrued Unfunded Liabilities	0	6,888,788	6,888,788
Accrued Payroll	0	3,514,699	3,514,699
Accrued RRB Contributions – Thrift Savings Plan	0	74,070	74,070
Withholdings Payable	0	26,618	26,618
Contingent Liability (see Note 10 for details)	100,000,000		100,000,000
Capital Lease Liability	0	1,446	1,446
Other	0	549,523	549,523
Total Other Liabilities	$100,000,000	$12,149,624	$112,149,624

10. Commitments and Contingencies

The RRB is involved in the following actions:

- Two Class 1 railroads have filed suits claiming a refund of RRTA or FICA taxes paid on moving expenses and interest on supplemental annuity taxes. The RRB's legal counsel has determined that it is probable that the RR Account is contingently liable for an estimated amount of $5 million and reasonably possible that the RRB is contingently liable for an estimated amount of $2 million. The amount of $5 million was recorded in fiscal year 2009 and is reflected on the Balance Sheet under other liabilities.

- In fiscal year 2005, we recorded a contingent liability in the amount of $100,000,000, for an estimated forthcoming adjustment to the financial interchange for military service credits due SSA.

The total fiscal year 2009 contingent liability recorded is $105,000,000.

- Several Class 1 railroads have filed claims for refund of taxes with the Internal Revenue Service (IRS). Of the $2.6 billion in claims, the RRB's legal counsel has determined that it is reasonably possible that the RR and SSEB Accounts are contingently liable for an estimated amount of $1.2 billion, and the $1.4 billion is remote. Under the anti-disclosure provision of the IRS code, we are not permitted to disclose any details related to these claims. No provision has been made in the accompanying financial statements regarding these claims other than this disclosure.

As of September 30, 2009, the RRB had contractual arrangements which may result in future financial obligations of $27.9 million.

11. Intragovernmental Costs and Exchange Revenue

	2009	2008
Railroad Retirement (RR) Program		
Intragovernmental Costs	$ 190,456,180	$ 208,857,878
Public Costs	10,757,698,593	10,141,409,531
Total RR Program Costs	$10,948,154,773	$10,350,267,409
Intragovernmental Earned Revenue	$ 10,545,873	$ 9,172,230
Public Earned Revenue	441,659	491,037
Total RR Program Earned Revenue	$ 10,987,532	$ 9,663,267
Railroad Unemployment and Sickness Insurance (RUIA) Program		
Intragovernmental Costs	$ 4,701,258	$ 4,689,312
Public Costs	200,938,820	117,604,378
Total RUIA Program Costs	$ 205,640,078	$ 122,293,690
Intragovernmental Earned Revenue	$ 0	$ 0
Public Earned Revenue	22,989,207	24,054,840
Total RUIA Program Earned Revenue	$ 22,989,207	$ 24,054,840

These totals do not include $346,558 and $290,031 of earned revenues not attributable to either program for fiscal years 2009 and 2008, respectively.

Intragovernmental costs (exchange transactions made between two reporting entities within the Federal government) are being reported separately from costs with the public (exchange transactions made between the reporting entity and a non-Federal entity). Intragovernmental exchange revenues (exchange transactions made between two reporting entities within the Federal government) are reported separately from exchange revenues with the public (exchange transactions made between the reporting entity and a non-Federal entity). Intragovernmental expenses relate to the source of goods and services purchased by the reporting entity, not to the classification of related revenue.

12. Transfers To/From NRRIT

The RRB received a total of $1,553 million and $1,298 million from the NRRIT during fiscal years 2009 and 2008, respectively. These funds were received into the RR Account. Transfers were to fund the payment of benefits.

13. Undelivered Orders at the End of the Period

	2009	2008
Undelivered Orders	$8,447,798	$6,225,572

14. Explanation of Material Differences Between the Combined Statement of Budgetary Resources and the Budget of the United States Government

A reconciliation was completed of budgetary resources, obligations incurred, distributed offsetting receipts, and outlays, as presented in the Restated Statement of Budgetary Resources for the year ended September 30, 2008, to amounts included in the Budget of the United States Government. A reconciliation was not performed for the period ended September 30, 2009, since the RRB's Performance and Accountability Report is published in November 2009, and OMB's MAX system will not have actual budget data available until mid-December 2009.

The Budget of the United States Government and the RRB's Statement of Budgetary Resources differ because of the following transaction types:

		Fiscal Year 2008 (in millions)			
		Budgetary Resources	Obligations Incurred	Distributed Offsetting Receipts	Net Outlays
1.	Combined Statement of Budgetary Resources – September 30, 2008	$10,944	$10,934	$3,992	$6,778
2.	Expenditure Transfers from Trust Funds	(109)			
3.	Unobligated Balance, Brought Forward October 1, 2007	(11)			
4.	Recoveries of Prior Year Unpaid Obligations	0			
5.	Sickness Insurance Benefit Recoveries	(24)			
6.	Administrative Expense Reimbursement	(9)			
7.	Cancelled Authority	2			
8.	Interfund Transfers: Federal Payment Obligations – Income Taxes Collected on Benefits (0113)	(359)			
9.	Intrafund Transfers: Receipts from the Old-Age and Survivors Insurance (OASI) Trust Fund	(3,632)			
10.	Intrafund Transfers: Receipts from the Disability Insurance (DI) Trust Fund	(418)			
	Financial Interchange				
11.	Accrued Receipts from the OASI and DI Trust Funds			(135)	135
12.	RRB Transfers to the Federal Hospital Insurance Trust Fund			551	(551)

		Fiscal Year 2008 (in millions)			
		Budgetary Resources	Obligations Incurred	Distributed Offsetting Receipts	Net Outlays
	NRRIT				
13.	NRRIT Obligations / Outlays	1,375	1,375		1,375
14.	Intrafund Transfers: NRRIT Transfer to RRA	(1,298)		1,298	(1,298)
15.	Proprietary Receipts: NRRIT – Gains and Losses	6,606		(6,606)	6,606
16.	Proprietary Receipts: NRRIT – Interest and Dividends	(569)		569	(569)
17.	Rounding			1	
18.	Budget of the United States Government FY 2008 Actuals	$12,498	$12,309	$(330)	$12,476

15. Social Insurance

- Actuarial Surplus or (Deficiency) represents combined values for the RR Account, SSEB Account, and NRRIT.

- Estimated future income (excluding interest) includes tier 1 taxes, tier 2 taxes, income taxes on benefits, and financial interchange income, where financial interchange income consists of financial interchange transfers plus financial interchange advances from general revenues less repayment of financial interchange advances from general revenues.

- Estimated future expenditures include benefit and administrative costs.

- A closed group estimate of the future excess of income over expenditures using the projected tax rates under employment assumption II may be obtained by subtracting future expenditures for current participants from future income for current participants.

- Detail may not add to totals due to rounding. Employee and beneficiary status are determined as of 1/1/2008, whereas present values are as of 1/1/2009.

- The figures in the Statement of Social Insurance, rounded to millions of dollars prior to 2008, have been rounded to tenths of billions. The practice of displaying the figures in the Statement of Social Insurance in millions of dollars implies a degree of accuracy that 75-year projections do not possess.

Fund Balance

The fund balance appears on the face of the statement because the size of the balance directly affects projected future cash flows. Lower fund balances lead to higher future tier 2 tax rates and consequently higher tax income, while higher fund balances lead to lower tier 2 tax rates and lower tax income.

The tier 2 tax rate is based on the Average Account Benefits Ratio (AABR). At the end of each fiscal year (September 30), an Account Benefits Ratio (ABR) is calculated by dividing the fair market value of the assets in the RR Account and the NRRIT (and for years before 2002, the SSEB Account) as of the close of such fiscal year by the total benefits and administrative expenses paid from the RR Account and the NRRIT during such fiscal year. The AABR, with respect to any calendar year, is then calculated as the average of the account benefits ratios for the 10 most recent fiscal years ending before such calendar year.

The January 1, 2007, fund balance does not include less than $0.1 billion of accrued interest and dividends and miscellaneous adjustments related primarily to operating expenses of the NRRIT. The January 1, 2006, fund balance was not reduced for certain payables of the NRRIT, which were estimated to be less than $1 billion.

Prior to 2006, certain accrual adjustments were included in the fund balances. In 2006, they were excluded to promote clarity and to be consistent with the account benefit ratio calculation, wherein the asset values do not include these accrual adjustments. If the accrual adjustments had been made as in prior years, the 1/1/2006 fund balance would have been $0.4 billion higher.

As stated earlier, a higher fund balance results in lower tax rates and consequently lower future tax income and a lower balance results in higher rates and income. This self-adjusting tax rate mechanism mitigates the effects of changes in the fund balance on the program's net actuarial position.

16. Significant Assumptions

The estimates used in the Statement of Social Insurance and Required Supplementary Information are based on the assumption that the program will continue as presently constructed. The calculations assume that all future transfers required by current law under the financial interchange will be made.

The estimates are also based on various economic, employment, and other actuarial assumptions. The ultimate economic assumptions are a 7.5 percent investment return, a 3 percent annual increase in the cost of living, and a 4 percent annual wage increase.

The employment assumption for the Statement of Social Insurance is employment assumption II, the intermediate employment assumption, as used in the 24th Actuarial Valuation. Under employment assumption II, starting with an average 2008 employment of 234,000, (1) railroad passenger employment is assumed to remain level at 43,000, and (2) the employment base, excluding passenger employment, is assumed to decline at a constant annual rate of 2.0 percent for 25 years, at a reducing rate over the next 25 years, and remain level thereafter.

Actuarial assumptions are those published in the Technical Supplement to the "Twenty-Fourth Actuarial Valuation of the Assets and Liabilities Under the Railroad Retirement Acts as of December 31, 2007." This may be found on the RRB's website, www.rrb.gov.

Actuarial assumptions published in the Twenty-Fourth Actuarial Valuation include:

Table S-1. 2007 RRB Annuitants Mortality Table
Table S-2. 2007 RRB Disabled Mortality Table for Annuitants with Disability Freeze
Table S-3. 2007 RRB Disabled Mortality Table for Annuitants without Disability Freeze
Table S-4. 2003 RRB Active Service Mortality Table
Table S-5. 2007 RRB Spouse Total Termination Table

Note 17 Earmarked Funds

	8010 SSEB	8011 RRA	8051.001 RUIA Benefit Payments	0113 Federal Payments to RR Accounts	8237 Limitation on Administration	8051.002 RUIA Admin Expenses	8018 Limitation on OIG	Eliminations	Total Earmarked Funds
Balance Sheet as of September 30, 2009									
Assets									
Fund Balance with Treasury	$20,195,929	$12,530,097	$11,660,815	$522,250	$11,106,990	$403,728	$1,232,924		$57,652,733
Investments	784,981,660	406,196,122							1,191,177,782
NRRIT Net Invested Assets		23,345,568,274							23,345,568,274
Taxes and Interest Receivable	4,309,400,000	37,382,950	29,907,040		4,008,838	9,060,868	789,159	(4,764,882)	4,385,783,973
Other Assets					1,510,079		129,641		1,639,720
Total Assets	5,114,577,589	23,801,677,443	41,567,855	522,250	16,625,907	9,464,596	2,151,724	(4,764,882)	28,981,822,482
Liabilities Due and Payable	4,437,027,590	391,298,710	13,767,679		758,529	736,493	45,782	(4,764,882)	4,838,869,901
Other Liabilities	100,000,000	10,739,904			11,704,892		834,791		123,279,587
Total Liabilities	4,537,027,590	402,038,614	13,767,679		12,463,421	736,493	880,573	(4,764,882)	4,962,149,488
Unexpended Appropriations				522,250					522,250
Cumulative Results of Operations	577,549,999	23,399,638,829	27,800,176		4,162,486	8,728,103	1,271,151		24,019,150,744
Total Liabilities and Net Position	$5,114,577,589	$23,801,677,443	$41,567,855	$522,250	$16,625,907	$9,464,596	$2,151,724	($4,764,882)	$28,981,822,482
Statement of Net Cost for the Period Ended September 30, 2009									
Gross Program Costs	$6,402,297,457	$4,233,755,637	$177,096,228	$321,053,337	$122,561,581		$8,678,597	($321,507,277)	$10,943,935,560
Less Earned Revenues		441,659	22,989,178		9,666,970		1,334,326	($455,424)	33,976,709
Net Program Costs	6,402,297,457	4,233,313,978	154,107,050	321,053,337	112,894,611		7,344,271	(321,051,853)	10,909,958,851
Costs Not Attributable to Program Costs									
Less Earned Revenues Not Attributable to Program Costs					346,558				346,558
Net Cost of Operations	$6,402,297,457	$4,233,313,978	$154,107,050	$321,053,337	$112,548,053		$7,344,271	($321,051,853)	$10,909,612,293
Statement of Changes in Net Position for the Period Ended September 30, 2009									
Net Position Beginning of Period	$456,798,970	$25,610,824,027	$99,863,762	$504,921	$3,505,139	$10,019,145	$454,791		$26,161,970,755
Appropriations Received				321,150,000					321,150,000
Expended Appropriations				321,053,337					321,053,337
Other Adjustments				(79,334)					(79,334)
Appropriations Used				(321,053,337)					(321,053,337)
Taxes and Non-Exchange Revenue	2,552,288,506	2,512,564,258	73,942,971			23,150,749		(321,051,853)	4,840,894,631
Other Financing Sources	3,970,759,980	(68,266,278)	8,100,493		113,205,400	(24,441,791)	8,160,631		4,007,518,435
Transfers In From NRRIT		1,553,000,000							1,553,000,000
Change in NRRIT Assets		(1,975,169,200)							(1,975,169,200)
Net Cost of Operations	(6,402,297,457)	(4,233,313,978)	(154,107,050)	(321,053,337)	(112,548,053)		(7,344,271)	321,051,853	(10,909,612,293)
Change in Net Position	120,751,029	(2,211,185,198)	(72,063,586)	17,329	657,347	(1,291,042)	816,360		(2,162,297,761)
Net Position End of Period	$577,549,999	$23,399,638,829	$27,800,176	$522,250	$4,162,486	$8,728,103	$1,271,151		$24,019,672,994

