RAILROAD RETIREMENT BOARD

PERFORMANCE AND ACCOUNTABILITY REPORT

FISCAL YEAR 2016

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Railroad Retirement Board
Performance and Accountability Report
Fiscal Year 2016

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MESSAGE FROM THE BOARD MEMBERS

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Message from the Board Members

This fiscal year 2016 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 programs provided under the Railroad Retirement Act, and the unemployment and sickness insurance benefit programs 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), Congress, and our constituents. We are proud of the agency's dedicated employees whose achievements are reflected in this report.

Under provisions of the Budget Control Act of 2011 (BCA), across-the-board cuts in Federal spending took effect March 1, 2013. While railroad retirement, survivor and disability payments are not affected by this measure, unemployment and sickness insurance benefits payable under the RUIA are impacted. Benefits payable for days October 1, 2015 through September 30, 2016, were reduced by 6.8 percent. The reduction was required by the sequestration order issued by the President in accordance with the BCA. For fiscal year 2017, a sequestration reduction of 6.9 percent will be applied starting on October 1, 2016.

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 government-wide 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 a material weakness identified by the Office of Inspector General (OIG) for financial reporting.

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.

Original signed by:

Walter A. Barrows, Labor Member
Steven J. Anthony, Management Member

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MANAGEMENT'S DISCUSSION AND ANALYSIS

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Management' s Discussion and Analysis

Overview of the Railroad Retirement Board

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 1930s 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 1930s, 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 1930s 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 1930s, numerous other railroad laws have 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 1930s. 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. 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 I taxes at the same rate as social security taxes. In addition, both employees and employers pay tier II taxes which are used to finance railroad retirement benefit payments over and above social security levels. Tier II 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 legislation enacted in 2001 allows for Railroad Retirement (RR) 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 2016, the RRB trust funds realized a net of $4.1 billion, representing 37 percent of RRB financing sources (excluding transfers to/from the NRRIT and the change 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 Department of the Treasury (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 are paid 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 three administrative funds, four trust funds, three general funds, six American Recovery and Reinvestment Act of 2009 (ARRA) funds, and two Worker, Homeownership, and Business Assistance Act of 2009 (WHBAA) funds.

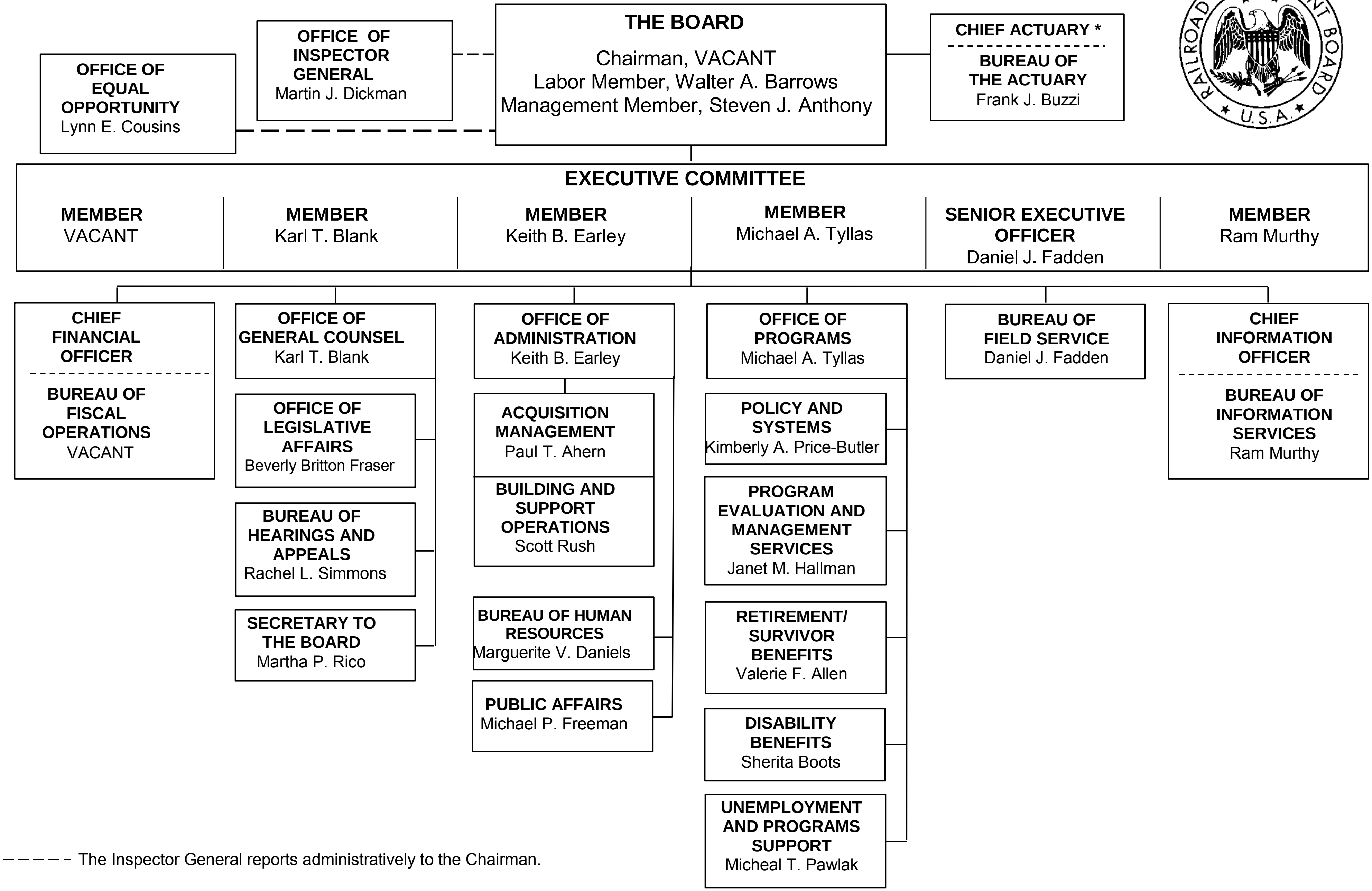
RRB Organizational Structure

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 position of Chairman of the Board is currently vacant, the Labor Member is Walter A. Barrows, and the Management Member is Steven J. Anthony. 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 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

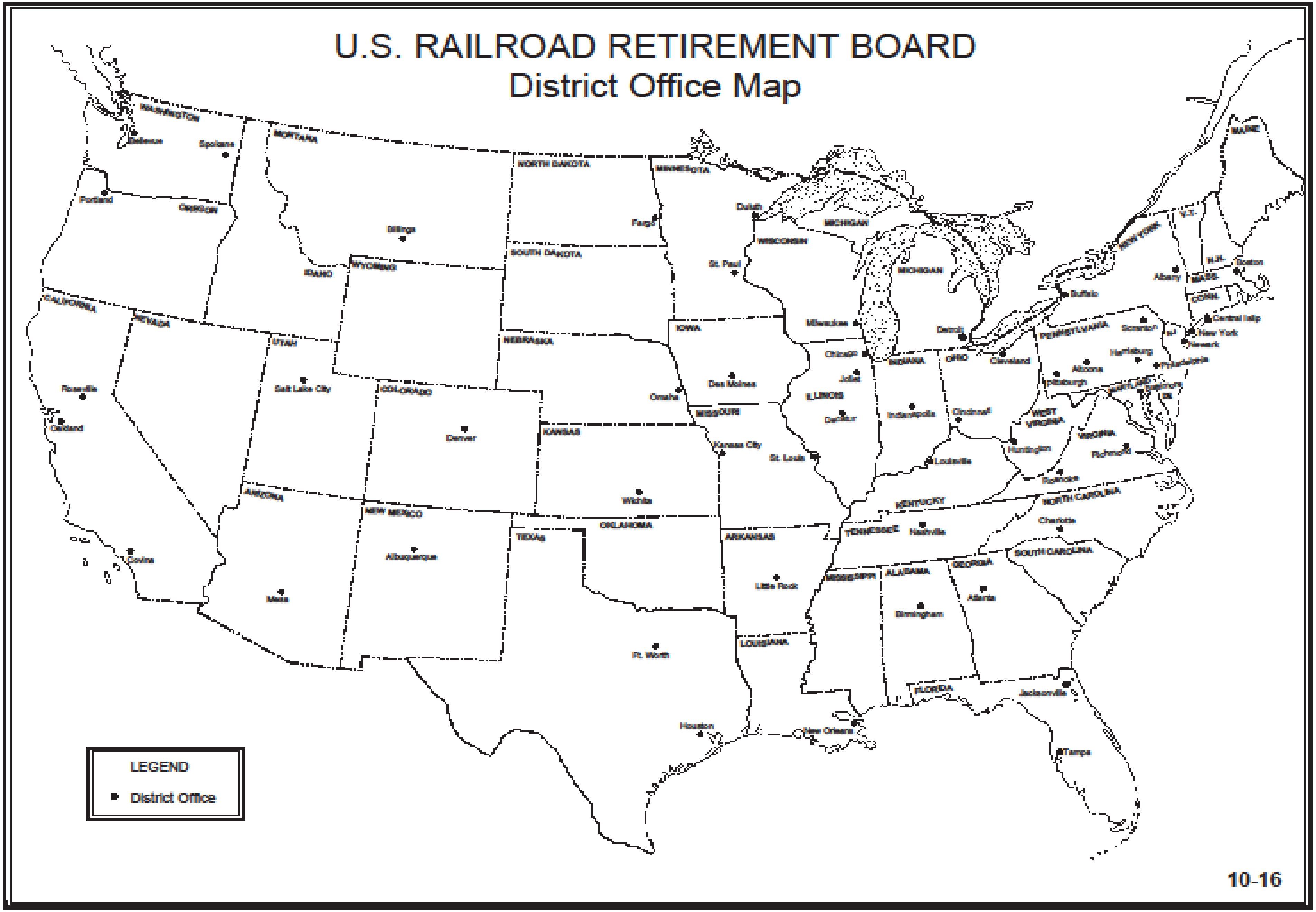


– – – – – – The Inspector General reports administratively to the Chairman.

— — — — 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 2016


U.S. RAILROAD RETIREMENT BOARD
District Office Map
Bellevue
Spokane
Portland
Billings
Fargo
Duluth
St. Paul
Roseville
Oakland
Salt Lake City
Denver
Covina
Mesa
Albuquerque
Wichita
Omaha
Des Moines
Kansas City
St. Louis
Chicago
Joliet
Decatur
Milwaukee
Detroit
Cleveland
Indianapolis
Cincinnati
Louisville
Nashville
Little Rock
Ft. Worth
Houston
New Orleans
Birmingham
Atlanta
Jacksonville
Tampa
Charlotte
Roanoke
Richmond
Huntington
Pittsburgh
Altoona
Harrisburg
Philadelphia
Scranton
New York
Newark
Central Islip
Albany
Buffalo
Boston
LEGEND
District Office
10-16

Financial Highlights

Amounts in the 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.