Note 17 Earmarked Funds

	8010 SSEB	8011 RRA	8051.001 RUIA Benefit Payments	0113 Federal Payments to RR Accounts	8237 Limitation on Administration	8051.002 RUIA Admin Expenses	8018 Limitation on OIG	Eliminations	Total Earmarked Funds
Balance Sheet as of September 30, 2008									
Assets									
Fund Balance with Treasury	$10,067,681	$8,210,187	$4,960,920	$504,921	$9,898,615	$298,067	$1,032,492		$34,972,883
Investments	782,456,367	624,855,271							1,407,311,638
NRRIT Net Invested Assets		25,320,737,474							25,320,737,474
Taxes and Interest Receivable	3,936,500,000	29,510,605	103,335,214		3,868,978	10,128,996	1,409	(3,893,173)	4,079,452,029
Other Assets					1,419,844		143,468		1,563,312
Total Assets	4,729,024,048	25,983,313,537	108,296,134	504,921	15,187,437	10,427,063	1,177,369	(3,893,173)	30,844,037,336
Liabilities Due and Payable	4,172,225,078	371,939,988	8,432,372		771,682	407,918	26,534	(3,893,173)	4,549,910,399
Other Liabilities	100,000,000	549,522			10,910,616		696,044		112,156,182
Total Liabilities	4,272,225,078	372,489,510	8,432,372		11,682,298	407,918	722,578	(3,893,173)	4,682,066,581
Unexpended Appropriations				504,921					504,921
Cumulative Results of Operations	456,798,970	25,610,824,027	99,863,762		3,505,139	10,019,145	454,791		26,181,465,834
Total Liabilities and Net Position	$4,729,024,048	$25,983,313,537	$108,296,134	$504,921	$15,187,437	$10,427,063	$1,177,369	($3,893,173)	$30,844,037,336
Statement of Net Cost for the Period Ended September 30, 2008									
Gross Program Costs	$6,124,100,298	$4,038,150,045	$104,112,719	$359,073,113	$121,394,045		$7,582,838	($359,509,575)	$10,394,903,483
Less Earned Revenues		491,037	24,054,840		9,210,607		400,000	(438,377)	33,718,107
Net Program Costs	$6,124,100,298	$4,037,659,008	$80,057,879	$359,073,113	$112,183,438		$7,182,838	($359,071,198)	$10,361,185,376
Costs Not Attributable to Program Costs									
Less Earned Revenues Not Attributable to Program Costs					289,816		215		290,031
Net Cost of Operations	$6,124,100,298	$4,037,659,008	$80,057,879	$359,073,113	$111,893,622		$7,182,623	($359,071,198)	$10,360,895,345
Statement of Changes in Net Position for the Period Ended September 30, 2008									
Net Position Beginning of Period	$450,419,400	$32,954,170,376	$100,685,579	$495,477	$6,182,923	$9,084,314	$231,590		$33,521,269,659
Appropriations Received				359,150,000					359,150,000
Expended Appropriations				359,073,113					359,073,113
Other Adjustments				(67,443)					(67,443)
Appropriations Used				(359,073,113)					(359,073,113)
Taxes and Non-Exchange Revenue	2,675,562,851	2,650,226,884	72,074,657			23,832,959		(359,071,198)	5,062,626,153
Other Financing Sources	3,454,917,017	85,942,301	7,161,405		109,215,838	(22,898,128)	7,405,824		3,641,744,257
Transfers In From NRRIT		1,298,000,000							1,298,000,000
Change in NRRIT Assets		(7,339,856,526)							(7,339,856,526)
Net Cost of Operations	(6,124,100,298)	(4,037,659,008)	(80,057,879)	(359,073,113)	(111,893,622)		(7,182,623)	359,071,198	(10,360,895,345)
Change in Net Position	6,379,570	(7,343,346,349)	(821,817)	9,444	(2,677,784)	934,831	223,201		(7,339,298,904)
Net Position End of Period	$456,798,970	$25,610,824,027	$99,863,762	$504,921	$3,505,139	$10,019,145	$454,791		$26,181,970,755

18. Apportionment Categories of Obligations Incurred: Direct vs. Reimbursable Obligations

All RRB direct and reimbursable obligations are incurred against Category B apportionments. There are no RRB direct or reimbursable obligations incurred against Categories A or Exempt apportionments.

The amounts of Category B direct and reimbursable obligations are reported on the face of the Statement of Budgetary Resources for fiscal years 2009 and 2008.

This disclosure agrees with the aggregate of RRB direct and reimbursable obligations as reported on the RRB's fiscal year 2009 year-end SF-133, *Report on Budget Execution and Budgetary Resources*, and lines 8A and 8B in the Statement of Budgetary Resources.

19. Terms of Borrowing Authority Used

The Railroad Retirement Solvency Act of 1983 provided for monthly advances of the Financial Interchange (FI) from Treasury to be repaid when the FI is settled each June. Prior to 2008, these advances were reported as nonexpenditure transfers, but are now reported as borrowing authority. Section 7(c)(4) of the RRA provides the rules for repayment of the FI advances and references Section 7(c)(3) for the interest rate to be used. The interest rate on the repayment of the advances is the same as that used in the actual FI determination from the close of the prior fiscal year until the date of transfer.

20. Legal Arrangements Affecting Use of Unobligated Balances

The portion of RRB trust fund receipts collected in the current fiscal year that exceed the amount needed to pay benefits or other valid obligations remain in the RRB trust funds as unobligated balances. These receipts can become available in the current year if needed for valid obligations. RRB receipts are assets of the trust fund and available for obligation as needed in the future.

21. Subsequent Events

No material events or transactions have occurred subsequent to September 30, 2009, that we are aware of. We have evaluated subsequent events through November 16, 2009, the date the financial statements were released.

Note 22 Reconciliation of Net Cost of Operations to Budget
For the Years Ended September 30, 2009 and 2008
(in dollars)

	2009	2008
Resources Used to Finance Activities:		
Budgetary Resources Obligated		
Obligations Incurred	$11,583,308,778	$10,934,363,444
Less: Spending Authority from Offsetting Collections and Recoveries	(149,701,852)	(143,310,277)
Obligations Net of Offsetting Collections and Recoveries	11,433,606,926	10,791,053,167
Less: Offsetting Receipts	(4,324,733,000)	(3,992,185,000)
Net Obligations	**7,108,873,926**	**6,798,868,167**
Other Resources		
Imputed Financing from Costs Absorbed by Others	8,786,495	8,559,257
Other	(1,980,170,261)	(7,339,856,526)
Net Other Resources Used to Finance Activities	**(1,971,383,766)**	**(7,331,297,269)**
Total Resources Used to Finance Activities	**5,137,490,160**	**(532,429,102)**
Resources Used to Finance Items Not Part of the Net Cost of Operations:		
Change in Budgetary Resources Obligated for Goods, Services & Benefits Ordered but not yet Provided	(1,628,418)	1,791,158
Budgetary Offsetting Collections & Receipts That Do Not Affect Net Cost of Operations	(578,530)	(3,883,265)
Resources That Finance the Acquisition of Assets	1,974,583,258	7,339,400,228
Other Resources or Adjustments to Net Obligated Resources That Do Not Affect Net Cost of Operations	4,003,733,000	3,633,185,000
Total Resources Used to Finance Items Not Part of the Net Cost of Operations	**5,976,109,310**	**10,970,493,121**
Total Resources Used to Finance the Net Cost of Operations	**11,113,599,470**	**10,438,064,019**
Components of the Net Cost of Operations That Will Not Require or Generate Resources in the Current Period:		
Components Requiring or Generating Resources in Future Periods:		
Increase in Annual Leave Liability	311,880	132,007
Other	5,443,449	197,054
Total Components of Net Cost of Operations That Will Require or Generate Resources in Future Periods	**5,755,329**	**329,061**
Components Not Requiring or Generating Resources:		
Depreciation and Amortization	116,755	153,520
Other	0	6,361
Total Components of Net Cost of Operations That Will Not Require or Generate Resources	**116,755**	**159,881**
Total Components of Net Cost of Operations That Will Not Require or Generate Resources in the Current Period	**5,872,084**	**488,942**
Net Cost of Operations	**$11,119,471,554**	**$10,438,552,961**

23. Adjustments to Beginning Balance of Budgetary Resources

The unobligated balance brought forward October 1, 2008 for FY 2009 requires a $214 beginning balance adjustment to accommodate a new beginning balance edit in Treasury's Federal Agencies' Centralized Trial-Balance System (FACTS) II system.

Required Supplementary Information

Social Insurance

Program Financing

Payroll taxes paid by railroad employers and their employees are the primary source of funding for the railroad retirement-survivor benefit programs. Railroad retirement taxes, which have historically been higher than social security taxes, are calculated, like benefit payments, on a two-tier basis. Railroad retirement tier 1 payroll taxes are coordinated with social security taxes so that employees and employers pay tier 1 taxes at the same rate as social security taxes. In addition, both employees and employers pay tier 2 taxes that are used to finance railroad retirement benefit payments over and above social security levels. The tier 2 tax rate is based on the ratio of certain asset balances to the sum of benefit payments and administrative expenses.

Revenues in excess of benefit payments are invested to provide additional trust fund income. The NRRIT oversees most investments, including all investments in non-governmental assets.

Additional trust fund income is derived from the financial interchange (FI) with the social security trust funds, revenues from Federal income taxes on railroad retirement benefits, and appropriations from general treasury revenues provided after 1974 as part of a phase-out of certain vested dual benefits.

The financial interchange between the railroad retirement and social security systems is intended to put the Social Security Administration (SSA) Federal Old-Age, Survivors, and Disability Insurance (FOASI/DI) trust funds and the Centers for Medicare and Medicaid Services (CMS) Federal Hospital Insurance (FHI) trust fund in the same position they would have been had railroad employment been covered under the Social Security and Federal Insurance Contributions Acts. It follows that all computations under the FI are performed according to social security law. The amount of benefits payable under the RRA has no effect on the results.

Placing the social security trust funds in the same position they would have been had railroad employment been covered under social security since its inception involves computing the amount of social security payroll and income taxes relating to railroad employment and computing the amount of additional benefits which social security would have paid to railroad retirement beneficiaries during the same fiscal year. In the computation of the latter amount, credit is given for any social security benefits actually paid to railroad retirement beneficiaries. When benefit reimbursements exceed payroll and income taxes, the difference, with an allowance for interest and administrative expenses, is transferred from the social security trust funds to the SSEB Account. If taxes exceed benefit reimbursements, a transfer would be made in favor of the social security trust funds.

On a present value basis, funds provided through the FI are expected to equal $79.2 billion, or 39.2% of the estimated future income of $202.1 billion.

Benefits

Full age annuities are payable at age 60 to workers with 30 years of service. For those with less than 30 years of service, reduced annuities are payable at age 62 and unreduced annuities are payable at full retirement age, which is gradually rising from 65 to 67, depending on year of birth. Disability annuities can be paid on the basis of total or occupational disability. Annuities are also payable to spouses and divorced spouses of retired workers and to widow(er)s, surviving divorced spouses, partitioned surviving spouses, partitioned surviving divorced spouses, divorced widow(er)s, remarried widow(er)s, children, and parents of deceased railroad workers. Qualified railroad retirement beneficiaries are covered by Medicare in the same way as social security beneficiaries.

Jurisdiction over the payment of retirement and survivor benefits is shared by the RRB and SSA. The RRB has jurisdiction over the payment of retirement benefits if the employee had at least 10 years of railroad service, or five years if performed after 1995; for survivor benefits, there is an additional requirement that the employee's last regular employment before retirement or death was in the railroad industry. If a railroad employee or his or her survivors do not qualify for railroad retirement benefits, the RRB transfers the employee's railroad retirement credits to SSA, where they are treated as social security credits.

Program Finances and Sustainability

The RRB must submit to the President and the Congress a report on the actuarial status of the railroad retirement system. Projections are made of the various components of income and outgo under three employment assumptions.

The Statement of Social Insurance presents an actuarial analysis of the financial position of the railroad retirement system as of January 1, 2009. The figures in the table are based on the 24th actuarial valuation extended through calendar year 2083. The present values in the table are based on estimates of income and expenditures through the year 2083. The estimates include income and expenditures related to future participants as well as to former and present railroad employees. The present values are computed on the basis of economic and demographic assumptions and employment assumption II, the intermediate employment assumption, as used in the 24th actuarial valuation. Under employment assumption II, starting with an average 2008 employment of 234,000, (1) railroad passenger employment is assumed to remain level at 43,000, and (2) the employment base, excluding passenger employment, is assumed to decline at a constant annual rate of 2.0 percent for 25 years, at a reducing rate over the next 25 years, and remain level thereafter.

Actuarial Estimates: Actuarial estimates of the long-range financial condition of the railroad retirement program are presented here. Throughout this section, the following terms will generally be used as indicated:

- Income: sources of income are payroll taxes, income taxes, investment income, and financial interchange transfers.

- Income excluding interest[a]: income, as defined above, excluding the investment income from assets of the trust fund.

[a] References to interest income in this section may be considered as referring to total investment income including dividends and capital gains.

- Expenditures: benefit payments and administrative expenses.

- Cashflow: either (1) income excluding interest or (2) expenditures, depending on the context, expressed in nominal dollars.

- Net Cashflow: income excluding interest less expenditures, expressed in nominal dollars.

The Statement of Social Insurance and the required supplementary information below are based on actuarial and economic assumptions used in the 24th actuarial valuation extended through calendar year 2083, the RRA, and the Railroad Retirement Tax Act. This information includes:

(1) actuarial present values of future estimated expenditures for and estimated income from, or on behalf of, current and future program participants;

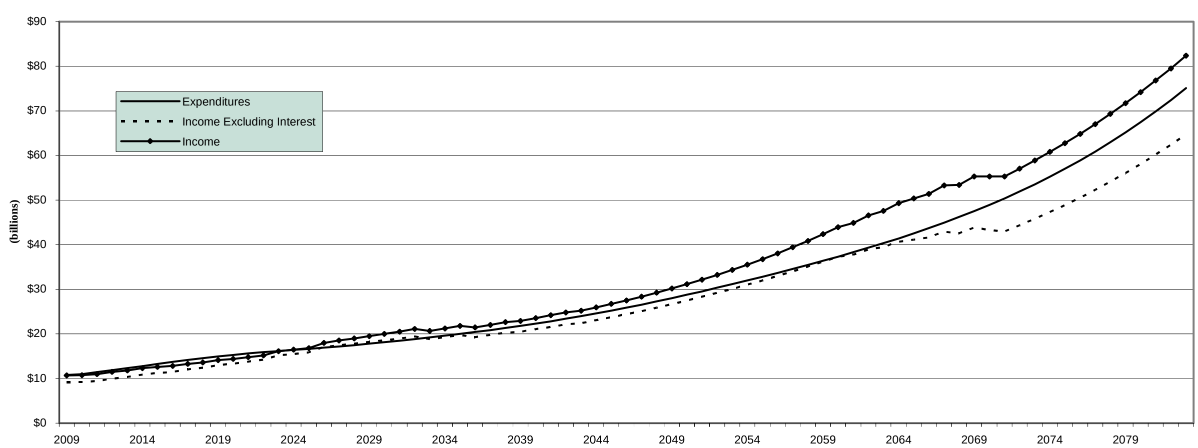
(2) estimated annual income excluding interest and expenditures in nominal dollars and as a percentage of taxable payroll;

(3) the ratio of estimated annuitants to estimated full-time employees, showing the relationship between the program's benefit recipients and taxpayers; and

(4) an analysis of the sensitivity of the projections to changes in selected assumptions, which is included in recognition of the inherent uncertainty of those assumptions.

Estimates are generally based on a 75-year projection period. Estimates extending far into the future are inherently uncertain, with uncertainty greater for the more distant years.

Chart 1: Estimated Income and Expenditures



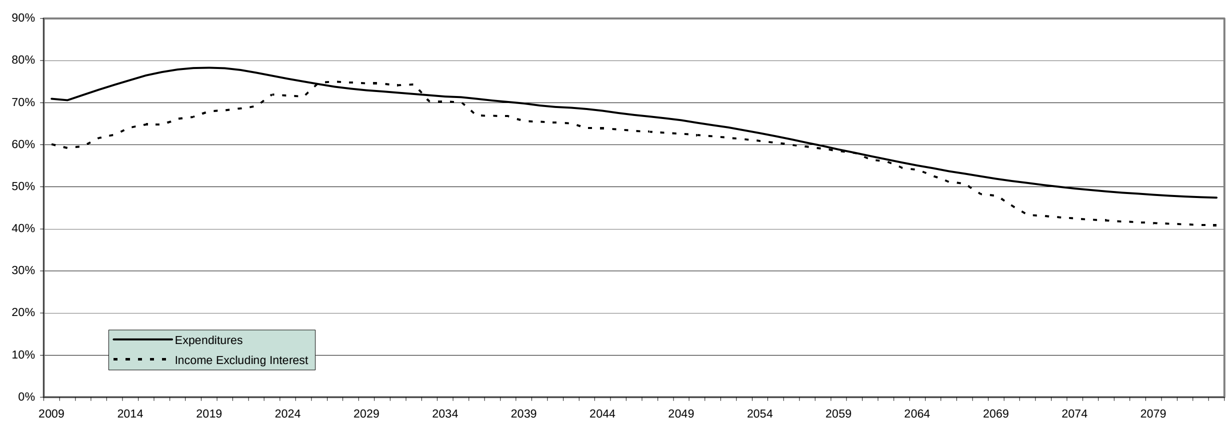
<u>Cashflow Projections</u> – Chart 1 shows actuarial estimates of railroad retirement annual income, income excluding interest, and expenditures for 2009-2083 in nominal dollars. The estimates are for the open-group population, which includes all persons projected to participate in the railroad retirement program as railroad workers or beneficiaries during the period. Thus, the estimates include payments from, and on behalf of, those who will be employed by the railroads

during the period as well as those already employed at the beginning of the period. They also include expenditures made to, and on behalf of, such workers during that period.

As Chart 1 shows, annual expenditures exceed annual income through 2023. By 2024, income is greater than expenditures. This remains true throughout the remainder of the projection period. Without investment income, however, annual expenditures are generally greater than annual income although this is not true between 2026 and 2032. Reasons for this pattern include participant demographics, the assumed drop in railroad employment, and the automatic tier 2 tax rate adjustment mechanism. The combined balance of the NRRIT, RR Account, and SSEB Account never becomes negative largely because (i) a sufficient balance exists at the beginning of the projection period and (ii) tier 2 tax rates respond automatically to changing account balances.

Percentage of Taxable Payroll – Chart 2 shows estimated annual income excluding interest and expenditures for the railroad retirement program expressed as percentages of taxable payroll. Expenditures as a percentage of payroll increase through 2019 primarily due to the anticipated retirement of a large percentage of the current workforce combined with the projected decline in railroad employment. Except for the income from tier 1 payroll taxes, the sources of income vary as a percentage of payroll.

Chart 2: Estimated Railroad Retirement Income Excluding Interest and Expenditures as a Percent of Taxable Tier 2 Payroll



Sensitivity Analysis – The projections of the future financial status of the railroad retirement program depend on many economic and demographic assumptions including rail employment, inflation, wage increase, investment return, age retirement, disability retirement, withdrawal, active service mortality, beneficiary mortality, total termination, probability of spouse, remarriage, family composition, disability freeze, service patterns, and salary scales. Because perfect long-range projections are impossible, this section is included to illustrate the sensitivity of the long-range projections to changes in certain key assumptions that have the greatest impact on the results. All present values are calculated as of January 1, 2009, and are based on estimates of income and expenditures during the projection period 2009-2083.

Employment: Average employment in the railroad industry has generally been in decline for some years. This decline is expected to continue. Since employment is a key consideration, projections of income and expenditures using three different employment assumptions have been made. The Statement of Social Insurance uses employment assumption II, the intermediate assumption, but this section compares results under the three assumptions. For all three cases, the average employment for the year 2008 is equal to 234,000. Employment assumptions I and II, based on a model developed by the Association of American Railroads, assume that (1) passenger employment will remain at the level of 43,000, and (2) the employment base, excluding passenger employment, will decline at a constant annual rate (0.5 percent for assumption I and 2.0 percent for assumption II) for 25 years, at a reducing rate over the next 25 years, and remain level thereafter. Employment assumption III differs from employment assumptions I and II by assuming that (1) passenger employment will decline by 500 per year until a level of 35,000 is reached and then remain level, and (2) the employment base, excluding passenger employment, will decline at a constant annual rate of 3.5 percent for 25 years, at a reducing rate over the next 25 years, and remain level thereafter. Employment assumptions I, II, and III are intended to provide an optimistic, moderate, and pessimistic outlook, respectively.

Under employment assumptions I and II, no cashflow problems occur throughout the entire period. Under employment assumption III, the combined balance of the RR Account, the NRRIT, and the SSEB Account becomes negative in 2031 and remains so for the remainder of the period. Table 1 shows the excess of assets and the present value of income over the present value of expenditures for the three employment assumptions.

Table 1
Excess of Assets and Present Value of Income over Present Value of Expenditures for Three Employment Assumptions, 2009-2083
(in billions)

Employment Assumption	I	II	III
Present Value	$1.5	$1.1	$0.0
Average Tier 2 tax rate[a]	16.5%	19.1%	21.9%

[a]Average combined employer/employee tier 2 tax rate is calculated by dividing the present value of tier 2 taxes by the present value of tier 2 payroll.