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)

	2016	2015
NET POSITION AT SEPTEMBER 30		
Social Security Equivalent Benefit Account	$129.5	$118.1
Railroad Retirement Account 1/	25,444.0	24,967.7
Railroad Retirement Administration Fund	32.9	30.7
Railroad Unemployment Insurance Trust Fund –		
Benefit Payments	59.6	86.7
Administrative Expenses	11.7	13.9
Limitation on the Office of Inspector General	0.4	.5
Dual Benefits Payments Account	9.6	10.2
Federal Payments to the Railroad Retirement Accounts	15.4	15.4
American Recovery and Reinvestment Act of 2009		
Railroad Unemployment Insurance Extended Benefit Payments – Recovery Act (no year dollars)	9.5	9.6
Economic Recovery Payments – Recovery Act	0.0	5.0
Administrative Expenses – Recovery Act (no year dollars)	-	-
Administrative Expenses – Recovery Act	-	-
Limitation on Administration – Recovery Act (no year dollars)	-	-
Limitation on Administration – Recovery Act	0.0	.7
Worker, Homeownership, and Business Assistance Act of 2009		
Railroad Unemployment Insurance Extended Benefits Payments (no year dollars)	133.6	133.5
Administrative Expenses, Railroad Unemployment Insurance Extended Benefit Payments	-	-
Total	$25,846.2	$25,392.0
FINANCING SOURCES FOR FISCAL YEAR		
Social Security Equivalent Benefit Account	$7,347.7	$7,310.6
Railroad Retirement Account 2/	5,574.0	3,451.2
Railroad Retirement Administration Fund	116.7	117.8
Railroad Unemployment Insurance Trust Fund –		
Benefit Payments	105.1	60.2
Administrative Expenses	-2.0	4.0
Limitation on the Office of Inspector General	8.7	8.7
Dual Benefits Payments Account	28.9	33.8
Federal Payments to the Railroad Retirement Accounts 3/	-	-
American Recovery and Reinvestment Act of 2009		
Railroad Unemployment Insurance Extended Benefit Payments – Recovery Act (no year dollars)	-	-
Economic Recovery Payments – Recovery Act	-	-
Administrative Expenses – Recovery Act (no year dollars)	-	-
Administrative Expenses – Recovery Act	-	-
Limitation on Administration – Recovery Act (no year dollars)	-	-
Limitation on Administration – Recovery Act	-	-
Worker, Homeownership, and Business Assistance Act of 2009		
Railroad Unemployment Insurance Extended Benefits Payments (no year dollars)	.1	.1
Administrative Expenses, Railroad Unemployment Insurance Extended Benefit Payments	-	-
Total	$13,179.2	$10,986.4

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.

BENEFIT PAYMENTS FOR FISCAL YEAR 4/

	2016	2015
Social Security Equivalent Benefit Account	$7,336.5	$7,205.3
Railroad Retirement Account	5,097.7	4,962.2
Railroad Unemployment Insurance Trust Fund –		
Unemployment Insurance	79.4	35.2
Sickness Insurance	52.9	49.9
Dual Benefits Payments Account	27.9	31.9
American Recovery and Reinvestment Act of 2009		
Railroad Unemployment Insurance Extended Benefit Payments – Recovery Act (no year	-	-
Economic Recovery Payments – Recovery Act	-	-
Worker, Homeownership, and Business Assistance Act of 2009		
Railroad Unemployment Insurance Extended Benefits Payments (no year dollars)	0.0	.2
Total	$12,594.4	$12,284.7

4/ Net of recoveries and offsetting collections; 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, Changes in Social Insurance Amounts, 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.

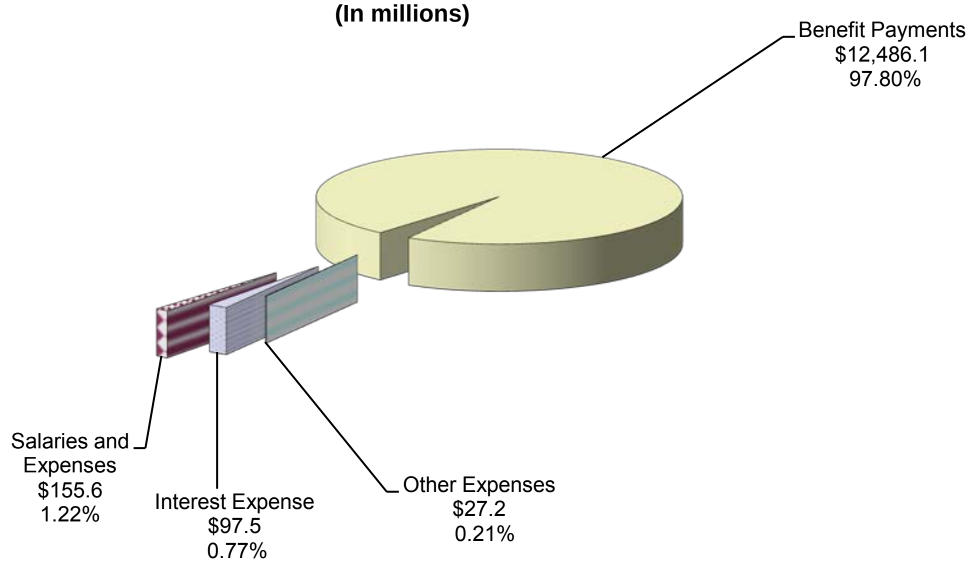
Comparison of Net Cost of Operations and Financing Sources

The net cost of operations for fiscal years 2016 and 2015 was $12,717.8 million and $12,504.9 million, respectively. The details of the net cost of operations by type, amount, increase or decrease, and percentage change from fiscal year 2015 to fiscal year 2016 are shown below. Additional information regarding the net cost of operations and financing sources for fiscal years 2016 and 2015 is shown on the following pages.

NET COST OF OPERATIONS (In millions)

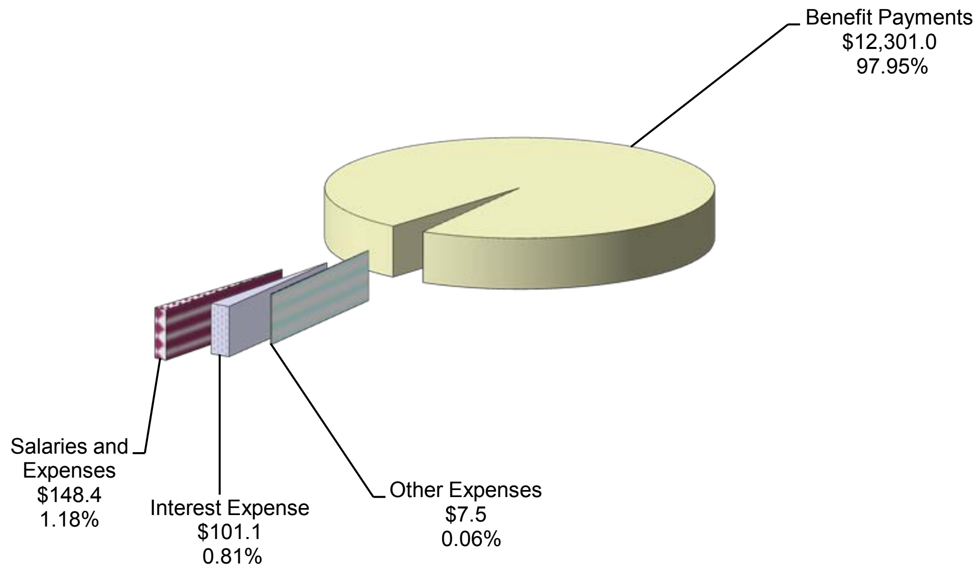
	FY 2016	FY 2015	Amount of Increase (Decrease)	Percent of Increase (Decrease)
Interest expense – Treasury borrowing	97.5	$ 101.1	-3.6	-3.6
Salaries and expenses	155.6	148.4	7.2	4.9
Benefit payments – RRB	12,486.1	12,301.0	185.1	1.5
Other expenses	27.2	7.5	19.7	262.7
Subtotal	12,766.4	12,558.0	208.4	1.7
Less: Earned revenues	48.6	53.1	-4.5	-8.5
Net cost of operations	12,717.8	$12,504.9	212.9	1.7

FY 2016
NET COST OF OPERATIONS
(In millions)



Totals $12,766.4 million, excluding reimbursements and earned revenues of $48.6 million.

FY 2015
NET COST OF OPERATIONS
(In millions)



Totals $12,558.0 million, excluding reimbursements and earned revenues of $53.1 million.

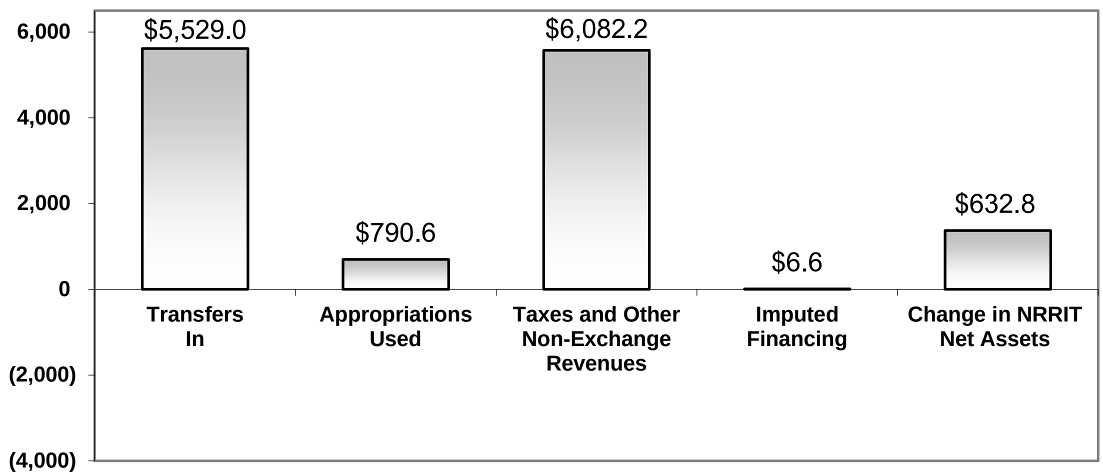
The following table shows financing sources (excluding changes in unexpended appropriations) by type, amount, increase or decrease, and percentage change from fiscal year 2015 to fiscal year 2016.

FINANCING SOURCES (In millions)

	FY 2016	FY 2015	AMOUNT OF INCREASE (DECREASE)	PERCENT OF INCREASE (DECREASE)
Appropriations used	$790.6	$ 755.8	$34.8	4.6
Taxes and other non-exchange revenues:				
Payroll taxes	5,930.9	6,434.5	(503.6)	(7.8)
Interest revenue and other income	37.5	45.1	(7.6)	(16.9)
Carriers refunds – principal	(3.4)	(2.1)	(1.3)	61.9
Railroad Unemployment Insurance (RUI) Revenue	117.2	74.7	42.5	56.9
Subtotal	$6,082.2	$ 6,552.2	($470.0)	(7.2)
Imputed financing (amount to be provided by the Office of Personnel Management (OPM) to pay future retirement benefits to RRB employees)	6.6	7.4	(0.8)	(10.8)
Transfers in:				
Financial Interchange, net	4,119.0	4,052.4	66.6	1.6
NRRIT	1,410.0	1,191.0	219.0	18.4
Subtotal	$5,529.0	$ 5,243.4	$285.6	5.4
Other:				
Change in NRRIT net assets	632.8	(1,574.2)	2,207.0	140.2
Subtotal	$13,041.2	$10,984.6	$2,056.6	18.7
Less: Transfers out to NRRIT	0.0	0.0	0.0	0.0
Add: Gain/(Loss) in Contingency	138.0	1.9	136.1	7,163.2
Subtotal	138.0	1.9	136.1	7,163.2
Total	$13,179.2	$10,986.5	$2,192.7	20.0

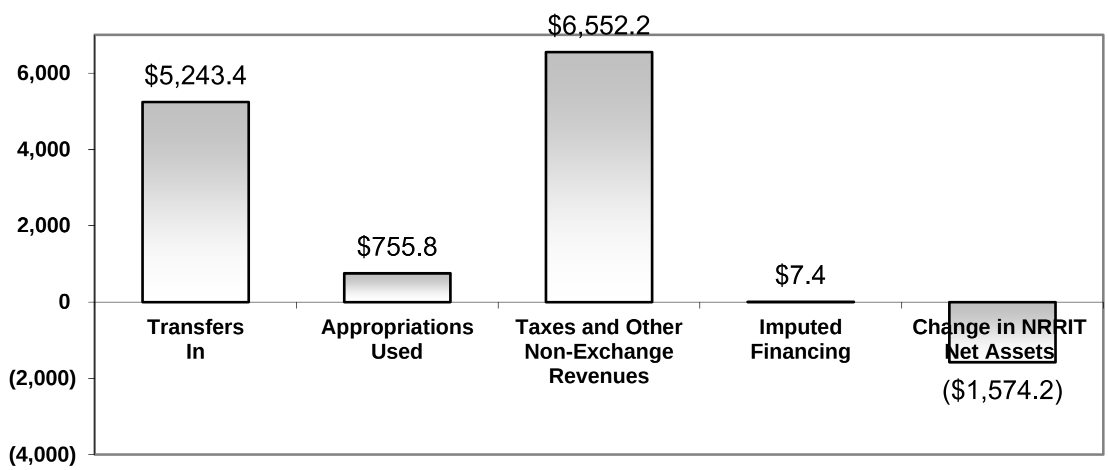
The most significant difference between the RRB's financial statements for fiscal year 2015 and fiscal year 2016 was the change in NRRIT net assets. The increase in NRRIT net assets of about $632.8 million is due to market fluctuations during the past year. There is a section later in this publication that describes the NRRIT, and the NRRIT net assets balances for 2015 and 2016 are shown in the RRB's Financial Section of this publication.