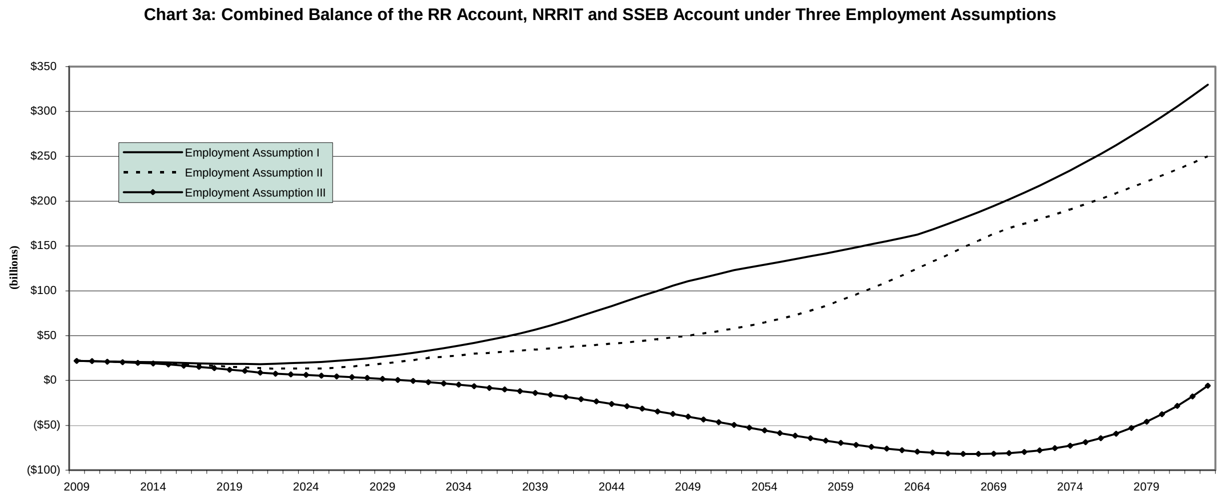
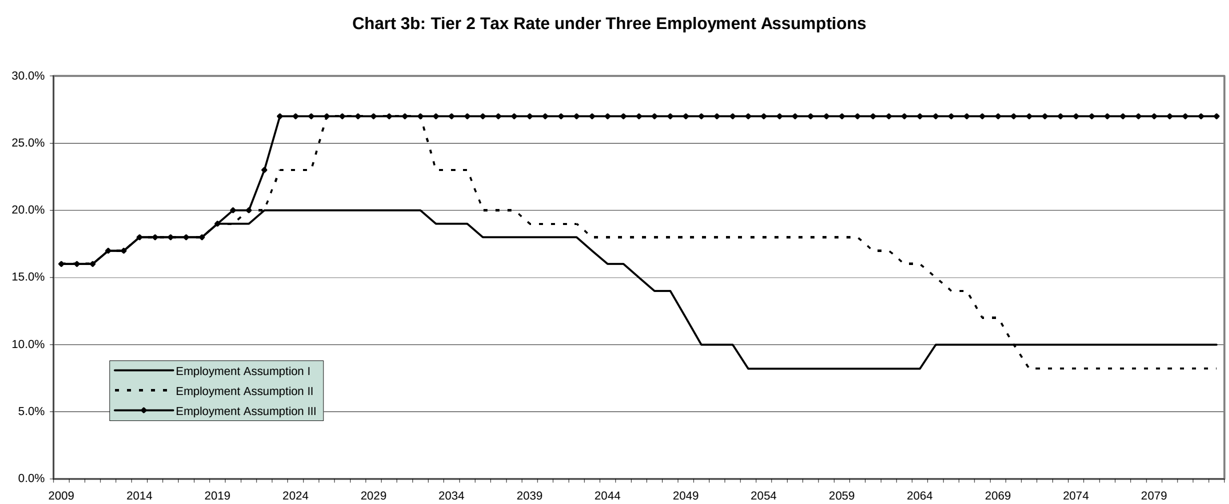


Chart 3a shows the combined balance of the accounts under each of the three employment assumptions. Note that the combined account balance is positive throughout the entire period for assumptions I and II but goes negative in 2031 for assumption III and remains so throughout the remainder of the period.

Chart 3b shows the tier 2 tax rate under these employment assumptions. The tax rate reaches the minimum in 2053 under employment assumption I but then increases again slightly in 2065 and remains level through 2083. The tax rate does not reach the minimum until 2071 under employment assumption II. Under employment assumption III, the tax rate reaches the maximum in 2023, remaining at that level through the remainder of the 75-year period.



The tier 2 tax rate for each year is determined by the average account benefits ratio, which is the average for the ten most recent fiscal years of the ratio of fair market value of assets in the RR Account and NRRIT (and for years before 2002, the SSEB Account) to the total benefits and administrative expenses paid from the RR Account and the NRRIT. Therefore, the tier 2 tax rate will be affected by employment assumption. The tier 2 tax rate adjustment mechanism promotes but does not guarantee solvency. The tier 1 tax rate does not vary by employment assumption.

Investment return: Since investments may include non-governmental assets such as equity and debt securities as well as governmental securities, it is worthwhile to examine the effects of future rates of investment return. In addition to the investment return of 7.5 percent used for our projections, we show the effect on the combined accounts of an investment return of 4 percent and an investment return of 11 percent. Table 2 shows the excess of assets and the present value of income over the present value of expenditures for the three investment return assumptions. If the tier 2 tax rate were fixed, the actuarial surplus would increase with increasing investment return. However, the tier 2 tax rate adjusts to changing account balances, resulting in the highest average tax rate under the 4 percent scenario and the lowest average tax rate under the 11 percent scenario. Under the 7.5 percent scenario, the tax rate adjustment mechanism keeps the system in close actuarial balance. Under the 11 percent scenario, the tax rate is limited to a minimum value. Under the 4 percent scenario, the tax rate reaches a maximum value and then remains at that value longer than is needed, resulting in the highest actuarial surplus.

The tier 2 tax rate remains at the maximum longer than is needed largely because of the 10-year average in the Average Account Benefits Ratio, as required by law. Use of the ten-year averaging effectively sacrifices some responsiveness for the sake of stability and smoothness.

Table 2
Excess of Assets and Present Value of Income over Present Value of Expenditures for Three Investment Return Assumptions, 2009-2083
(in billions)

Investment Return Assumption	4%	7.5%	11%
Present Value	$10.7	$1.1	$1.1
Average Tier 2 tax rate	21.0%	19.1%	16.5%

Chart 4a: Combined Balance of the RR Account, NRRIT and SSEB Account under Three Investment Return Assumptions

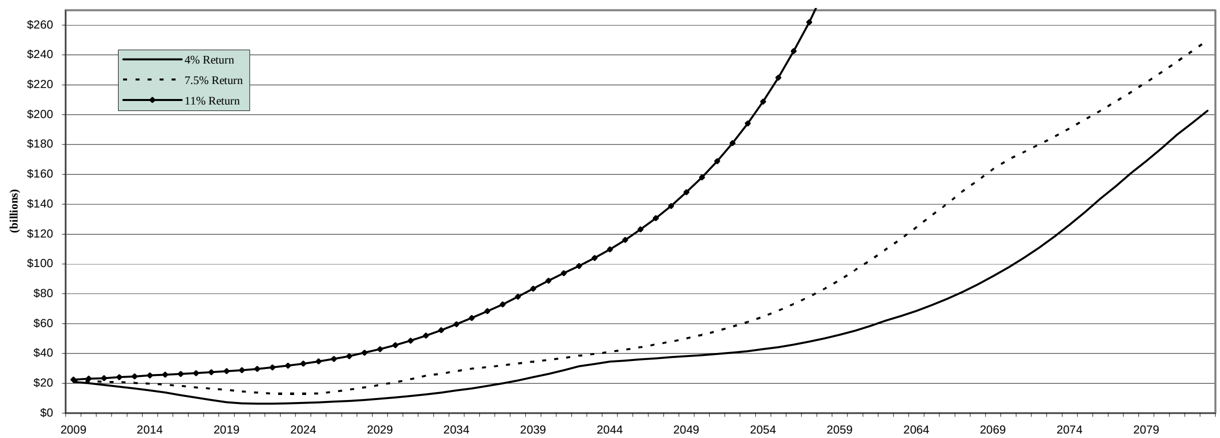
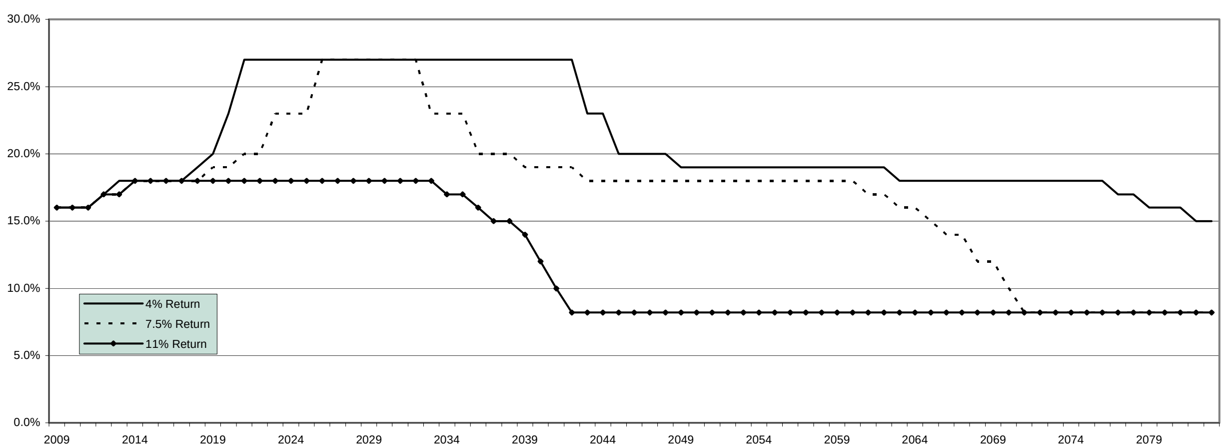


Chart 4a shows the combined account balance under the three investment return assumptions for the projection period. At a 4 percent investment return, the account balance reaches its lowest value in 2021, although it never becomes negative. After that it continues to increase. With a 7.5 percent investment return, the account balance decreases through 2023 and increases thereafter. An 11 percent investment return results in a combined balance that increases throughout the projection period. Although the 4 percent scenario shows the lowest account balance at the end of the projection period, the concurrent use of a 4 percent discount rate results in the highest surplus on January 1, 2009.

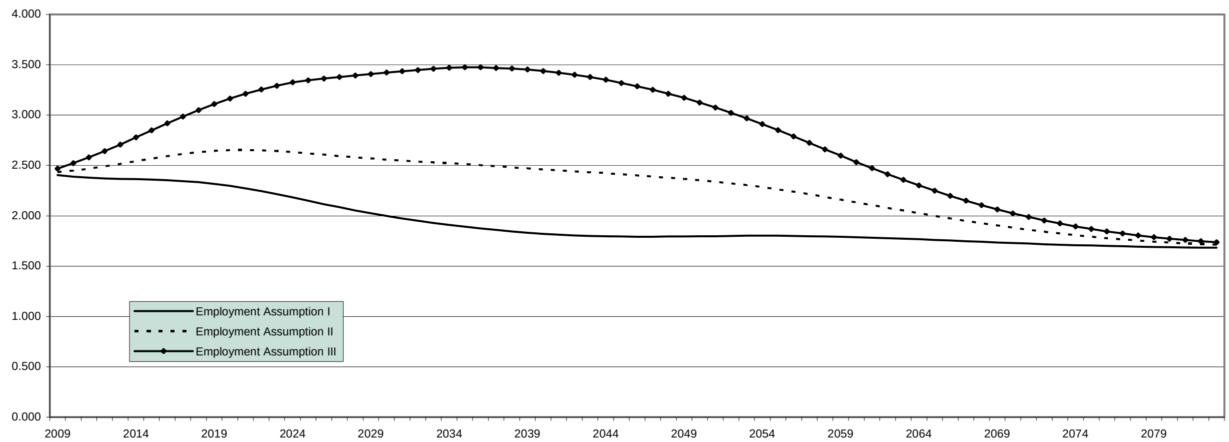
Chart 4b shows the tier 2 tax rate under the same three investment return assumptions. With a 4 percent investment return, the maximum tier 2 tax rate applies from 2021 through 2042. With the 7.5 percent investment return, the maximum tax rate applies from 2026 through 2032, and the minimum tax rate is paid starting in 2071. With an 11 percent investment return, the maximum tax rate is never applicable, and the minimum tax rate is paid beginning in 2042. As mentioned above, the tier 2 tax rate is determined based on the ratios of asset values to benefits and administrative expenses, so it will be affected by investment return, but tier 1 tax rates will not.

Chart 4b: Tier 2 Tax Rate under Three Investment Return Assumptions



Ratio of Beneficiaries to Workers: Chart 5 shows the estimated number of annuitants per full-time employee under all three employment assumptions. The average number of annuitants per employee for employment assumption I is highest in 2009. For assumptions II and III, the ratio is highest in 2021 and 2035, respectively. For all three employment assumptions, the average number of annuitants per employee declines to around 1.7 by the end of the projection period. The convergence in number of annuitants per employee at the end of the projection period results primarily from level employment projected in the latter years under all three employment assumptions.