FINANCING SOURCES (In Millions)
FY 2016



Total Financing Sources $13,041.2 million, excluding $138.0 million gain contingency.

FINANCING SOURCES (In Millions)
FY 2015



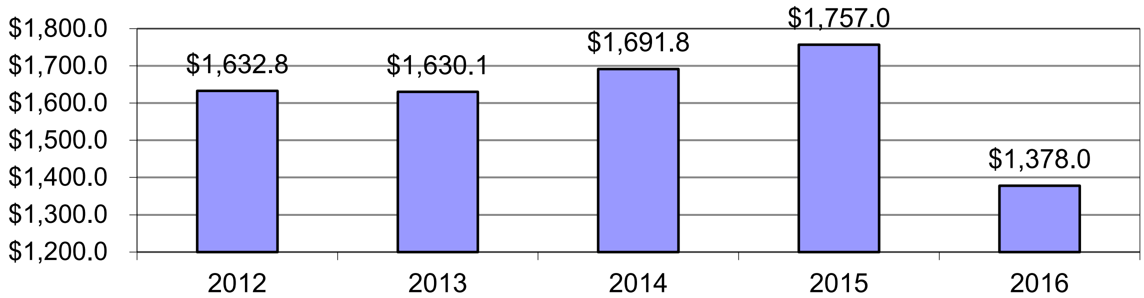
Total Financing Sources $10,984.6 million, excluding $1.9 million gain contingency.

Railroad Retirement Investments at Treasury

The book value of all railroad retirement investments, including accrued interest, decreased to $1,378.0 million as of September 30, 2016, from $1,757.0 million on September 30, 2015 (excludes NRRIT net assets). The graph below reflects the book value of the railroad retirement investments from September 30, 2012, through September 30, 2016.

INVESTMENT BALANCES HELD AT TREASURY (AT BOOK VALUE)
AT SEPTEMBER 30, 2012 - 2016

(In millions, excluding NRRIT net assets)



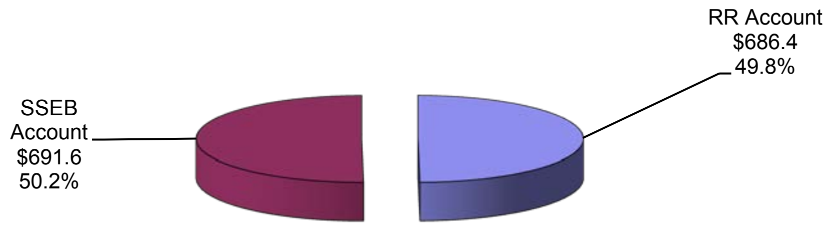
The following chart shows the portfolio of the railroad retirement investments as of September 30, 2016.

R

RAILROAD RETIREMENT INVESTMENTS HELD AT TREASURY
AS OF SEPTEMBER 30, 2016

AT BOOK VALUE
Total $1,378.0

(In millions, excluding NRRIT net assets)



Railroad Retirement Account

On September 30, 2016 and 2015, the book values of the RR Account investments, excluding NRRIT assets, including accrued interest, totaled $686,360,093 and $874,942,959, respectively. The balance on September 30, 2016, consisted of $685,303,000 in 3.000 percent par value specials (with market value equal to face value) maturing on October 1, 2016, and $1,057,093 in accrued interest. The balance on September 30, 2015, consisted of $873,598,000 in 3.000 percent par value specials (with market value equal to face value) maturing on October 1, 2015, and $1,344,959 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, 2016 and 2015, the book values of the SSEB Account investments, including accrued interest, totaled $691,615,922 and $882,048,961, respectively. The balance on September 30, 2016, consisted of $690,656,000 in 3.000 percent par value specials maturing on October 1, 2016, and $959,922 in accrued interest. The balance on September 30, 2015, consisted of $880,634,000 in 3.000 percent par value specials maturing on October 1, 2015, and $1,414,961 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 (USC). 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 RRA. 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 Operations, 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 OMB.

Program, Operations, and Financial Performance and Results

During fiscal year 2016 (ended September 30, 2016), railroad retirement and survivor benefit payments totaled $12.5 billion, net of recoveries and offsetting collections. Railroad unemployment and sickness insurance benefit payments totaled $132.3 million in fiscal year 2016, net of recoveries and offsetting collections. During fiscal year 2016, the RRB also paid benefits on behalf of SSA (for which the RRB is reimbursed) amounting to $1.5 billion to about 111,000 beneficiaries.

In fiscal year 2016, 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 2016 included:

- Providing payments to about 553,000 retirement and survivor beneficiaries.
- Providing payments to about 17,000 unemployment insurance beneficiaries.
- Providing payments to almost 17,000 sickness insurance beneficiaries.
- Processing 24,314 retirement, survivor, and disability applications for benefits (through April 30, 2016).
- Processing 197,100 applications and claims for unemployment and sickness insurance benefits (through April 30, 2016).
- Issuing 272,462 certificates of employee railroad service and compensation (mailed on June 10, 2016).

During fiscal year 2016, the RRB used 18 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 a direct appropriation of $111,225,000 for ongoing 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 2016 were not available at the time this report was published. For those objectives, we reported part-year performance information for fiscal year 2016, 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. For fiscal year 2016, we expect to meet or exceed most of our timeliness goals and increase Internet services available to employers.

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 2016, we expect that benefit payment accuracy rates will exceed 99 percent.

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 processing retirement/survivor and unemployment/sickness insurance 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 Plan for Fiscal Year 2016 reflects two strategic objectives that focus on the specifics of achieving this goal.

- Pay benefits timely.
- Provide a range of choices in service delivery methods.

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 protected, collected, recorded and reported appropriately.
- Ensure the accuracy and integrity of benefit programs.
- Ensure effectiveness, efficiency, and security of operations.
- Effectively carry out responsibilities with respect to 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.

Validation of Performance Information. The 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 the 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 the RRB's Planning Council review the certified performance data and attestations for completeness and 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 the 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.

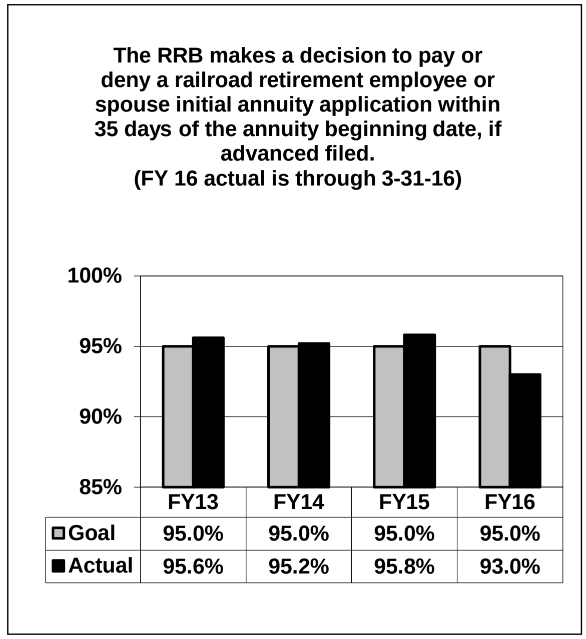
<u>Key performance indicator 1:</u> Timeliness of initial railroad retirement annuity payments, when advanced filed (Objective I-A-1)

FY 2016 goal: 95.0%
Our FY 2016 performance: 93.0% through the 2nd quarter

We are not achieving our goal; however, we expect to meet the goal by the end of fiscal year 2016. Automation plays a key role in assuring benefit payment timeliness for this performance indicator.

FY 2015 goal: 95.0%
Our FY 2015 performance: 95.8%

Data definition: This goal is included in the RRB Customer Service Plan.



	FY13	FY14	FY15	FY16
Goal	95.0%	95.0%	95.0%	95.0%
Actual	95.6%	95.2%	95.8%	93.0%

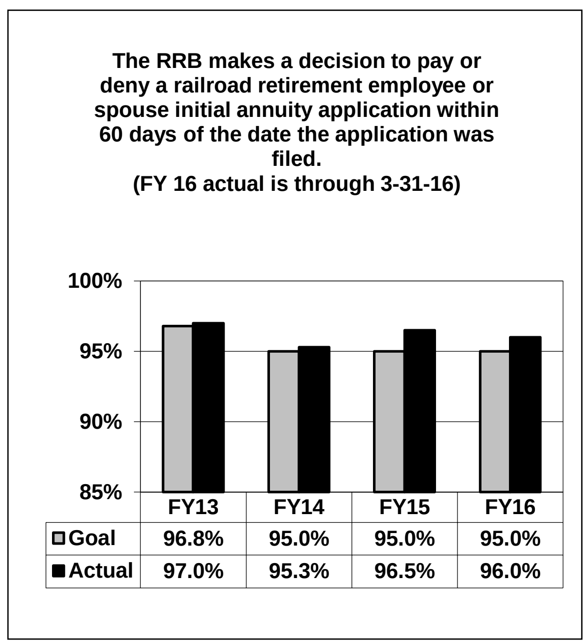
<u>Key performance indicator 2:</u> Timeliness of initial railroad retirement annuity payments, if not advanced filed (Objective I-A-2)

FY 2016 goal: 95.0%
Our FY 2016 performance: 96.0% through the 2nd quarter

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

FY 2015 goal: 95.0%
Our FY 2015 performance: 96.5%

Data definition: This goal is included in the RRB Customer Service Plan.



	FY13	FY14	FY15	FY16
Goal	96.8%	95.0%	95.0%	95.0%
Actual	97.0%	95.3%	96.5%	96.0%

<u>Key performance indicator 3:</u> Timeliness of new survivor benefit payments (Objective I-A-3)

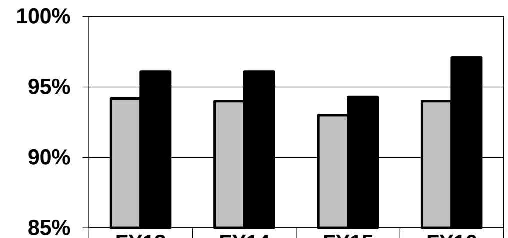
FY 2016 goal: 94.0%
Our FY 2016 performance: 97.1% through the 2nd quarter

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

FY 2015 goal: 93.0%
Our FY 2015 performance: 94.3%

Data definition: This goal is included in the RRB Customer Service Plan.

RRB makes a decision to pay, deny or transfer to SSA an initial annuity application for a retirement survivor not already receiving a benefit within 60 days of the annuity beginning date or date filed (whichever is later). (FY 16 actual is through 3-31-16)



	FY13	FY14	FY15	FY16
Goal	94.2%	94.0%	93.0%	94.0%
Actual	96.1%	96.1%	94.3%	97.1%

<u>Key performance indicator 4:</u> Timeliness of spouse to survivor benefit payment conversions (Objective I-A-4)

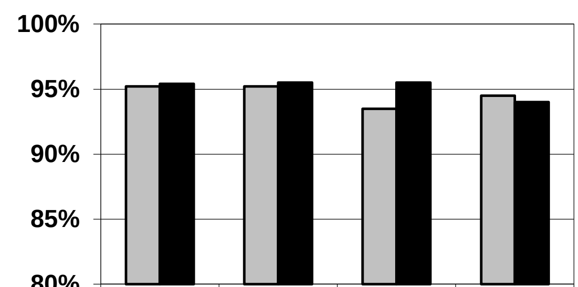
FY 2016 goal: 94.5%
Our FY 2016 performance: 94.0% through the 2nd quarter

We are not yet achieving our goal; however, we expect to meet the goal by the end of fiscal year 2016. Automation plays a key role in assuring benefit payment timeliness for this performance indicator.

FY 2015 goal: 93.5%
Our FY 2015 performance: 95.5%

Data definition: This goal is included in the RRB Customer Service Plan.

RRB makes a decision to pay, deny or transfer to SSA an initial annuity application for a survivor already receiving benefits as a spouse within 30 days of the RRB's receipt of first notice of the employee's death. (FY 16 actual is through 3-31-16)



	FY13	FY14	FY15	FY16
Goal	95.2%	95.2%	93.5%	94.5%
Actual	95.4%	95.5%	95.5%	94.0%

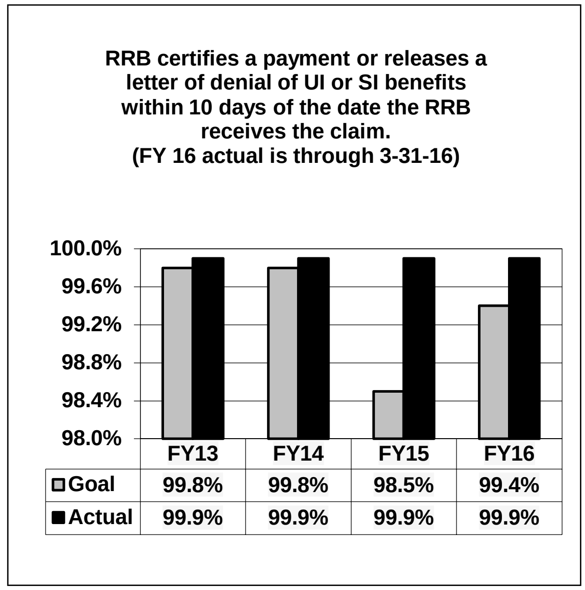
<u>Key performance indicator 5:</u> Timeliness of unemployment or sickness insurance payments (Objective I-A-6)

FY 2016 goal: 99.4%
Our FY 2016 performance: 99.9% through the 2nd quarter

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

FY 2015 goal: 98.5%
Our FY 2015 performance: 99.9%

Data definition: This goal is included in the RRB Customer Service Plan.



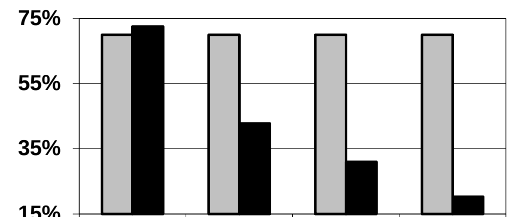
<u>Key performance indicator 6:</u> Timeliness of disability decisions (Objective I-A-7)

FY 2016 goal: 70.0%
Our FY 2016 performance: 20.3% through the 2nd quarter

We are not yet achieving our goal.

FY 2015 goal: 70.0%
Our FY 2015 performance: 31.0%

The 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. (FY 16 actual is through 3-31-16)



	FY13	FY14	FY15	FY16
Goal	70.0%	70.0%	70.0%	70.0%
Actual	72.5%	42.8%	31.0%	20.3%

Effective November 2014, RRB required concurrent adjudication and ordering specialist exams, which changed Disability Benefits Division's (DBD) process and significantly increased adjudication timeframes. The new policy and procedure for requiring specialist examinations increased time frames significantly because it was a contract modification that initially proved challenging to implement. For example, some specialists had long wait times and locating specialists close to some claimant's homes were difficult to find. In addition, there were more questions to the field offices, which yielded more inquires for Disability Benefits Division and less time to rate cases. Finally, the new policy did not exclude cases already filed, requiring additional development because the case was not rated prior to the revision. We decreased the number of claimants waiting for exams 100 days or greater by nearly 75% in one quarter as the contractor expanded the number and location of providers.

Although DBD hired additional initial examiners in FY 2015, the initial training phase takes approximately 36 weeks and impacted the overall unit performance because the work of new staff requires additional review from more experienced staff. By the conclusion of FY 2016, FY 2015 and FY 2016 new hires were providing beneficial impact on production.

In addition, DBD prioritized the large backlog of case work from 2013, 2014, and 2015 that resulted from the previous focus on LIRR refile claims. At the beginning of fiscal year 2016, there were 14 cases from 2013, 179 from 2014, and 1,231 from fiscal year 2015. By reducing these workloads by nearly 74%, the percentage of cases handled within 100 days was lowered. As these caseloads are completed, we expect that the timeliness of case processing will increase.

Data Definition: This goal is included in the RRB Customer Service Plan.

Key performance indicator 7: Initial recurring retirement payment accuracy (Objective II-B-1a)

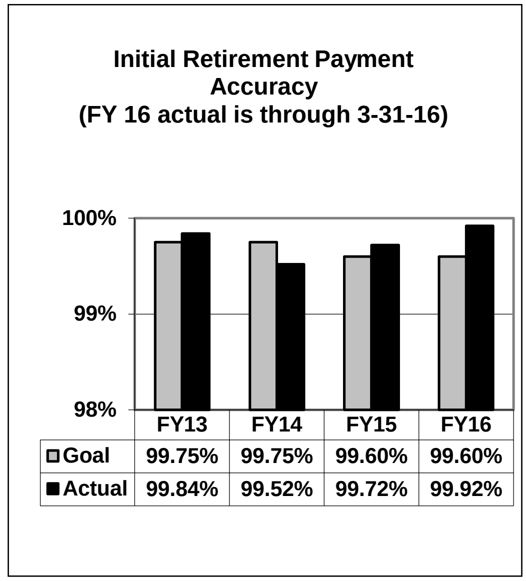
Our overall strategic goal is to achieve a railroad retirement benefit payment recurring accuracy rate of at least 99 percent on our initial processing of applications for retirement (employee, spouse and widow) benefits.

FY 2016 goal: 99.60%
Our FY 2016 performance: 99.92%

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

FY 2015 goal: 99.60%
Our FY 2015 performance: 99.72%

We achieved our goal.



	FY13	FY14	FY15	FY16
Goal	99.75%	99.75%	99.60%	99.60%
Actual	99.84%	99.52%	99.72%	99.92%

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.

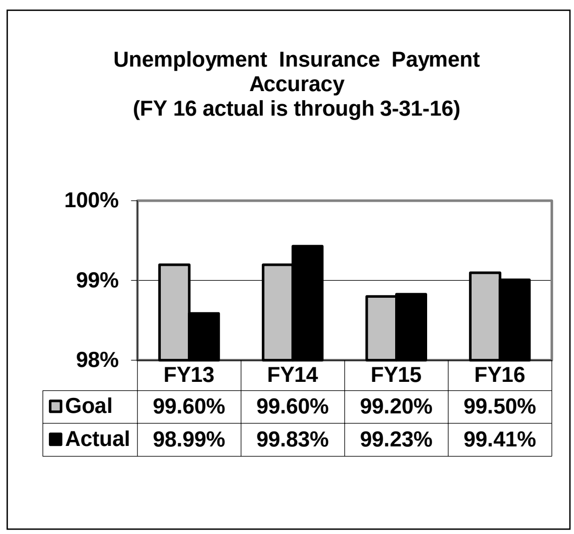
Key performance indicator 8: Unemployment insurance payment accuracy (Objective II-B-2a)

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

FY 2016 goal: 99.50%
Our FY 2016 performance: 99.41% through the 2nd quarter

We are not achieving our goal; however, we expect to meet the goal by the end of fiscal year 2016. Automation plays a key role in assuring benefit payment accuracy by reducing the number of erroneous payments.

FY 2015 goal: 99.20%
Our FY 2015 performance: 99.23%



	FY13	FY14	FY15	FY16
Goal	99.60%	99.60%	99.20%	99.50%
Actual	98.99%	99.83%	99.23%	99.41%

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.

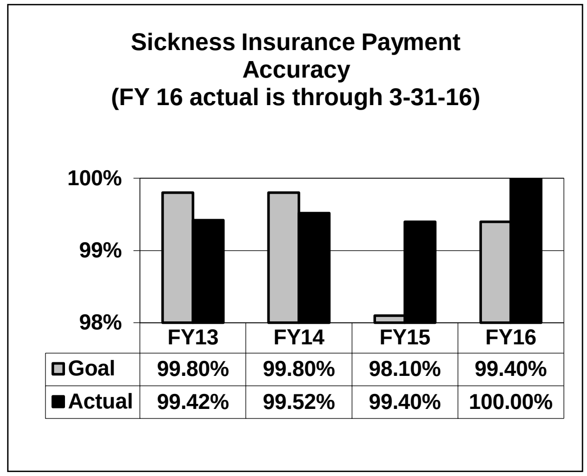
Key performance indicator 9: Sickness insurance payment accuracy (Objective II-B-2b)

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

FY 2016 goal: 99.40%
Our FY 2016 performance: 100% 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 2015 goal: 98.10%
Our FY 2015 performance: 99.40%



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.

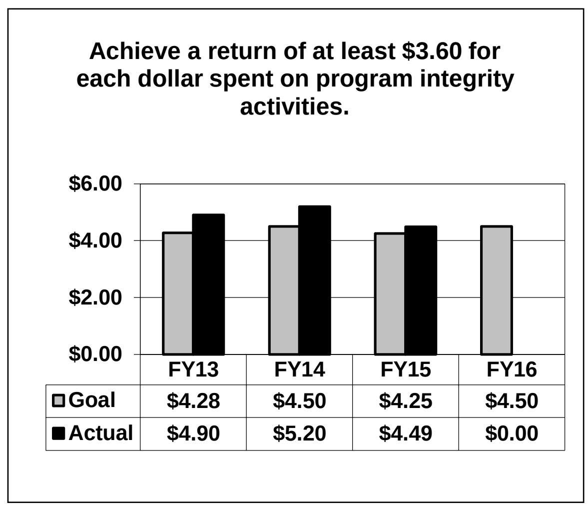
Key performance indicator 10: Return on investment in program integrity activities (Objective II-B-5)

FY 2016 goal: $4.50 : $1
Our FY 2016 performance: N/A

FY 2016 data will be available in FY 2017.

FY 2015 goal: $4.25 : $1
Our FY 2015 performance: $4.49 : $1

We exceeded our goal. Our fiscal year 2015 goal was to achieve a return of $4.25 for each dollar spent on program integrity activities. We achieved a rate of return of $4.49 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 & Medicaid Services' utilization and death records, the Office of Personnel Management's benefit records, and State wage reports, usually via data exchange files, 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 and IPIA

Program Improvements.

- **Medicare Systems Modernization –** The RRB's Information Resource Management Strategic Plan has identified System Modernization as a major issue. Legacy software systems often resist evolutionary change because of their inability to adapt, and therefore, their strategic value has diminished through factors not exclusively related to the systems' functionality. The RRB has analyzed the existing application and determined that the Medicare System poses a risk to the agency and is in need of modernization. We plan to upgrade our Medicare System, replacing the existing flat file processing with a more flexible database processing system that more readily supports future program changes. We will also develop an application that will allow users to create award activities for refunding Medicare premiums and paying Medicare Part A hospital insurance benefits for services furnished in Canada. Funding for this project is through the Centers for Medicare and Medicaid Services (CMS), through the established reimbursable agreement. We obtained contractor support for the development of the requirements and project plan. Work began on the Medicare payment system in June 2015 and is expected to be completed in July 2016. Work to eliminate flat file processing to database processing is expected to be completed in July 2017.