Chart 5: Average Number of Annuitants per Full-Time Employee



RAILROAD RETIREMENT BOARD
DISAGGREGATE OF BUDGETARY RESOURCES
FOR THE YEAR ENDED SEPTEMBER 30, 2009
(in dollars)

BUDGETARY RESOURCES	COMBINED RAILROAD RETIREMENT PROGRAM	COMBINED RAILROAD UNEMPLOYMENT AND SICKNESS INSURANCE PROGRAM	LIMITATION ON THE OFFICE OF INSPECTOR GENERAL	COMBINED TOTALS
Unobligated balance, brought forward, October 1	$9,337,139	($1,516)	$302,397	$9,638,020
Beginning Balance Adjustment	0	0	214	214
Adjusted unobligated balance, brought forward, October 1	$9,337,139	($1,516)	$302,611	$9,638,234
Recoveries of prior year unpaid obligations	546,150	0	42,528	588,678
Budget authority				
Appropriation	11,268,934,467	225,703,108	0	11,494,637,575
Borrowing authority	3,661,300,000	0	0	3,661,300,000
Spending authority from offsetting collections				
Earned				
Collected	10,267,655	22,710,074	1,334,326	34,312,055
Change in receivables from Federal sources	52,119	0	0	52,119
Expenditure transfers from trust funds	106,863,000	80,000	7,806,000	114,749,000
Subtotal	15,047,417,241	248,493,182	9,140,326	15,305,050,749
Nonexpenditure transfers, net, anticipated and actual	33,917	1,009	(42,491)	(7,565)
Temporarily not available pursuant to Public Law	(271,038,739)	(34,877,995)	0	(305,916,734)
Permanently not available	(3,395,018,713)	0	0	(3,395,018,713)
TOTAL BUDGETARY RESOURCES	**$11,391,276,995**	**$213,614,680**	**$9,442,974**	**$11,614,334,649**
STATUS OF BUDGETARY RESOURCES				
Obligations incurred				
Direct	$11,360,844,987	$203,919,990	$8,965,377	$11,573,730,354
Reimbursable	9,578,424	0	0	9,578,424
Subtotal	11,370,423,411	203,919,990	8,965,377	11,583,308,778
Unobligated balance				
Apportioned	12,658,216	9,694,690	52,237	22,405,143
Unobligated balance not available	8,195,368	(0)	425,360	8,620,728
TOTAL STATUS OF BUDGETARY RESOURCES	**$11,391,276,995**	**$213,614,680**	**$9,442,974**	**$11,614,334,649**
CHANGE IN OBLIGATED BALANCE				
Obligated balance, net				
Unpaid obligations, brought forward, October 1	$919,002,837	$6,698,811	$731,288	$926,432,936
Uncollected customer payments from Federal sources, brought forward, October 1	(1,000,000)	0	0	(1,000,000)
Total unpaid obligated balance, net	**$918,002,837**	**$6,698,811**	**$731,288**	**$925,432,936**
Obligations incurred, net	$11,370,423,411	$203,919,990	$8,965,377	$11,583,308,778
Gross outlays	(11,331,099,205)	(198,114,941)	(8,109,652)	(11,537,323,798)
Recoveries of prior year unpaid obligations, actual	(546,150)	0	(42,528)	(588,678)
Change in uncollected customer payments from Federal sources	(1,052,591)	0	(721,000)	(1,773,591)
Obligated balance, net, end of period				
Unpaid obligations	$957,780,893	$12,503,860	$1,544,485	$971,829,238
Uncollected customer payments from Federal sources	(2,052,591)	0	(721,000)	(2,773,591)
Total, unpaid obligated balance, net, end of period	**$955,728,302**	**$12,503,860**	**$823,485**	**$969,055,647**
NET OUTLAYS				
Gross outlays	$11,331,099,205	$198,114,941	$8,109,652	$11,537,323,798
Offsetting collections	(116,130,183)	(22,790,074)	(8,419,326)	(147,339,583)
Distributed offsetting receipts	(4,324,733,000)	0	0	(4,324,733,000)
Net Outlays	**$6,890,236,022**	**$175,324,867**	**($309,674)**	**$7,065,251,215**

To the Board Members:

The following report presents the results of the Office of Inspector General's (OIG) audits of the financial statements of the Railroad Retirement Board (RRB) as of and for the fiscal years ended September 30, 2009 and 2008.

OPINION ON THE FINANCIAL STATEMENTS

We have audited the accompanying balance sheet of the RRB as of September 30, 2009 and 2008; the related statements of net cost, changes in net position, and budgetary resources for the years then ended; and the statements of social insurance as of January 1, 2009, 2008, 2007, and 2006.

We did not audit the financial statements of the National Railroad Retirement Investment Trust (NRRIT). The net assets of the NRRIT represent approximately 80% and 82% of the total assets reported by the RRB for fiscal years 2009 and 2008, respectively. NRRIT assets represent approximately 95% and 97% of the reported railroad retirement program's social insurance fund balance as of January 1, 2009 and 2008. Related changes in the net value of investments held by the NRRIT are reported as a source of financing which contributed net losses of approximately $2 billion and $7.3 billion during FY 2009 and FY 2008 respectively.

Pursuant to the Railroad Retirement and Survivors' Improvement Act of 2001, the NRRIT retains the services of an independent auditor to opine on its financial statements. With respect to the assets of the NRRIT as of September 30, 2009 and 2008; and January 1, 2009, 2008, 2007, and 2006, the financial statements of the NRRIT were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for the NRRIT, is based solely on the report of the other auditors.

In our opinion, the financial statements of the RRB referred to above, including the accompanying notes, present fairly, in all material respects, in conformity with U.S. generally accepted accounting principles, the financial position of the RRB, its consolidated net cost of operations and changes in net position, and combined budgetary resources as of and for the fiscal years ended September 30, 2009, and 2008; and the financial condition of the Railroad Retirement program as of January 1, 2009, 2008, 2007, and 2006.

However, misstatements may nevertheless occur in other financial information reported by the RRB and may not be detected as a result of internal control deficiencies described later in this report.

Social Insurance

As described in the statement and related notes, the statement of social insurance presents the actuarial present value of the future income to be received, and expenditures to be paid to or on behalf of participants in the Railroad Retirement program during a period sufficient to illustrate the program's long-term sustainability. In preparing the statement of social insurance, management considers and selects assumptions and data that it believes provide a reasonable basis for the assertions in the statement. However, because of the large number of factors that affect the statement of social insurance and the fact that future events and circumstances cannot be known with certainty, there will be differences between the estimates in the statement of social insurance and the actual results, and those differences may be material.

The RRB's statement of social insurance presents the fund balance of the Railroad Retirement program and the related estimate of actuarial surplus which is computed by adding the fund balance to the estimated excess (or shortfall) of the present value of future income over the present value of future expenditures for the 75 year projection period. These additional line items are presented to ensure that a reader would not be misled about the financial condition of the program. The program's current financing structure creates an inverse relationship between income and program assets; thus, the financial condition of the program cannot be understood without direct reference to the fund balance and the related actuarial surplus or deficiency. This relationship is disclosed in Note 15 to the financial statements.

Emphasis of Matters

NRRIT

Pursuant to the Railroad Retirement and Survivors' Improvement Act of 2001, the NRRIT is authorized to invest railroad retirement assets in a diversified investment portfolio. As of September 30, 2009, the reported value of the net assets of the NRRIT was approximately $2 billion lower than reported at September 30, 2008. The RRB discusses its relationship with the NRRIT in Note 2 and Note 5 to the financial statements, and describes the impact of changes in the social insurance fund balance on actuarial projections in Note 15.

Financial Interchange

The RRB discloses transactions with related parties in Note 2 to the financial statements. The RRB, Social Security Administration and Centers for Medicare and Medicaid Services are parties to a financing arrangement described as a financial interchange. Under this arrangement, transfers-in from the Social Security Administration's Old-Age and Survivors Insurance and Disability Insurance trust funds and transfers-out to the Federal Health Insurance trust fund represented approximately $4.0 billion (net), or about 37% of the financing sources reported on the RRB's statement of changes in net positions for FY 2009 before considering the reduction in the reported value of NRRIT assets. For FY 2008, financial interchange transfers of $3.6 billion (net) represented about 35% of the financing sources before considering the reduction in the reported value of NRRIT assets.

CONSIDERATION OF INTERNAL CONTROL

In planning and performing our audit, we considered the RRB's internal control over financial reporting and compliance.[1] We did this to determine our procedures for auditing the financial statements and to comply with OMB audit guidance, and not to express an opinion on internal control. Accordingly, we do not express an opinion on internal control over financial reporting and compliance or on management's assertion on internal control included in Management's Discussion and Analysis.

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.[2] Although the agency has implemented additional procedures to improve controls over financial reporting, these changes were not in place for most of FY 2009. The RRB has corrected a previously reported significant deficiency by implementing procedures for the periodic reconciliation of the general ledger to one of the non-integrated benefit payment systems; however, the lack of such procedures for other non-integrated transaction flows has been identified as a material weakness in the current fiscal year.

Our internal control work would not necessarily disclose all deficiencies in internal control that might be material weaknesses or other significant deficiencies. Although not considered to be material weaknesses or significant deficiencies, we will report other matters involving internal control and its operation to RRB management in a separate letter.

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[1] The definition of internal control as it relates to the basic financial statements is presented in the footnotes on page 6.

[2] A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles (GAAP) such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected. A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis.

Material Weaknesses

Information Security

During FY 2009 the OIG evaluated the RRB's information security program pursuant to the provisions of the Federal Information Security Management Act (FISMA).[3] OIG auditors concluded that although the RRB has implemented all nine program elements required by FISMA and made notable progress in addressing previously cited deficiencies, the security program, as a whole, remains undermined by weaknesses in access control and controls over the certification and accreditation process.

RRB information technology managers are working to address the remaining weaknesses.

Financial Reporting

RRB financial managers have worked to strengthen internal control over financial reporting during FY 2009. During the third quarter of FY 2009 the agency implemented enhanced controls to address the weaknesses that, in the aggregate, were the basis for the OIG's assessment of a material weakness during the prior year.[4] However, because these enhanced controls were not implemented until mid-year, they could not be relied upon to ensure the accuracy of accounting and reporting for FY 2009 and had not been in operation for a period of time sufficient to support an assessment of overall effectiveness.

RRB financial managers have expressed their commitment to a quality financial reporting process and have been responsive to OIG recommendations.

Internal Control Over Non-Integrated Sub-Systems

Internal controls do not ensure the completeness of transactions originating in non-integrated subsystems.

An organization's financial statements are presented with management's implicit assertion that all transactions and other events and circumstances that occurred during a specific period and that should have been recognized in that period have, in fact, been recorded (completeness) and that liability, revenue, and expense components are recorded at appropriate amounts (accuracy, valuation, allocation).

[3] "Fiscal Year 2009 Evaluation of Information Security at the Railroad Retirement Board," OIG Report No. 10-01, November 12, 2009.
[4] "Fiscal Year 2008 Financial Statement Audit Letter to Management," OIG Report No. 09-02, March 2009.

The RRB's financial reporting structure relies on an automated general ledger which receives information electronically from both integrated and non-integrated subsystems that support transaction processing. The RRB's control structure is not comprehensive with respect to the reconciliation of the general ledger to non-integrated subsystems. As a result, errors in intermediary manual processes may occur and go undetected indefinitely.

The OIG has previously recommended that the RRB perform reconciliations of activity originating in non-integrated benefit payment subsystems. We also brought this issue to management's attention in connection with our audits of agency financial statements for FYs 2000, 2001 and 2008. Although financial managers recently implemented a reconciliation process for one major subsystem, the current reconciliation process is not comprehensive with respect to all such systems and transaction flows.

RRB financial managers are receptive to evaluating the feasibility of implementing an expanded program of reconciliations with the understanding that such a program will require extensive cross-organizational coordination and cooperation. They have agreed to study the matter, together with program managers, in order to identify a solution that provides for a comprehensive reconciliation process with adequate separation of duties.

COMPLIANCE WITH LAWS AND REGULATIONS

Our tests of the RRB's compliance with selected provisions of laws and regulations for FY 2009 disclosed no instances of non-compliance that are reportable under U.S. generally accepted government auditing standards or OMB guidance. However, the objective of our audit was not to provide an opinion on overall compliance with laws and regulations. Accordingly, we do not express such an opinion.

CONSISTENCY OF OTHER INFORMATION

The RRB's Management Discussion and Analysis, required supplementary information, and other accompanying information contain a wide range of data, some of which are not directly related to the financial statements. We do not express an opinion on this information. However, we compared this information for consistency with the financial statements and discussed the methods of measurement and presentation with RRB officials. On the basis of this limited work, we found no material inconsistencies with the financial statements, U.S. generally accepted accounting principles, or with OMB guidance.