- **Medicare Access and CHIP Reauthorization Act of 2015 –** The Medicare Access and CHIP Reauthorization Act of 2015 includes a provision which calls for the removal of the social security number (SSN) from the Medicare card. CMS will replace the SSN with a new Medicare Beneficiary Identifier. The Act also granted the RRB $3,000,000 in FY 2015 for the project. CMS is meeting with partner agencies, medical providers, and other affected external business partners in an effort to develop their project plan and project requirements. Project implementation is scheduled to begin in the fourth quarter of FY 2018 and expected to end in FY 2020.

- **Employer Reporting System (ERS) – Internet Site –** In the next Phase of the ERSNet project, we plan to develop additional notifications for employers that provide information about benefit eligibility with Form RL- 13g, Notice of Relinquishment of Rights of Disability Annuitant Who attained Age 65. We will also add the Annuity EStimate OPeration (AESOP) listing which provides employers with projected benefit entitlement estimates for all of their eligible employees. This phase will add two additional services to the system.

We will continue to pursue enhancements to the current system through the following processes:

- Provide on-screen instructions for the current forms and services available in ERSNet.

- Replace file transfer process (FTP) for the current forms by using DB2 stored procedure to populate mainframe tables.

In fiscal year 2018, the RRB will continue to use contractor services to allow employers to correct suspended cases on-line, and to make corrections to their own contact information. We will work to develop on-line processes for the Suspense and Error Tracking System (SETS), and the Form G-117a - Designation of Contact Officials.

Improper Payments Information Act (IPIA)

- **Improper Payment Related Initiatives –** To improve the accuracy of our benefit payments, we are pursuing the following initiatives:

    - development of an enhanced automated retirement payment system to replace the current legacy system that processes retirement applications, planned for fiscal year 2017,
    - development of an interface between systems to ensure accurate use of military service in the calculation of benefits, tentatively scheduled for completion in fiscal year 2017,
    - continued development in fiscal year 2017 of the MIRTEL Online Inquiry (MOLI) database to include Medicare Part B premium collection history,
    - extend the use of the Overpayment Recovery Correspondence System (ORCS) to include Medicare billing and overpayments and correspondence operations planned for fiscal year 2017,
    - continued development in fiscal year 2017 of SPEED (System Processing Excess Earnings Data), a multi-phase automation initiative designed to process annuity adjustments resulting from excess earnings and work deductions on a timely basis, and
    - continued development of enhanced electronic data processing (EDP) policing to monitor earnings information and reduce manual handlings of records.

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 legal, program, information services, administrative, and financial operations, the RRB has divided these operations functionally into 44 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 2016, responsible officials performed in-depth reviews of 3 assessable units, assessed all 44, and certified 43**.**

Since fiscal year 2014, the OIG identified a material weakness in Financial Reporting. The material weakness is due to communication with the National Railroad Retirement Investment Trust's (NRRIT) auditor and ineffective controls. The OIG recommended that the Accounting Procedures Guide (APG) be updated in fiscal year 2015. The Bureau of Fiscal Operations updated the APG in July 2015. Additionally, corrective actions have taken place in fiscal year 2016. Specifically, the financial statement note *Reconciliation of Net Cost of Operations to Budget* was substantially automated in the agency's Financial Management Integrated System (FMIS). In addition, portions of our APG were rewritten with detailed instructions for operating within a new cloud shared service capability. Finally, quarterly internal quality assurance meetings were held during fiscal year 2016 to discuss voucher exceptions in an effort to address the OIG recommendations for the portion of the material weakness. These actions have improved accuracy and consistency of recorded amounts and effectiveness of controls.

During fiscal year 2016, the OIG asserted that a material weakness existed in the RRB's Control Environment. Control Environment is classified as a material weakness because the OIG believes that one of five principles related to control environment is ineffective. The RRB disagrees with the control environment material weakness cited by the OIG.

The agency is committed to resolving the reported weakness related to financial reporting and will closely monitor progress during fiscal year 2017.

Management Assurances

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

1. In accordance with OMB Circular No. A-123, Section VI (A), we are issuing a modified statement of assurance considering the OIG-identified material weakness 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 (FMFIA) §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 FMFIA §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 GPRA and OMB Circular No. A-11.

4. The RRB's Inspector General, in his auditor's report, identified Financial Reporting and the newly identified Control Environment as material weaknesses.

Description of OIG-Identified Material Weaknesses

Since fiscal year 2014, the OIG identified a material weakness in Financial Reporting. Financial Reporting is classified as a material weakness due to ineffective controls and deficiency resulting from differing interpretations of NRRIT oversight legislation.

During fiscal year 2016, the OIG asserted that a material weakness existed in the RRB's Control Environment. Control Environment is classified as a material weakness because the OIG believes that one of five principles related to control environment is ineffective.

Original signed by:

Walter A. Barrows, Labor Member
Steven J. Anthony, Management Member

Financial Management Systems Strategy

The RRB has continually upgraded its financial system structure to meet evolving standards and requirements. Our strategy is, and has been, to continually upgrade and improve the financial management systems structure. The RRB is committed to an integrated and automated financial management system that focuses on the agency's mission and accountability. Our goals are to (1) achieve compliance with applicable laws, regulations, standards and requirements; (2) identify requirements for financial systems support; (3) improve and facilitate user access to financial information; (4) reduce redundant data entry, storage and processing; and (5) improve security, control and disaster recovery capability for information processed and stored on remote servers, mainframe, local area network and personal computer systems.

The RRB's financial management system uses a comprehensive proprietary software application from CGI Federal – Momentum Enterprise Solution – that resides on a cloud hosting service. The RRB's system is referred to as the Financial Management Integrated System (FMIS). Momentum meets the core financial system requirements set by the Financial Systems integration Office (FSIO) and is Federal Enterprise Architecture compliant. The hosting service is also provided by CGI Federal which is a commercial shared service provider (SSP) for financial system services. Its cloud system has achieved compliance with GSA's FedRAMP security requirements and is an authorized cloud service provider (CSP).

FMIS supports the RRB's budget formulation and execution, general ledger and trust fund accounting, procurement, fixed assets and administrative accounts payable and receivable requirements. The RRB will migrate its current legacy Program Accounts Receivable system to FMIS in June 2016. It will support management of receivables arising from benefit payment programs and complies with debt collection legislation.

The RRB currently utilizes both commercial and Federal shared service providers for other E-Government functions including payroll/human resources (GSA), travel (CWGTSatoTravel) and employee relocation services (Bureau of the Public Debt). The payroll and travel functions are integrated with FMIS through electronic interfaces. The RRB also signed an Agency Participation Agreement with Treasury's Fiscal Service to interface its financial system with Treasury's Invoice Processing Platform (IPP) as its strategy to be compliant with OMB's requirement for all agencies to move to a standard platform to electronically process vendor invoices by 2018.

Summary of Actuarial Forecast

The Statement of Social Insurance presents an actuarial analysis of the financial position of the railroad retirement system as of October 1, 2015, 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 during fiscal years 2016-2090, 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 2016-2026. The results indicate that the Railroad Unemployment Insurance (RUI) Account will be solvent during the 11-year projection period.

Social Insurance: Key Measures

Balance Sheet: The Balance Sheet displayed in the Financial Section presents our assets, liabilities, and net position. Total assets for fiscal year 2016 are $31.5 billion, a 1.3% increase over last year. Of the total assets, $25.1 billion relates to funds held by the National Railroad Retirement Investment Trust (NRRIT). The net asset value of funds held by the NRRIT increased from fiscal year 2015 by 2.6%. Our investments totaled $1.4 billion and we invest those funds not needed to pay current expenses or benefits in interest bearing Treasury securities. A chart of investment balances held at Treasury can be found on page 19. Total liabilities for fiscal year 2016 are $5.6 billion. Liabilities decreased by $86.4 million or 1.5% in fiscal year 2016. Also, benefits due increased by $16.9 million. By statute, benefits due in September are not paid until October.

Statement of Net Cost: The Statement of Net Cost displayed in the Financial Section presents the annual cost of operating our two major programs: railroad retirement and railroad unemployment insurance. In fiscal year 2016, our net cost of operations was $12.7 billion, an increase over last year of $213 million, or 1.7%. A table for the net cost of operations for fiscal years 2016 and 2015 can be found on page 15.

Statement of Changes in Net Position: The Statement of Changes in Net Position displayed in the Financial Section reflects the changes that occurred within cumulative results of operations and unexpended appropriations. Total net position for 2016 is $25.8 billion. The statement shows an increase in the net position of the agency of $454 million attributable to the change in cumulative results of operations. Total financing sources for 2016 are $13 billion. A table for financing sources for fiscal years 2016 and 2015 can be found on page 17.

Statement of Social Insurance: Federal accounting standards require the presentation of a Statement of Social Insurance as a basic financial statement. The Statement of Social Insurance presents the present values of estimated future revenue and expenditures of the Railroad Retirement program. The Statement of Social Insurance covers a period of 75 years in the future, and the information and disclosures presented are deemed essential to the fair presentation of this statement.

The open group as of the valuation date includes current participants who have attained retirement age under the Railroad Retirement program, current participants who have not yet attained retirement age, and those expected to become participants, or new entrants. The closed group as of the valuation date includes only current participants: (1) those who have not yet retired but are active workers paying payroll taxes, (2) those who have retired and are receiving benefits, and (3) those who are not currently working but have sufficient service to be eligible for future benefits. The closed group measure represents a reasonably good estimate of the extent to which benefits of the closed group are funded by members of the closed group. The open group measure is inherently more sensitive to assumptions about the distant future than the closed group measure. The open group measure gives a more complete assessment of the long-term financial stability of the program because it includes all those who are projected to be participants in the program over the given projection period, whether paying payroll taxes or receiving benefits.

This year the valuation period for the Statement of Social Insurance was changed from a calendar-year basis to a fiscal-year basis. The net present value (NPV) of estimated future expenditures less estimated future revenue (net expenditures) for all participants over the next 75 years (open group) decreased from $26.1 billion as of December 31, 2014 to $24.6 billion as of September 30, 2015, a net change in the open group measure of $1.5 billion.

As can be seen on the Statement of Changes in Social Insurance Amounts, a change in the open group measure of about $1.8 billion is due to changes in economic data, assumptions, and methods. Select assumptions for COLA and wage increase rates were updated in 2016, as described in the footnotes to the Statement of Changes in Social Insurance Amounts. The change in the valuation period (from calendar years 2015-2089 to fiscal years 2016-2090) resulted in a change of about $0.3 billion in the open group measure. There were no changes in demographic assumptions, but there were updates to demographic data. Changes in demographic data, assumptions, and methods had a minimal effect, resulting in a change of less than $0.1 billion. This year there were no changes in law, policy, or methodology and programmatic data.

The financial statements are based on the selection of accounting policies and the application of significant accounting estimates, some of which require management to make significant assumptions. Further, the estimates are based on conditions that may change in the future. Actual results could differ materially from the estimated amounts. The financial statements include information to assist in understanding the effect of changes in assumptions to the related information.