OBJECTIVES, SCOPE, AND METHODOLOGY

RRB management is responsible for (1) preparing the financial statements in conformity with U.S. generally accepted accounting principles, (2) establishing, maintaining, and assessing internal control to provide reasonable assurance that the broad control objectives of the Federal Managers' Financial Integrity Act (FMFIA) are met, and (3) complying with applicable laws and regulations.[5]

We are responsible for obtaining reasonable assurance about whether the financial statements are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles. We are also responsible for (1) obtaining a sufficient understanding of internal control over financial reporting and compliance to plan the audit, (2) testing compliance with selected provisions of laws and regulations that have a direct and material effect on the financial statements, and laws for which OMB audit guidance requires testing; and (3) performing limited procedures with respect to certain other information appearing in the RRB's Performance and Accountability Report. In order to fulfill these responsibilities, we:

- examined, on a test basis, evidence supporting the amounts and disclosures in the proprietary and budgetary financial statements;
- assessed the accounting principles used and significant estimates made by RRB management in preparing the proprietary and budgetary financial statements;
- assessed the factors, data, assumptions and model used by RRB management to prepare the long-term actuarial projections presented in the statement of social insurance;
- evaluated the overall presentation of the financial statements;
- obtained an understanding of the entity and its operations, including its internal control related to financial reporting, compliance with laws and regulations (including execution of transactions in accordance with budget authority);
- tested relevant internal controls over financial reporting and compliance, and evaluated the design and operating effectiveness of internal control;

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[5]**Internal Control** as it relates to the financial statements is a process, affected by the agency's management and other personnel, designed to provide reasonable assurance that the following objectives are met: (1) Reliability of financial reporting - transactions are properly recorded, processed, and summarized to permit the preparation of the Basic Statements in accordance with generally accepted accounting principles, and assets are safeguarded against loss from unauthorized acquisition, use, or disposition; and (2) Compliance with applicable laws, regulations, and government-wide policies - transactions are executed in accordance with laws governing the use of budget authority, government-wide policies, and laws identified by OMB, and other laws and regulations that could have a *direct and material effect on the Basic Statements.*

- considered the design of the process for evaluating and reporting on internal control and financial management systems under the FMFIA; and
- performed 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 effect on the RRB's basic financial statements:
  - Anti-Deficiency Act, as amended;
  - provisions of the Railroad Retirement Act governing financing and the payment of benefits;
  - provisions of the Railroad Unemployment Insurance Act governing financing and the payment of benefits; and
  - provisions of the Social Security Act that provide for certification of benefits to the RRB for payment (42 U.S.C. § 405(i)).

We considered the material weaknesses identified above in determining the nature, timing, and extent of our audit procedures on the 2009 financial statements.

We did not evaluate all internal controls relevant to operating objectives as broadly defined by the FMFIA, such as controls relevant to preparing statistical reports and ensuring efficient operations. We limited our internal control testing to controls over financial reporting and compliance. Because of inherent limitations in internal control, misstatements due to error or fraud, losses, or noncompliance may nevertheless occur and not be detected by our audit. We also caution that projecting our evaluation to future periods is subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with controls may deteriorate. We also caution that our internal control testing may not be sufficient for other purposes.

We did not test compliance with all laws and regulations applicable to the RRB. We limited our tests of compliance to selected provisions of laws and regulations that have a direct and material effect on the RRB's financial statements and those required by OMB audit guidance that we deemed applicable to the RRB's financial statements for the fiscal year ended September 30, 2009. We caution that noncompliance may occur and not be detected by these tests and that such testing may not be sufficient for other purposes.

The NRRIT was established pursuant to the Railroad Retirement and Survivors' Improvement Act of 2001 (Public Law 107-90). Under that law, the NRRIT is not a department, agency or instrumentality of the Government of the United States. In addition, the law specifically exempts the NRRIT from compliance with Title 31, United States Code which governs the monetary and financial operations of the Federal government. The law also provides that the NRRIT annually engage an independent, qualified public accountant to audit the financial statements of the NRRIT. Accordingly, the OIG has not audited the books and records of the NRRIT, nor had any input into the selection of the independent accountant retained by the NRRIT, nor provided oversight to that firm in the execution of their responsibilities. Our opinion on the RRB's financial statements, insofar as it relates to the amounts included for the NRRIT, is based solely on the report of the auditor retained by the NRRIT, and our assessments of internal control and compliance do not extend to the operations of the NRRIT.

Except to the extent that the foregoing arrangement may have affected the planning and execution of our audit, we performed our work in accordance with U.S. generally accepted government auditing standards and OMB audit guidance.

RRB MANAGEMENT'S COMMENTS

RRB management thanked the OIG audit staff for their close cooperative effort in meeting this year's financial reporting deadline. With respect to the material weaknesses described in this report, management cited their ongoing effort to strengthen controls over information security and financial reporting and their commitment to address weaknesses identified by the OIG. They also expressed their willingness to study the reported weakness in controls over non-integrated subsystems in order to identify a solution.

The full text of management's response follows as an attachment to this report. We did not perform audit procedures on the RRB's written response to the material weaknesses and, accordingly, we express no opinion on the response.

Original signed by:

Martin J. Dickman
Inspector General

November 9, 2009, except for matters relating to the fair value of the net assets of the NRRIT as of September 30, 2009, as to which the date is November 16, 2009.

UNITED STATES GOVERNMENT

FORM G-115f (1-92)

MEMORANDUM

RAILROAD RETIREMENT BOARD

NOV 16 2009

TO : Letty Benjamin Jay
Assistant Inspector General for Audit

FROM : Kenneth P. Boehne
Chief Financial Officer

Original signed by:

SUBJECT: FY 2009 Financial Statement Audit – Auditor's Report;
Re: Your memorandum dated November 13, 2009

My office, and those of the Board Members, have reviewed the Office of Inspector General's draft report and have the following comments.

You reported material weaknesses in your draft report dealing with information security, financial reporting, and internal controls over non-integrated subsystems. The Railroad Retirement Board continues to recognize that information security is a significant challenge. We have devoted substantial effort and resources to correct weaknesses in the agency's information security program. We will continue to do so in order to address the weaknesses identified by the Office of Inspector General. Regarding the financial reporting weakness, we have worked to strengthen internal control over financial reporting during fiscal year 2009 and have implemented enhanced controls to improve the agency's financial accounting and reporting processes. We are committed to a quality financial reporting process and will continue to be responsive to any additional potential improvements that are identified. Concerning the reported weakness in internal controls over non-integrated subsystems, agency financial managers and program managers will continue to study the matter in order to identify a solution that provides for a comprehensive reconciliation process with adequate separation of duties.

We again thank you and your staff for working closely and cooperatively with us these past few months to help ensure that the RRB will be able to meet this year's reporting deadline of November 16, 2009.

cc: The Board
Executive Committee

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OTHER ACCOMPANYING INFORMATION

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UNITED STATES RAILROAD RETIREMENT BOARD

OFFICE OF INSPECTOR GENERAL

MANAGEMENT AND PERFORMANCE CHALLENGES FACING THE RAILROAD RETIREMENT BOARD

This statement has been prepared pursuant to the Reports Consolidation Act of 2000 and the requirements of Office of Management and Budget Circular A-136 which require that the Inspectors General identify what they consider to be the most serious management challenges facing the agency and briefly assess the agency's progress in addressing those challenges.

Congress created the railroad retirement system nearly 75 years ago. The Railroad Retirement Act (RRA) created a nationwide retirement system for railroad workers to provide income security in old age. Over the years the program has been expanded to include disabled workers, elderly spouses and widow(er)s, children, and parents of young children. In 1938, Congress added a nationwide system of unemployment insurance and later a program of sickness insurance benefits. During fiscal year (FY) 2008, the Railroad Retirement Board (RRB) paid about $10.1 billion for retirement and survivor benefits to about 598,000 beneficiaries and about $80 million in net unemployment and sickness insurance benefits to some 30,000 claimants.

Our identification of challenges facing RRB management is based on recent audits, evaluations and our general knowledge of the RRB's programs and operations. The Office of Inspector General (OIG) has identified the following areas of responsibility as presenting serious challenges facing the agency.

- Providing oversight of invested program assets;
- Preventing fraud and abuse in the occupational disability program;
- Ensuring the integrity of the Railroad Medicare program;
- Managing for the security and privacy of information;
- Supporting accurate, reliable financial accounting and reporting; and
- Preventing and detecting improper payments.

Providing Oversight of Invested Assets of the Railroad Retirement Act Program

During FY 2008 the OIG raised concerns about the effectiveness of oversight for the National Railroad Retirement Investment Trust (NRRIT), a multi-billion dollar investment enterprise.[1] The legislation that created the trust precludes agency management and its Inspector General from exercising their traditional roles as stewards of program assets and independent watchdog, respectively.

[1] On March 31, 2008, the OIG released a "Statement of Concern" discussing this issue in detail.

December 2001 amendments to the Railroad Retirement Act (RRA) created the NRRIT, independent of the RRB, to manage and invest railroad retirement assets in a diversified investment portfolio in the same manner as those of private sector retirement plans.[2] Although the RRB maintains a reserve to pay benefits as they come due, more than 80% of the agency's total assets, $25.3 billion, were entrusted to the NRRIT at the end of FY 2008.

Although the NRRIT is an independent non-governmental entity, the RRB has enforcement authority with respect to compliance with the RRA; however, that authority is not supported by an adequate oversight program. The RRA requires only an annual audit of the Trust's financial statements by public accountants but does not require, or otherwise provide for, audits of compliance with laws and regulations or evaluations of management performance which would provide RRB management with the information it needs to determine whether any enforcement action may be necessary. An annual financial statement audit is not adequate to support the RRB's enforcement responsibility because such audits are not intended to provide information about all areas of risk that could indicate the need for enforcement action.

The specific requirement for an annual financial audit and lack of provision for any other type of audit or oversight activity has been understood by the RRB's OIG to exclude the Trust from the OIG's audit and investigative responsibilities. No other organization, public or private, has assumed what would otherwise be the OIG's oversight role.

Preventing Fraud and Abuse in the Occupational Disability Program

The occupational disability annuity is a unique benefit in that it is a Federal program managed by a government agency serving workers in a single industry. The threshold for qualification, which is lower than the standard for determining total and permanent disability under the Social Security Act, makes the occupational disability program susceptible to fraud and abuse.

Unlike workers insured under the Social Security Act, the workers covered by the RRA may qualify for an annuity if they are disabled from work in their regular railroad occupation. The occupational disability provision of the RRA provides an annuity to workers in the railroad industry who have at least 20 years of service and are medically unable to perform his or her regular railroad occupation. These benefits remain payable as long as the disabled worker is unable to return to their railroad occupation even though they may be able to perform other types of work.

The national spotlight was turned on the RRB's occupational disability program in September 2008 when the New York Times reported that nearly every career employee of the Long Island Rail Road (LIRR) applies for and receives disability benefits soon after retirement.[3] In September 2009 the Government Accountability Office (GAO)

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[2] Public Law 107-90, December 21, 2001, codified in 45 U.S.C. § 231n(j)
[3] Bogdanich, Walt. "A Disability Epidemic Among a Railroad's Retirees." New York Times, 20 Sept.2008, <http://www.nytimes.com/2008/09/21/nyregion/21lirr.html?ref=nyregion>

reported that in FY 2007 "LIRR workers applied for occupational disability benefits at a rate 12 times higher than workers from the other commuter railroads" and that "the RRB approved the claims of all workers at the same rate – nearly 100%."[4]

In October 2008, the RRB adopted Board Order 08-63 which described a five-point plan for greater oversight of the occupational disability claims of LIRR employees. GAO reported that the RRB had approved nearly all of the occupational disability claims decided under the plan as of April 30, 2009. The agency has also created a new position to provide quality control oversight to the occupational disability program nationwide, not just the LIRR.

The entitlement to occupational disabilities is established by federal statute. That statute also requires the RRB to establish occupational disability standards with the cooperation of railroad labor and management. As a result, any successful reform initiative will require negotiation by both rail labor and rail management and possibly legislative change.

Ensuring the Integrity of the Railroad Medicare Program

In September 2009, the RRB OIG reported that more could be done to identify fraud and abuse in the Railroad Medicare program. The U.S. Department of Health and Human Services has stated that "[n]ot only is waste, fraud and abuse taking critical resources out of our health care system, it contributes to the rising cost of health care for all Americans and harms the short-term and long-term solvency of these essential programs."

Qualified railroad retirement beneficiaries are covered under the Medicare program the same as persons covered under the social security system. RRB contracts with a separate carrier to process the Medicare Part B claims of its beneficiaries. During FY 2008 Railroad Medicare paid $844 million with an estimated exposure to improper payments of about $31 million based on national averages. By comparison, Railroad Medicare attributed only $6.3 million in savings to its Medicare Integrity Program of which 89% was attributable to coordination of benefits with other healthcare plans, 10% was attributed to medical review of claims and only 1%, or about $40,000, resulted from proactive benefit integrity activities to identify fraud and abuse.

Our audit disclosed that the RRB's separate carrier's Railroad Medicare benefit integrity unit had very limited resources with which to perform proactive fraud investigations and data analysis. We recommended that the carrier work with the RRB and the Centers for Medicare and Medicaid Services to obtain the budget and staff resources needed to conduct proactive fraud investigation and data analysis. Action on that recommendation is pending.

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[4] United States Government Accountability Office, Review of Commuter Railroad Occupational Disability Claims Reveals Potential Program Vulnerabilities. GAO-09-821R (Washington, D.C.: Sept. 9, 2009).

Managing for the Security and Privacy of Information

The RRB relies extensively on information technology to fulfill its benefit payment mission. Computer processing is critical to agency operations. In addition, to fulfill its mission, the RRB must collect and retain sensitive personally identifiable information about its beneficiaries and employees which needs to be safeguarded from unauthorized disclosure. Information technology security is a critical part of an effective privacy program.

The RRB is still in the process of developing an information security management program that fully complies with the requirements of the Federal Information Security Management Act (FISMA) of 2002, the Privacy Act of 1974, and the related implementing guidance.

Although the RRB is making progress, ensuring the security and privacy of agency-held information is a significant undertaking that can be expected to present a challenge during the near future. As the RRB moves toward FISMA compliance, it will also strengthen its privacy program. Corrective action to strengthen the security and privacy of information remains pending on many prior OIG audit recommendations.

Financial Accounting and Reporting

In connection with its audit of the RRB's FY 2008 financial statements, the OIG reported a material weakness in internal control over financial reporting.[5,6] We observed that financial accounting controls could not be relied upon to ensure that material errors would be detected to prevent misstatements in financial reporting and that controls over financial statement preparation were not fully effective.

During FY 2009, financial managers expressed their commitment to strengthening controls over financial accounting and reporting by updating existing procedures and controls as well as implementing new ones. Although progress has been made, improvements initiated during the second half of the fiscal year could not be considered fully effective during FY 2009 and some additional work remains to be done in this area.

Preventing and Detecting Improper Payments

The Improper Payments Information Act of 2002 (IPIA) (Pub. L. No. 107-300) established requirements for measuring and reporting improper payments in Federal programs. Appendix C, Part I. to OMB Circular A-123, *Management's Responsibility for Internal Controls* provides guidance to agencies implementing IPIA requirements.

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[5] Railroad Retirement Board Office of Inspector General, "Report on the Railroad Retirement Board's FY 2008 Financial Statements", Report #09-01, November 17, 2008.
[6] Railroad Retirement Board Office of Inspector General, FY 2008 Financial Statement Audit Letter to Management, Report #09-02, March 24, 2009.

Pursuant to the IPIA, the RRB reports annually on agency progress in reducing improper payments and has reported a reduction in the rate of RRA improper payments as compared with outlays, dropping from 1.64% in FY 2004 to .80% in FY 2008 and a reduction in RUIA improper payments from 2.11% in FY 2004 to 2.00% in FY 2007 (the last year for which RUIA data is being reported). During FY 2008, the RRB recognized nearly $53 million in new overpayments in its retirement, survivor and disability benefit operations of which nearly 80% were associated with routine events: the death of an annuitant or administrative coordination of benefits with the Social Security Administration.

Monitoring and reducing improper payments is inherently challenging in a business environment that pays benefits of such magnitude under complex entitlement and computational regulations. Preventing and detecting fraud in entitlement programs such as the RRA and RUIA, adds an additional layer of complexity.

Original signed by:

Martin J. Dickman
Inspector General

October 16, 2009

Management's Comments

These are Management's comments on the Management and Performance Challenges identified by the Railroad Retirement Board (RRB) Inspector General.

Providing Oversight of Invested Assets of the Railroad Retirement Act Program

The Inspector General lists as a Management Challenge what he perceives to be a lack of oversight of the investment of railroad retirement trust funds. He correctly notes that the Railroad Retirement and Survivors' Improvement Act of 2001 (RRSIA) created a separate entity, the National Railroad Retirement Investment Trust (NRRIT), to handle investment of railroad retirement assets.

The RRSIA provides that the NRRIT is to be a separate entity from the RRB and is not a Federal agency or instrumentality. The legislation requires the NRRIT to engage a qualified independent public accountant to conduct an annual audit of the financial statements of the Trust. The audit report of the independent auditor is a part of the Annual Management Report required by the legislation to be submitted to the Congress, with copies provided to the President, the RRB, and the Office of Management and Budget (OMB). In addition, the NRRIT, RRB, OMB and the Department of the Treasury have in place a Memorandum of Understanding that calls for the reporting of certain information concerning the NRRIT's activities on a monthly basis.

The RRB exercises its oversight responsibilities with respect to the NRRIT by thorough review by agency staff of the various reports provided by the NRRIT pursuant to the statutory requirements and the multi-agency Memorandum of Understanding. The RRB's General Counsel meets with the NRRIT's Chief Executive Officer/Chief Investment Officer and the Counsel to the NRRIT numerous times each year to discuss NRRIT activities. Financial officials of the RRB have frequent contact with the NRRIT. And, the three Members of the Railroad Retirement Board meet twice a year with the Trustees and NRRIT officials concerning NRRIT activities and investment performance of the NRRIT portfolio.

It is the position of the RRB that the agency is fulfilling its oversight responsibilities assigned by the Congress under the RRSIA.

Preventing Fraud and Abuse in the Occupational Disability Program

The Inspector General states that the threshold for entitlement to an occupational disability annuity under the Railroad Retirement Act, which he correctly points out is less strenuous than the standard under the Social Security Act for total and permanent disability, makes the program susceptible to fraud and abuse.

The Railroad Retirement Act provides two types of disability benefits for railroad employees. The Act provides for payment of a benefit to an employee who is totally and permanently disabled from all regular employment and the Act provides for the payment of a benefit to an employee who has at least 20 years of railroad service or who has attained the age of 60 and who is unable to perform his or her regular railroad occupation. The Act provides that in determining entitlement to occupational disability, the RRB must look to standards adopted with the cooperation of railroad employers and railroad employees. The Board Members adopted standards, along with supporting regulations, with the cooperation of railroad employers and railroad employees, in 1998. We currently use those standards and regulations in adjudicating each individual application for an occupational disability benefit. We also require specific medical evidence to support our decisions in each case.

While the standard for occupational disability is lower than that for total and permanent disability, approximately 70 percent of the employees awarded an occupational disability annuity are also awarded a period of disability, which means that they meet the more strenuous total and permanent disability standard under the Social Security Act. In fiscal year 2008, the RRB awarded annuities to approximately 31,500 beneficiaries. Of this total, approximately 2,300 were occupational disability annuities. However, only about 690 of these beneficiaries would not have met the more stringent total and permanent disability standard.

As the Inspector General notes, the Board adopted Board Order 08-63 last year to address a potential issue with the number of applications for occupational disability annuity filed by former employees of the Long Island Rail Road (LIRR). The Board Order calls for greater scrutiny of applications filed by LIRR employees. The Order calls for additional independent medical examinations of LIRR applicants to be conducted by independent physicians selected and paid by the RRB. In addition, the Order calls for post-award review of cases to determine whether beneficiaries continue to meet the requirements for entitlement. Through September 30, 2009, 117 applications were decided under the Board Order. In each of these cases, the applicants were sent for independent medical examinations and the applications were handled by a separate group of claims examiners. The additional scrutiny applied to these cases showed that nearly all of those who applied for benefits met the standards adopted pursuant to the statute. Moreover, 258 LIRR annuitants currently receiving an occupational disability annuity were sent for 422 medical tests. Our review of 200 of these annuitants and their medical evidence has been completed, and none of the annuitants were determined not to be disabled.

As the Inspector General notes, the RRB has also created a new position to handle quality review of the occupational disability program data. It will be the responsibility of this employee to review the program data and identify any anomalies that might require additional scrutiny similar to what was done in Board Order 08-63. The Board will take additional corrective action as necessary to ensure that the agency is meeting its mission to pay benefits to the right people and in the right amount.

Ensuring the Integrity of the Railroad Medicare Program

We agree with the Inspector General that the agency's Medicare carrier has had limited resources to devote to proactive fraud investigations and data analysis. Since funding for that program is provided by the Centers for Medicare & Medicaid Services (CMS), we have concurred with the Inspector General's recommendation for the RRB to work together with the carrier to request additional funding for the Medicare Integrity Program in future years. The carrier's fiscal year 2010 budget request to CMS did include a request for an additional $50,000 to initiate increasing its benefit integrity activities in keeping with this recommendation.

Managing for the Security and Privacy of Information

The RRB takes its responsibility to manage the security and privacy of information very seriously. During fiscal year 2009, its Bureau of Information Services (BIS) addressed recommendations associated with high priority significant deficiencies. BIS completed work on 16 deficiencies that had been reported to OMB and on 7 other significant deficiencies. The agency's Chief Information Officer has initiated a plan to prioritize the remaining open recommendations, with the intent to focus on the most significant ones.

Financial Accounting and Reporting

During fiscal year 2009, the agency's accounting staff have addressed the reported material weakness related to internal controls over financial reporting by acting on 12 financial statement-related audit recommendations. This includes such recommendations presented in the OIG's Letter to Management, Report Number 09-02, dated March 24, 2009. Most of the implementing actions taken are being evaluated by the OIG auditors during their audit of the fiscal year 2009 financial statements.

Preventing and Detecting Improper Payments

We agree that monitoring and reducing improper payment rates is challenging. The agency has made concerted efforts to pay out only those benefits due and all the benefits due. As a result, we have increased efforts to recognize and prevent overpayments caused by excess earnings after retirement, and focused efforts on paying out additional benefits due as a result of changes to service and compensation records. The results of those efforts are reflected in reductions in rates of improper payments since our earlier reports. We will continue to focus on reducing improper payments in the coming year.

Improper Payments Information Act (IPIA) Reporting Details

I. Briefly describe the risk assessment(s), performed subsequent to completing the full program inventory. List the risk-susceptible programs (i.e., programs that have a significant risk of improper payments based on OMB guidance thresholds) identified through risk assessments. Be sure to include the programs previously identified in the former Section 57 of Circular A-11 (now located in Circular A-123, Appendix C). Please highlight any changes to its risk assessment or its risk assessment results that occurred since its last report.

The RRB administers two benefit payment programs: Retirement and Survivor Benefits (referred to as RRA) and Railroad Unemployment Insurance Benefits (referred to as RUIA). Both were designated as "high risk" under the Former Section 57 of Circular A-11. Therefore, in previous reports, we have been measuring and reporting the level of improper payments for both programs in our Performance and Accountability Reports.

In January 2009, the Office of Management and Budget granted relief from reporting the RUIA program improper payments due to the consistently low level of error over several years. Barring any unexpected changes to the program or the rate, the next RUIA program improper payments report will be included in the FY 2012 Performance and Accountability Report.

The agency used the process described below to calculate the amount of RRA improper payments made in fiscal year 2008.

Results of Fiscal Year 2008 Improper Payment Review

Program	Improper Payment Amt. >$10 million	Improper Payment Rate >2.5%	Action Plan or Targets Needed?
RRA	Yes	No	No

II. Briefly describe the statistical sampling process conducted to estimate the improper payment rate for each program identified. Please highlight any changes to its statistical sampling process that have occurred since the last report in this section.

The agency has an established methodology for identifying improper payments in the RRA benefit payment program. It is based on determining both the known overpayments and underpayments, which have since been recovered or paid out, and estimating those which result from adjudicative error, but have not been identified or corrected. It also uses information from quality assurance reviews. These reviews employ statistical sampling to study railroad retirement awards. Also included are projections of improper payments from audits and special studies. This year, we have modified our approach to include estimates of manual work based on pending referrals as of September 30, 2008. Using this revised approach, we are now reporting estimates of a backlog of referrals resulting from changes in service and compensation records which could not be handled through the automated system.