TABLE OF KEY MEASURES

Dollars in ***MILLIONS***	As reported in FY 2016	As reported in FY 2015	Increase / $	(Decrease) %
COSTS[1]				
Total Financing Sources	$13,179.2	$10,986.5	2,192.7	20.0
Less: Net Cost	$12,717.8	$12,504.9	212.9	1.7
Net Change of Cumulative Results of Operations	$461.4	($1,518.4)	1,979.8	130.0
NET POSITION[2]				
Assets	$31,494.0	$31,126.2	367.8	1.2
Liabilities	$5,647.8	$5,734.2	(86.4)	(1.5)
Net Position (Assets minus Liabilities)	$25,846.2	$25,392.0	454.2	1.8

Dollars in ***BILLIONS***	10/1/2015	1/1/2015	Increase / $	(Decrease) %
SOCIAL INSURANCE[3]				
Social Insurance Net Expenditures (Open Group)	$24.6	$26.1	($1.5)	(5.7%)

1 Source: Consolidated Statement of Net Cost and Statement of Changes in Net Position.

2 Source: Consolidated Balance Sheet.

3 Source: Statement of Social Insurance (SOSI). In prior years, social insurance amounts covered calendar timeframes January 1 through December 31. Beginning in 2016, social insurance amounts will be on a fiscal year basis, from October 1 through September 30, although amounts for prior calendar years are not being restated. Amounts equal estimated present value of projected revenues and expenditures for scheduled benefits over the next 75 years. The Statement of Social Insurance shows future revenue less future expenditures while the Key Measure above shows future expenditures less future revenue. This change in presentation is done to eliminate any ambiguity in the interpretation of percentage changes in negative amounts.

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 USC 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.

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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 for fiscal year 2016 from the RRB's Annual Performance Plan. 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 plan 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.

Automation, e-Government and Customer Service Initiatives

The RRB is continuing with long-term plans to implement significant automation initiatives and other improvements. These changes have enabled the agency to operate with reduced resources in recent years and continue to streamline our 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.

Starting in fiscal year 2016, we are developing web applications for the G-73a.1, Notice of Death of Annuitant, the G-251a, Job Information Report, and the RL-5a, Notice of Annuity Award Listing. As resources permit, we will continue with the development of enhancements to the current system through the following processes:

- Multi-user account status. This process will allow a user with multiple accounts to use one user-ID and password to access all of their companies.
- Provide file upload capability for Form BA-4 and BA-6 reports. This functionality was installed for the BA-3 and BA-11 to allow employers to upload files instead of using the data entry process.

Work continued on SPEED (System Processing Excess Earnings Data), an automation initiative designed to process post-entitlement annuity adjustments in both retirement and survivor cases that result from excess earnings and work deductions. 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. SPEED is being built in a multi-phase approach. In fiscal year 2016, we completed the SPEED version which:

- Processes an award in response to a work estimate report being submitted (i.e. handles retirement temporary work deductions).
- Enters retirement work reductions or adjust the work deduction already in force.
- Sets up cases for award processing and release of letters.

In addition, in fiscal year 2017, we are continuing to work with the contractor who is supporting automation of retirement LPE and regular permanent work deductions which is the most complex phase of the SPEED project to-date. Work continues on this project.

Work continued during fiscal year 2016 on an enhanced automated retirement payment system which will replace the current legacy system that processes retirement applications (commonly referred to as Retirement Adjudication System Initial to Application Express [RASI to APPLE] Conversion). The enhanced process will improve the accuracy and efficiency of retirement initial claims. The new system will also allow for the payment of such application types as divorced spouse annuitants, which previously could not be processed automatically. As of September 2016, the target for completion of the enhanced system is fiscal year 2017. Future enhancements include the development of a system interface to ensure the accurate use of military service in the calculation of benefits.

During fiscal year 2016 we implemented phase two of the Overpayment Recovery and Correspondence System (ORCS) to support Railroad Unemployment Insurance Act (RUIA) overpayments. The third phase will extend the system's support to Medicare billing and overpayments, and is set to be fully functional in January 2017.

Treasury regulations require recipients of Federal nontax payments to receive payment by electronic funds transfer (EFT). In 2011, the RRB rolled out the Direct Express® program to beneficiaries who do not have a bank account or who do not choose direct deposit of their payments to an account at a financial institution. The Direct Express® Debit Master Card® program is a prepaid card program established pursuant to terms and conditions approved by Treasury. As of June 13, 2016, there were 1,999 beneficiaries enrolled in the program. The RRB also began offering International Direct Deposit (IDD) in April 2011, to our RRA beneficiaries who reside in foreign countries. As of June 13, 2016, there were 1,658 beneficiaries enrolled in the IDD program. Additionally, the RRB worked with Treasury to complete program changes that allow child support payments that are withheld from daily RUIA benefits and paid to State agencies to be made by EFT.

In fiscal year 2012, work began on a project to enhance our Electronic Data Processing (EDP) policing program, which will address the internal handling and automatic matching of earnings information received from our data match with the Social Security Administration. The first phase involved the automation and capture of excess and last person employer earnings information stored on the Retirement On-Line Calculations (ROC) system, an on-line system for calculating and paying retirement annuities. Fiscal year 2015 saw the completion of phase two which integrated the ROC data file into EDP Policing processing to filter out records properly adjudicated using the SSA earnings amount.

In phase three, we are integrating data from our Payment, Rate, and Entitlement History database to further filter out records in which the annuitant is not subject to excess earnings policing; i.e. the annuitant is in receipt of a social security benefit, the tier one component of the RRA annuity is equal to zero, and the annuitant is full retirement age on the annuity beginning date. This information will be used to eliminate redundant information and reduce the number of records referred to the claims adjudication units. We anticipate finalizing this project and moving it into production in calendar year 2016.

Sequestration of Railroad Unemployment Insurance Act (RUIA) Benefits

Under provisions of the Budget Control Act of 2011 (BCA), across-the-board cuts in Federal spending took effect March 1, 2013. While railroad retirement, survivor and disability payments are not affected by this measure, unemployment and sickness insurance benefits payable under the RUIA are impacted. Benefits payable for days October 1, 2015, through September 30, 2016, are being reduced by 6.8 percent. The reduction is required by the sequestration order issued by the President in accordance with the BCA. In the event that Congress and the

Administration do not eliminate sequestration for fiscal year 2017, a sequestration reduction will be applied starting on October 1, 2016, and beyond.

Succession Planning and Training

Strategic Management of Human Capital – Like many agencies, the RRB has an aging workforce. About 52 percent of our employees have 20 or more years of service and over 27 percent of the current workforce will be eligible for retirement by the end of fiscal year 2017. To prepare for the expected turnover, the agency is placing increased emphasis on strategic management of human capital. We have completed a workforce analysis that identifies historical data, trends and projected attrition to evaluate and prioritize future needs and vacancies in our workforce. The results from this analysis form the basis for formulating specific strategies, hiring plans and initiatives that will support the agency's succession plan. We also identify potential areas of skills and knowledge gaps in an agency-wide skills gap analysis. These gaps will need to be addressed in order to strive for a relatively smooth, seamless transition while continuing to achieve the mission of the agency. This process identifies areas where additional training may be necessary or where mentoring may be desirable to prepare employees for more senior positions. It also identifies areas of new skills that may need to be addressed through outside hires.

The agency has been able to utilize the re-employment of retirees to allow retirees under the Civil Service Retirement System and the Federal Employees Retirement System to be temporarily rehired without losing entitlement to their retirement annuities under Section 1122(a) of Public Law 111-84, which amended sections 8344 and 8468 of Title 5 of the United States Code. The agency has been able to rehire several annuitants on a temporary basis to assist in areas that have knowledge gaps due to attrition.

The RRB is also devoting more attention and resources to training and we have provided meaningful training programs for our employees. We have offered courses in the areas of performance management and managerial and supervisory development, and we recently provided negotiation training and "train the trainer" sessions and Microsoft Office training for employees. We utilize the results from training needs assessments and surveys to prioritize these needs. We also make use of technology in this area, utilizing the recently acquired Learning Management System (LMS), an internet-based program which effectively formalizes all aspects of training for all agency employees, while also providing self-assessments to the student and feedback to supervisors on their progress. In addition, all field managers now have access to the latest webinar technology to facilitate the remote training of new employees, as well as the ongoing training of experienced field staff. These initiatives are particularly useful to employees and managers in the agency's field offices.

The Federal Employee Viewpoint Survey (FEVS) provides our employees the opportunity to influence change by submitting feedback about their work environment, leadership, and many other aspects of our organization. We were pleased that of the 862 employees invited to participate, 481 completed the survey, for a response rate of 56% (compared to a government-wide response rate of 50%) in 2015. Forty eight survey items increased since 2014 while only 15 survey items decreased since 2014. We are also pleased to report that our agency ranked in the top ten (out of 37 departments/large agencies) in the areas of Global Satisfaction (7^{th}) and Employee Engagement (10^{th}).

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 after a disruption of services for 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 Management Communication Plan, and technically specific plans for mainframe, local area network (LAN), data communications, and desktop recovery. The agency regularly conducts 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. 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 people to protect their computers and information throughout the year. Every year, the RRB awareness program has been able to report exemplary levels of participation.

Required fiscal year 2016 Basic Security Awareness training was transmitted to all RRB employees in May 2016 using a web-based basic awareness program offered by SANS (an industry leader in security training) called "Securing the Human." Employees and contractors were required to complete 32 assigned training topics such as how to identify social engineering, how to perform safe browsing, and more. Additionally, with the increased risk of cyber-attacks impacting the RRB network, including phishing attacks, social engineering, and introduction of malware, it is imperative that all RRB employees with significant security responsibilities receive annual role based training. Since 2015, the RRB has in place a Learning Management System (LMS) to make sure those staff with increased security responsibilities will receive the required training for their respective roles and responsibilities later in the year by completing course modules from SkillSoft designed specifically for information security role based 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 Security Operations Center (SOC), 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 and respond to all network threats that impact the agency. 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 the final decisions regarding breach notification.

The Security Authorization process is integral to the information security programs of Federal agencies. Performing the security authorization process helps provide an understanding of the risks and other factors that could adversely affect the agency's mission for all of the agency information systems. The RRB continues to follow a Security Authorization strategy for fiscal year 2016 that is in line with the National Institute for Standards and Technology (NIST) Risk Management Framework (RMF) strategy and employs a continuous monitoring strategy to increase the effectiveness of our current information security program, performing annual risk assessments, as well as testing all security controls applicable to the information system. To further supplement the agency’s continuous monitoring strategy, we recently formed a partnership with the Department of Homeland Security (DHS) and enrolled in the Continuous Diagnostic Mitigation (CDM) program. The CDM program increases the agency’s visibility of potential threats continuously.

Program Evaluations

Program Evaluation	Results in Fiscal Year 2016
Federal Managers' Financial Integrity Act Reports	See "Systems and Controls" in the "Management's Discussion and Analysis" section.
Twenty-Sixth Actuarial Valuation of the Assets and Liabilities Under the Railroad Retirement Act as of December 31, 2013	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 arise only under the most pessimistic employment assumption. Even under that assumption, the cash flow problems do not occur until the year 2047.
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 2016, addresses the 11 fiscal year period 2016 through 2026. The report indicated that even as maximum benefits are expected to increase 36 percent from 2015 to 2026, experience-based contribution rates are expected to keep the unemployment insurance system solvent. The report did not include any recommendations for financing changes at this time.
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, and published on our website at www.rrb.gov.
Program integrity report	The RRB's program integrity report for fiscal year 2015, released in January 2016, showed that program integrity activities resulted in the establishment of about $11.4 million in recoverables, recovery of $12.5 million, benefit savings of $717,000, and referral of 20 cases to the Office of Inspector General.
Quality assurance reviews and special studies	RRA and RUIA adjudicative and payment accuracy is measured in regular diagnostic reviews conducted by quality assurance staff within the RRB's Program Evaluation and Management Services (PEMS) component. Initial disability determination accuracy is evaluated by quality assurance staff within PEMS and by an external contractor (Juncture). PEMS also evaluates policies and processes through special studies, as needed. PEMS reports to the Director of Programs.
Occupational disability reviews	Advisory doctors, representing the rail industry (labor and management), are authorized by law to review agency medical decisions. Case review audits were completed in 2000 and 2008; the agency is in its second year of a contract with the advisory doctors. The advisory doctors are currently engaged in a sample case review to determine the effectiveness of Specialist Consultative Examinations (SCE's). In addition, consulting physicians from Industrial Medical Associates (IMA) perform a quarterly quality review of disability documentation to ensure it is adequate to support medical decisions.