III. Describe the Corrective Action Plans for:

a. Reducing the estimated rate and amount of improper payments for *each* type of root cause of error. (e.g. Administrative and Documentation errors, Authentication and Medical Necessity errors, and Verification and Local Administration errors). This discussion must include the corrective action(s) most likely to significantly reduce future improper payments due to each type of root cause of error. If efforts are ongoing, it is appropriate to include that information in this section, and to highlight current efforts, including key milestones.

The root causes of error in the RRA program are summarized according to OMB's root causes in the table below.

Root Cause of Error	Estimated Rate	Estimated Amount
Administrative and Documentation	18.7%	$14,758,116
Authentication and Medical Necessity	4.4%	3,478,363
Verification and Local Administration	76.9%	60,747,552
Total	**100%**	**$78,984,031**

Corrective Actions:

Administrative and Documentation: These errors result from improper handling by the agency's automated systems or its personnel. Planned corrective actions include:

- development of an enhanced automated retirement payment system to replace the current legacy system that processes Retirement Applications, planned for October 2010,
- development of an interface between systems to ensure accurate use of military service in the calculation of benefits, and
- creation of a Medicare premium collection database which is targeted for July 2010.

Authentication and Medical Necessity: Very few of the agency's improper payments fall into this category. There are no planned corrective/preventative actions.

Verification and Local Administration: These errors result from changes coming from outside the agency, particularly changes in the beneficiary's status which affects entitlement or eligibility either temporarily or permanently, and changes in service and compensation typically due to work. Our agency's challenge is to obtain the information and process it as quickly as possible.

The initiatives to minimize this specific group of improper payments are:

- We implemented a system (called RESCUE) which evaluates employer-reported changes to employee service and compensation records and adjusts annuities, if needed.
    - The initial implementation of this process in fiscal year 2006 handled the evaluation of record changes posted in January 2006. In fiscal year 2007, the system evaluated adjustments posted prior to January 2006. This initiative identified specific RRA improper underpayments and paid out additional benefits due. Therefore, this resolved many of the improper payments that have been included in previous years' estimates. However, there is a significant manual workload that resulted from this

initiative. As of September 30, 2008, there were 15,728 of these referrals (12,881 for active cases and 2,847 for terminated cases) on hand. These backlogged cases are handled whenever any other work needs to be done on the case. RESCUE referrals are also processed using overtime funds as the RRB budget permits.

  - This system is being run several times a year so that annuity adjustments are made timely and properly for those that can be handled automatically. Those that cannot be handled automatically have resulted in significant manual workloads. These referrals are considered part of the current workload. As of September 30, 2008, there were 16,652.
  - The agency uses overtime funding in the short term, and is hiring and training new claims examiner staff who will eventually be able to handle these complex workloads. This is a long-term process which will take several years before the new hires can make an impact on these workloads.

- A special manual project to resolve a backlog of unverified Social Security Numbers (SSN) of railroad employees was completed in fiscal year 2009. This ensures that the correct earnings are recorded to the correct SSN which serves as a basis of the calculation of benefits.
- A manual project is underway to resolve a backlog of inconsistencies related to the SSN on records of auxiliary beneficiaries. (The spouse cases are completed; corrections to children's and widow(er)'s records are being handled.) This allows the agency to match to the SSA earnings database to identify earnings and to match to files containing death information.
- A multiphase process is underway which allows users to enter any annuitant's earnings information online, and store the information in a database. This system (called SPEED) allows the RRB to adjust annuity payments for earnings on a timely basis, which minimizes any underpayments or overpayments that may result from changes in earnings. Phase Four was completed in fiscal year 2009; additional phases are being developed to automatically record and adjust the annuity as a result of changes in working status. In the meantime, improper payments may result due to the necessity to handle these cases manually.

b. Instructions for grant-making agencies. Not applicable to RRB.

IV. Program improper payment reporting.

a. The table below is required for each reporting agency.

Improper Payment (IP) Reduction Outlook FY 2007 – FY 2012
($ in millions)

Program	FY 07 $ Outlays (actual)	FY 07 IP %	FY 07 IP $	FY 08 $ Outlays (actual)	FY 08 IP %	FY 08 IP $	FY 09 $ Outlays (estimated)	FY 09 IP %	FY 09 IP $
RRA	$9,812.5	0.95	$92.7	**$10,049.9**	**0.79**	**$79.0**	$10,537.3	0.79	$82.8

Program	FY 10 $ Outlays (estimated)	FY 10 IP %	FY 10 IP $	FY 11 $ Outlays (estimated)	FY 11 IP %	FY 11 IP $	FY 12 $ Outlays (estimated)	FY12 IP %	FY 12 IP $
RRA	$10,784.8	0.79	$84.8	$10,925.7	0.79	85.9	$11,112.9	0.79	87.3

Note: The absolute value of the over and under-paid dollars and the rates is shown—the figures are not netted.

At the time this report was prepared, the latest actual data available was for fiscal year 2008 (shown in **bold** in the chart). The estimates for fiscal year 2009 through 2012 are based on the December 2008 OMB budget review estimates.

b. Discuss your agency's recovery of improper payments, if applicable. Include in your discussion the dollar amount of cumulative recoveries collected beginning with FY 2004.

Despite all the agency's best efforts to prevent improper payments, some will always occur, due to lack of timely information, etc. In overpayment situations, the agency is diligent in its recovery efforts. The RRB's account receivable balance for the RRA program at the end of fiscal year 2008 was $44,874,374. This balance includes debts classified as currently not collectible. We estimate that approximately 77.7 percent of these receivables will be collected and that the remaining 22.3 percent will eventually be closed as uncollectible. The RRB's collection program is in full compliance with the Debt Collection Improvement Act of 1996. For the period of fiscal years 2004 through 2008, the RRB recovered $128,219,444 in RRA program receivables. Recoveries are made through offset of future benefits, reclamation from the financial institution of benefits erroneously paid after the death of a beneficiary, and direct payment from debtors. Fraudulent payments are referred to the Office of Inspector General for prosecution through the Department of Justice. Delinquent accounts are referred to the Department of the Treasury for cross-servicing and offset of Federal payments.

V. Recovery auditing reporting.

This does not apply to RRB's benefit programs.

VI. Describe the steps the agency has taken and plans to take (including time line) to ensure that agency managers (including the agency head) are held accountable for reducing and recovering improper payments.

Paying benefits accurately and timely, and providing prudent stewardship over agency trust funds are the agency's two strategic goals. Agency managers have links to those goals in their performance plans.

VII. Agency information systems and other infrastructure.

a. Describe whether the agency has the information systems and other infrastructure it needs to reduce improper payments to the levels the agency has targeted.

In order to prevent and reduce the already low levels of improper payments the Railroad Retirement Act program generates, information systems need to be developed or modified as described in the project initiatives discussed above.

b. **If the agency does not have such systems and infrastructure, describe the resources the agency requested in its most recent budget submission to Congress to obtain the necessary information systems and infrastructure.**

The agency requested fiscal year 2010 funding for System Modernization, which will contribute to achieving the agency's target architecture and to meeting its performance goals, including accuracy of benefit payments and stewardship of the trust funds. The modernization process will help reduce redundancy, improve accuracy and speed, and transition our computing environment to more modern technologies and methodologies.

VIII. Describe any statutory or regulatory barriers which may limit the agencies' corrective actions in reducing improper payments and actions taken by the agency to mitigate the barriers' effects.

None.

IX. Additional comments, if any, on overall agency efforts, specific programs, best practices, or common challenges identified, as a result of IPIA implementation.

The RRB has made concerted efforts to reduce improper payments over the years. Payment accuracy rates are at consistently high levels and the return on investment for program integrity activities has been high as well. Both have been set as annual performance goals and reported each year since the Government Performance and Results Act has been in effect. The agency monitors progress on implementing recommendations from the quality assurance process, and is vigilant about pursuing OIG recommendations which impact the quality and timeliness of payments. The agency has also worked closely with the OIG in referring potential fraud cases for its investigation and prosecution. However, continued loss of experienced staff and the long lead time to hire and train staff to handle the complicated manual work generated as a result of systems limitations presents an ongoing challenge to making further significant reductions in the levels of improper RRA payments. The agency hopes to be able to maintain adequate staffing so that it can continue this important effort.

Summaries of Financial Statement Audit and Management Assurances

Summary of Financial Statement Audit

Audit Opinion	Unqualified
Restatement	No

Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Ending Balance
Information Technology Security	1				1
Financial Reporting	1				1
Non-Integrated Subsystems		1			1
Total Material Weaknesses	2				3

Summary of Management Assurances

Effectiveness of Internal Control over Operations (FMFIA § 2)	
Statement of Assurance	Qualified

Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Information Technology Security	1					1
Financial Reporting	1					1
Non-Integrated Subsystems		1				1
Total Material Weaknesses	2					3

Conformance with Financial Management System Requirements (FMFIA § 4)	
Statement of Assurance	Systems conform

APPENDICES

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Appendices

Glossary of Acronyms and Abbreviations

A

ACSI	American Customer Satisfaction Index
AMS	American Management Systems, Inc.
ARRA	American Recovery and Reinvestment Act of 2009

B

BCP	Business Continuity Plan
BIA	Business Impact Analysis
BIPA	Benefits Improvement and Protection Act of 2000
BIS	Bureau of Information Services
BPD	Bureau of the Public Debt
BRM	Business Reference Model

C

CHRIS	Comprehensive Human Resources Integrated System
CMS	Centers for Medicare & Medicaid Services
CNC	Currently Not Collectible
COA	Change of Address
COOP	Continuity of Operations Plan
CPI-W	Consumer Price Index for Urban Wage Earners and Clerical Workers

D

DCIA	Debt Collection Improvement Act of 1996
DOJ	Department of Justice
DOL	Department of Labor

E

ERS	Employer Reporting System

F

FAIR Act	Federal Activities Inventory Reform Act
FASAB	Federal Accounting Standards Advisory Board
FBWT	Fund Balance With Treasury
FECA	Federal Employees' Compensation Act
FFS	Federal Financial System
FHI	Federal Hospital Insurance
FI	Financial Interchange
FICA	Federal Insurance Contributions Act
FMFIA	Federal Managers' Financial Integrity Act
FMS	Financial Management Service
FY	Fiscal Year
FOASI/DI	Federal Old-Age and Survivors Insurance/Disability Insurance
FTE	Full-time Equivalent

G

GAO	Government Accountability Office
GISRA	Government Information Security Reform Act
GPRA	Government Performance and Results Act
GSA	General Services Administration

H

HIPAA	Health Insurance Portability and Accountability Act

I

IAE	Integrated Acquisition Environment
IPIA	Improper Payments Information Act
IRM	Information Resources Management
IRS	Internal Revenue Service
ISSO	Information System Security Officer
IT	Information Technology

M

MAC	Medicare Administrative Contractor
MCR	Medicare Contracting Reform
MCRC	Management Control Review Committee
MEDCOR	Medicare Correction System
MMA	Medicare Prescription Drug, Improvement and Modernization Act of 2003
MOU	Memorandum of Understanding

N

N/A	Not Applicable
NRRIT	National Railroad Retirement Investment Trust

O

OIG	Office of Inspector General
OMB	Office of Management and Budget
OPM	Office of Personnel Management

P

P&AR	Performance and Accountability Report
PBSC	Performance-based Service Contracting
PDP	Prescription Drug Plan
P&F	Program and Financing
PIN	Personal Identification Number

Q

QRRB	Qualified Railroad Retirement Beneficiary

R

RR	Railroad Retirement
RRA	Railroad Retirement Act
RR Account	Railroad Retirement Account
RRB	Railroad Retirement Board
RRS Account	Railroad Retirement Supplemental Account
RRSIA	Railroad Retirement and Survivors' Improvement Act of 2001
RRTA	Railroad Retirement Tax Act
RUI	Railroad Unemployment Insurance
RUIA	Railroad Unemployment Insurance Act
RUSI	Railroad Unemployment and Sickness Insurance

S

SBR	Statement of Budgetary Resources
SCHIP	State Children's Health Insurance Program
SFFAS	Statement of Federal Financial Accounting Standards
SPEED	System Processing Excess Earnings Data
SSA	Social Security Administration
SSEB	Social Security Equivalent Benefit

T

TOP	Treasury Offset Program
Treasury	Department of the Treasury
Trust	National Railroad Retirement Investment Trust
TSP	Thrift Savings Plan

U

USPS	United States Postal Service

V

VAN	Virtual Area Network

Railroad Retirement Board
Board Members, Inspector General, and Executive Committee

Board Members

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Labor Member	V. M. Speakman, Jr.
Management Member	Jerome F. Kever

Office of Inspector General

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