Program Evaluation	Results in Fiscal Year 2016
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.
Computer security and privacy assessment	All of the RRB's general support systems and all major applications are fully certified and accredited in compliance with the Federal Information Security Management Act, Office of Management and Budget directives and National Institute of Standards and Technology guidance.
Electronic government (e-Gov) activities	See pages 41 through 43 of this section.
Improper payment evaluation	See "Improper Payments Information Act (IPIA)" in the "Other Information" section.
RRB Office of Inspector General audits	See "Inspector General's Statement on Management and Performance Challenges" and "Management's Comments" in the "Other Information" section.

The next page begins a consolidated presentation of our actual performance in fiscal years 2013 through March 31, 2016 (except as noted), followed by a discussion of our unmet performance goals and objectives for fiscal year 2016. At the time this report was prepared, we had incomplete information on our fiscal year 2016 performance. The discussion of any unmet fiscal year 2016 performance goals and indicators will be presented in next year's report. This performance report was prepared by RRB employees.

Railroad Retirement Board **Fiscal Year 2016 Performance Plan**	**2013 Actual (At $108.7m)**	**2014 Actual (At $110.3m)**	**2015 Actual (At $111.225m)**	**2016 Planned [1/] (At $111.225m)**	**2016 Actual [1/] (At $111.225m)**
STRATEGIC GOAL I: Provide Excellent Customer Service					
***Strategic Objective: Pay benefits timely*.** Goal leader for objectives I-A-1 through I-A-5; I-A-7 and I-A-8: Michael Tyllas, Director of Programs Goal leader for objective I-A-6: Dan Fadden, Director of Field Service Goal leader for objective I-A-9: Rachel L. Simmons, Director of Hearings and Appeals					
I-A-1. 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: % ≤ 35 days)	95.6%	95.2%	95.8%	95.0%	93.0%
1-A-2. 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: % ≤ 60 days)	97.0%	95.3%	96.5%	95.0%	96.0%
I-A-3. 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)	96.1%	96.1%	94.3%	94.0%	97.1%

Railroad Retirement Board Fiscal Year 2016 Performance Plan	2013 Actual (At $108.7m)	2014 Actual (At $110.3m)	2015 Actual (At $111.225m)	2016 Planned [1/] (At $111.225m)	2016 Actual [1/] (At $111.225m)
I-A-4. 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. (Measure: % ≤ 30 days)	95.4%	95.5%	95.5%	94.5%	94.0%
I-A-5. RRB makes a decision to pay or deny a lump sum death benefit within 60 days of the date the application was filed. (Measure: % ≤ 60 days)	98.8%	98.4%	98.1%	98.0%	97.4%
I-A-6. 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)	99.9%	99.9%	99.9%	99.4%	99.9%
I-A-7. 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)	72.5%	42.8%	31.0%	70.0%	20.3%
I-A-8. 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)	95.1%	95.6%	95.8%	94.5%	91.0%
I-A-9. Reduce the number of days elapsed between the date the appeal is filed and a decision is rendered. (Measure: average elapsed days)	316	270	261	270	236

Railroad Retirement Board Fiscal Year 2016 Performance Plan		2013 Actual (At $108.7m)	2014 Actual (At $110.3m)	2015 Actual (At $111.225m)	2016 Planned [1/] (At $111.225m)	2016 Actual [1/] (At $111.225m)
Strategic Objective: Provide a range of choices in service delivery methods. Goal leader: Michael Tyllas, Director of Programs						
I-B-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)		19 services available	19 services available	19 services available	20 services available	19 services available
I-B-2. Enable employers to use the Internet to conduct business with the RRB, in support of the Government Paperwork Elimination Act. (Measures: percentage of employers who use the on-line Employer Reporting System (ERS); number of services available through electronic media)	a) Employers using ERS:	87.0%	98.3%	99.0%	99.0%	99.7%
	b) Internet services:	21 Internet services available	26 Internet services available	27 Internet services available	29 Internet services available	27 Internet services available
STRATEGIC GOAL II: Serve as Responsible Stewards for Our Customers' Trust Funds and Agency Resources						
Strategic Objective: Ensure that trust fund assets are protected, collected, recorded, and reported appropriately. Goal leader: Lawrence Haskin, Acting Chief Financial Officer						
II-A-1. Debts will be collected through billing, offset, reclamation, referral to outside collection programs, and a variety of other collection efforts. (Measure for fiscal years 2013 and following: total overpayments recovered in the fiscal year / total overpayments established in the fiscal year.)		97.72%	91.33% [2/]	99.58%	85.00%	95.73%

Railroad Retirement Board Fiscal Year 2016 Performance Plan		2013 Actual (At $108.7m)	2014 Actual (At $110.3m)	2015 Actual (At $111.225m)	2016 Planned [1/] (At $111.225m)	2016 Actual [1/] (At $111.225m)
Strategic Objective: Ensure the accuracy and integrity of benefit programs. Goal leader II-B-1(a)(b) and II-B-3, 4, and 5: Michael Tyllas, Director of Programs Goal leader II-B-2(a)(b): Dan Fadden, Director of Field Service						
II-B-1. Achieve a railroad retirement benefit payment accuracy rate [3/] of at least 99%. (Measure: percent accuracy rate)	a) Initial payment	99.84%	99.52%	99.72%	99.60%	99.92%
	b) Sample post recurring payments	99.70%	100%	99.91%	99.60%	99.88%
II-B-2. Achieve a railroad unemployment/sickness insurance benefit payment accuracy rate [3/] of at least 99%. (Measure: percent accuracy rate)	a) Unemployment	98.99%	99.83%	99.23%	99.50%	99.41%
	b) Sickness	99.42%	99.52%	99.40%	99.40%	100%
II-B-3. Overall Initial Disability Determination Accuracy. (Measure: % of Case Accuracy)		New indicator for FY 15	98.6% [4/]	95.8% [5/]	96.00%	FY 16 Data Not Available
II-B-4. Maintain the level of Railroad Retirement Act (RRA) improper payments below the OMB threshold. (Measure: prior to fiscal year 2014, below 2.5%; beginning fiscal year 2014, below 1.5%)		0.70% [6/]	0.59% [7/]	0.58%	0.90%	FY 16 Data Not Available
II-B-5. Achieve a return of at least $3.60 for each dollar spent on program integrity activities. (Measure for fiscal year 2011: recoveries and savings per dollar spent. Measure for fiscal years 2012 and following: recoverables and savings per dollar spent)		$4.90: $1.00	$5.20: $1.00	$4.49: $1.00	$4.50: $1.00	FY 16 Data Not Available

Railroad Retirement Board Fiscal Year 2016 Performance Plan		**2013 Actual (At $108.7m)**	**2014 Actual (At $110.3m)**	**2015 Actual (At $111.225m)**	**2016 Planned [1/] (At $111.225m)**	**2016 Actual [1/] (At $111.225m)**
Strategic Objective: Ensure effectiveness, efficiency, and security of operations. Goal leader: Ram Murthy, Chief Information Officer						
II-C-1. Complete modernization of RRB processing systems in accordance with long-range planning goals. (Measure: Meet target dates for the project. Yes/No)		Yes. The conversion of the EDM database was completed January 2013. The design phase of the Payment Rate and Entitlement History (PREH) database was completed December 2013.	No. The target date for PREH conversion is delayed due to higher priority project (TPAM) mandated by the U.S. Treasury. New target: April 30, 2015.	Yes. The target date for the RUIA XR modernization and Medicare Database conversion has been met. PREH conversion is delayed due to staff working on higher priority project. The new target date is September 30, 2016.	Yes. The target date for the PREH conversion is scheduled for September 30, 2016.	Project complete August 15, 2016
II-C-2. Deliver – Deliver on Budget. Percent of IT Projects costs within 10% of budgeted costs.		New Performance Goal for FY2016	New Performance Goal for FY2016	New Performance Goal for FY2016	85.0%	100.0%
II-C-3. Deliver – Meet Customer Expectations. WWW.RRB.GOV Internet Services (Mainline and Employer Reporting System) continuous availability experienced by end users.	a. Continuous availability target	New Performance Goal for FY2016	New Performance Goal for FY2016	New Performance Goal for FY2016	99.0%	98.9%
	b. Hours of outage allowed per month	New Performance Goal for FY2016	New Performance Goal for FY2016	New Performance Goal for FY2016	7 hours	7.83 hours

Railroad Retirement Board Fiscal Year 2016 Performance Plan	**2013 Actual (At $108.7m)**	**2014 Actual (At $110.3m)**	**2015 Actual (At $111.225m)**	**2016 Planned [1/] (At $111.225m)**	**2016 Actual [1/] (At $111.225m)**
II-C-4. Innovate – Design for Modularity. Strategy for Continuity of Operations Improvements.	New Performance Goal FY2016	New Performance Goal FY2016	New Performance Goal FY2016	Implement automatic failover of email system to alternate facility.	Not complete due to staff working on higher priority projects.
II-C-5. Innovate – Adopt New Technologies. Percentage of investments that evaluated cloud alternatives.	New Performance Goal FY2016	New Performance Goal FY2016	New Performance Goal FY2016	98.5%	100.0%
II-C-6. Protect – Email Data Loss Prevention. Percentage of externally bound emails and their attachments automatically encrypted that contain personally identifiable or credit card information.	New Performance Goal FY2016	New Performance Goal FY2016	New Performance Goal FY2016	99.0%	99.1%
II-C-7. Protect – Percentage of agency employees required to use a Personal Identity Verification (PIV) card to authenticate.	New Performance Goal FY2016	New Performance Goal FY2016	New Performance Goal FY2016	100%	70.0%
Strategic Objective: Effectively carry out responsibilities with respect to the National Railroad Retirement Investment Trust. Goal leader: Karl T. Blank, General Counsel					
II-D-1. Timely review information reported by the National Railroad Retirement Investment Trust to carry out RRB's oversight responsibility under section 15(j)(5)(F) of the Railroad Retirement Act. Reports are to be reviewed within 30 days of receipt. (Measure: Yes/No)	Yes	Yes	Yes	Yes	Yes

Footnotes are on the following page.

1/ Planned amounts reflect the fiscal year 2016 performance targets shown in the RRB's Congressional Justification of Budget Estimates, released on February 9, 2016. Actual results represent status as of March 31, 2016, unless otherwise noted.

2/ The published P&AR for FY 2015 shows that the 2014 actual results (at $110.3m) was 95.1%. This percentage represented the status as of March 31, 2014. This publication is corrected to show that the 2014 actual result (at $110.3m) was 91.33%.

3/ The payment accuracy rate is the percentage of dollars paid correctly as a result of adjudication actions performed.

4/ FY 2014 performance was used to establish a baseline.

5/ There was no performance goal established for FY 2015. The first year this goal will be reported is FY 2016.

6/ The published P&AR for FY 2015 shows the 2013 Improper payment rate at 0.54%, it should be 0.70%. This accurately shows that the fiscal year data reviewed matches the fiscal year the data is reported.

7/ The published P&AR for FY 2015 shows the 2014 Improper payment rate at 0.70%, it should be 0.59%. This accurately shows that the fiscal year data reviewed matches the fiscal year the data is reported.

Discussion of Unmet Performance Goals and Indicators for Fiscal Year 2015

INDICATOR	DISCUSSION OF VARIANCE
Performance Indicator I-A-7. The 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) Our fiscal year 2015 goal was 70.0%, and the actual was 31.0%.	Disability Benefits Division (DBD) did not meet the 2015 performance target due to the following reasons: • The RRB instituted a Disability Program Improvement Plan (DPIP) that improved the disability process. The changes, however, increased the timeliness in rating of claims. 1. We instituted concurrent adjudication, which requires processing occupational disability claims with a freeze determination. A decision for occupational disability cannot be made before 90 days from filing without the disability freeze, which requires being disabled for all work. 2. All occupational disability and alleged mental or orthopedic conditions for total and permanent disability cases require a Board Certified Specialist exam. Initially, our contacting provider had difficulty locating physicians that met the criteria for our protocols. In addition to the RRB needing to complete a contract change. • FY 2015 began with staffing shortages. There were only 6 examiners to rate claims because additional initial examiners were in training and trainee status ended August 28, 2015. • In addition, DBD continued to work Long Island Rail Road (LIRR) refile claims in FY 2015. These claims were deemed a priority but not included in the timeliness statistics. DBD's prior FY priority to LIRR refile claims created a backlog of newly filed claims. DBD refocused priorities to significantly reduce backlogged newly filed claims.
Performance Indicator I-B-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 fiscal year 2015 goal was 20 services available and the actual was 19 services available.	Policy and Systems did not meet the projected goal of 20 services available due to higher priorities including the Windows 2003 Server Migration.

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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 2016. 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. We strive 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 2016.

- We received a disclaimer audit opinion on our consolidated financial statements for fiscal year 2016. In accordance with OMB schedule for releasing quarterly financial statements, we prepared unaudited 3rd quarter financial statements.

- The status of the OIG-identified material weaknesses and planned corrective action are presented in the Management's Discussion and Analysis' Management Assurances section.

- We implemented audit recommendations as follows:

  At the beginning of fiscal year 2016, the agency's audit follow-up tracking system reported 238 audit recommendations as being open. During the fiscal year, audit reports containing another 98 recommendations were issued. As a result, the total number of open recommendations during the year was 336, of which the RRB concurred with 306. At the same time, final action was completed on 72 audit recommendations, resulting in a balance at the end of the fiscal year of 264 open recommendations, of which the RRB concurred with 229.

The RRB has migrated its accounts receivable function from a legacy mainframe based environment into its cloud based Financial Management Integrated System (FMIS). The service is hosted by CGI Federal, a commercial shared service provider (SSP) for financial system services. Its cloud system has achieved compliance with GSA's FedRAMP security requirements and is an authorized cloud service provider (CSP).

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:

Lawrence Haskin
Acting Chief Financial Officer

RAILROAD RETIREMENT BOARD
CONSOLIDATED BALANCE SHEET
AS OF SEPTEMBER 30, 2016 AND 2015
(in dollars)

	FY 2016	FY 2015
ASSETS		
Intragovernmental:		
Fund Balance with Treasury (Note 3)	$304,793,097	$217,801,718
Investments (Note 4)	1,377,976,015	1,756,991,920
Accounts Receivable (Note 6)	4,617,907,487	4,589,618,854
Total Intragovernmental	**6,300,676,599**	**6,564,412,492**
NRRIT Net Assets (Note 5)	25,149,221,659	24,516,371,538
Accounts Receivable, Net (Note 6)	38,055,871	40,324,780
General Property, Plant and Equipment, Net (Note 7)	5,548,151	4,535,831
Other	544,907	548,141
TOTAL ASSETS	**$31,494,047,187**	**$31,126,192,782**
LIABILITIES (Note 8)		
Intragovernmental:		
Accounts Payable	$588,899,949	$635,011,101
Debt	3,615,966,150	3,537,120,317
Other	1,657,181	1,615,691
Total Intragovernmental	**4,206,523,280**	**4,173,747,109**
Accounts Payable	798,873	1,014,080
Benefits Due and Payable	1,079,289,457	1,062,431,455
Other	361,207,831	497,034,713
TOTAL LIABILITIES	**$5,647,819,441**	**$5,734,227,357**
COMMITMENTS AND CONTINGENCIES (Note 9)		
NET POSITION		
Unexpended Appropriations - Funds from Dedicated Collections (Note 16)	15,470,032	15,376,925
Unexpended Appropriations - All Other Funds	149,309,072	156,606,846
Cumulative Results of Operations - Funds from Dedicated Collections (Note 16)	25,677,990,029	25,217,589,345
Cumulative Results of Operations - All Other Funds	3,458,613	2,392,309
Total Net Position - Funds from Dedicated Collections (Note 16)	25,693,460,061	25,232,966,270
Total Net Position - All Other Funds	152,767,685	158,999,155
TOTAL NET POSITION	**25,846,227,746**	**25,391,965,425**
TOTAL LIABILITIES AND NET POSITION	**$31,494,047,187**	**$31,126,192,782**

The accompanying notes are an integral part of these statements

RAILROAD RETIREMENT BOARD
CONSOLIDATED STATEMENT OF NET COST
FOR THE YEARS ENDED SEPTEMBER 30, 2016 AND 2015
(in dollars)

	FY 2016	FY 2015
Gross Program Costs:		
Railroad Retirement Program		
Gross Costs (Note 10)	$12,588,997,626	$12,436,434,196
Less: Earned Revenue	32,214,022	37,775,304
Net Program Costs	12,556,783,604	12,398,658,892
Railroad Unemployment and Sickness Insurance Program		
Gross Costs (Note 10)	177,403,754	121,590,687
Less: Earned Revenue	16,389,717	15,328,849
Net Program Costs	161,014,037	106,261,838
Costs Not Assigned to Programs	0	0
Less: Earned Revenues Not Attributed to Programs	24,512	29,170
NET COST OF OPERATIONS	**$12,717,773,129**	**$12,504,891,560**

The accompanying notes are an integral part of these statements

RAILROAD RETIREMENT BOARD
CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION
FOR THE YEAR ENDED SEPTEMBER 30, 2016
(in dollars)

	FY 2016			
	Funds from Dedicated Collections	**All Other Funds**	**Eliminations**	**Consolidated Total**
Cumulative Results of Operations:				
Beginning Balances	$25,217,589,345	$2,392,309		$25,219,981,654
Budgetary Financing Sources:				
Appropriations Used	762,690,663	27,885,510		790,576,173
Non-Exchange Revenue	6,081,213,960	1,085,283	(128,563)	6,082,170,680
Transfers in from NRRIT (Note 11)	1,410,000,000			1,410,000,000
Transfers in/out Without Reimbursement	4,119,039,000			4,119,039,000
Other Financing Sources (Non-Exchange):				
Imputed Financing	6,594,143			6,594,143
Change in NRRIT Assets	632,850,121			632,850,121
Gain/(Loss) Contingency	138,010,000			138,010,000
Total Financing Sources	13,150,397,887	28,970,793	(128,563)	13,179,240,117
Net Cost Of Operations	12,689,997,203	27,904,489	(128,563)	12,717,773,129
Net Change	**460,400,684**	**1,066,304**	**0**	**461,466,988**
Cumulative Results of Operations	**25,677,990,029**	**3,458,613**		**25,681,448,642**
Unexpended Appropriations:				
Beginning Balances	15,376,925	156,606,846		171,983,771
Budgetary Financing Sources:				
Appropriations Received	762,883,571	28,000,000		790,883,571
Appropriations transferred in/out				0
Other Adjustments	(99,801)	(7,412,264)		(7,512,065)
Appropriations Used	(762,690,663)	(27,885,510)		(790,576,173)
Total Budgetary Financing Sources	93,107	(7,297,774)		(7,204,667)
Total Unexpended Appropriations	**15,470,032**	**149,309,072**		**164,779,104**
Net Position	**$25,693,460,061**	**$152,767,685**		**$25,846,227,746**

The accompanying notes are an integral part of these statements

RAILROAD RETIREMENT BOARD
CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION
FOR THE YEAR ENDED SEPTEMBER 30, 2015
(in dollars)

FY 2015

	Funds from Dedicated Collections	All Other Funds	Eliminations	Consolidated Total
Cumulative Results of Operations:				
Beginning Balances	$26,737,762,106	$657,077		$26,738,419,183
Budgetary Financing Sources:				
Appropriations used	723,913,825	31,851,541		755,765,366
Non-exchange revenue	6,550,141,448	2,115,507	(23,253)	6,552,233,702
Transfers in from NRRIT (Note 11)	1,191,000,000			1,191,000,000
Transfers in/out without reimbursement	4,052,351,000			4,052,351,000
Other Financing Sources (Non-Exchange):				
Imputed financing	7,378,454			7,378,454
Change in NRRIT assets	(1,574,164,491)			(1,574,164,491)
Other gains	1,890,000			1,890,000
Total Financing Sources	10,952,510,236	33,967,048	(23,253)	10,986,454,031
Net Cost Of Operations	12,472,682,997	32,231,816	(23,253)	12,504,891,560
Net Change	**(1,520,172,761)**	**1,735,232**		**(1,518,437,529)**
Cumulative Results of Operations	**25,217,589,345**	**2,392,309**		**25,219,981,654**
Unexpended Appropriations:				
Beginning Balance	16,634,135	158,322,189		174,956,324
Budgetary Financing Sources:				
Appropriations received	722,754,523	32,000,000		754,754,523
Other adjustments	(97,908)	(1,863,802)		(1,961,710)
Appropriations used	(723,913,825)	(31,851,541)		(755,765,366)
Total Budgetary Financing Sources	(1,257,210)	(1,715,343)		(2,972,553)
Total Unexpended Appropriations	**15,376,925**	**156,606,846**		**171,983,771**
Net Position	**$25,232,966,270**	**$158,999,155**		**$25,391,965,425**

The accompanying notes are an integral part of these statements.

RAILROAD RETIREMENT BOARD
COMBINED STATEMENT OF BUDGETARY RESOURCES
FOR THE YEARS ENDED SEPTEMBER 30, 2016 AND 2015
(in dollars)

	2016	2015
Budgetary Resources		
Unobligated balance brought forward, Oct 1 (Note 25)	$181,928,605	$178,718,072
Adjustment to unobligated balance brought forward, Oct 1 (+ or -) (Note 22)	0	59,840,279
Unobligated balance brought forward, Oct 1, as adjusted	181,928,605	238,558,351
Recoveries of unpaid prior year obligations	480,680	2,255,776
Other changes in unobligated balance (+ or -)	(8,177,400)	(1,961,710)
Unobligated balance from prior year budget authority, net	174,231,885	238,852,417
Appropriations (discretionary and mandatory)	9,548,793,391	9,320,480,705
Borrowing authority (discretionary and mandatory) (Note 19)	3,921,400,000	3,845,300,000
Spending authority from offsetting collections (discretionary and mandatory)	172,728,020	174,867,276
Total budgetary resources	**$13,817,153,296**	**$13,579,500,398**
Status of Budgetary Resources		
New obligations and upward adjustments (total) (Note 17)	13,642,828,009	13,397,595,266
Unobligated balance, end of year		
Apportioned, Unexpired Accounts	5,595,585	147,704,817
Unapportioned, Unexpired Accounts	156,419,553	15,024,366
Unexpired unobligated balance, end of year	162,015,138	162,729,183
Expired unobligated balance, end of year	12,310,149	19,175,949
Unobligated balance, end of year (total)	174,325,287	181,905,132
Total budgetary resources	**$13,817,153,296**	**$13,579,500,398**
Change in Obligated Balance		
Unpaid obligations:		
Unpaid obligations, brought forward, Oct 1	$993,910,806	$962,824,350
New obligations and upward adjustments	13,642,828,009	13,397,595,266
Outlays (gross) (-)	(13,626,100,718)	(13,364,253,034)
Recoveries of prior year unpaid obligations (-)	(480,680)	(2,255,776)
Unpaid obligations, end of year	1,010,157,417	993,910,806
Uncollected payments:		
Uncollected pymts, Fed sources, brought forward, Oct 1 (-) (Note 25)	(197,603)	(68,670)
Change in uncollected pymts, Fed Sources (+ or -)	63,248	(128,934)
Uncollected pymts, Fed sources, end of year (-)	(134,355)	(174,132)
Memorandum (non-add) entries:		
Obligated balance, start of year (+ or -) (Note 25)	$993,713,203	$962,779,150
Obligated balance, end of year (+ or -)	$1,010,023,062	$993,736,672
Budget Authority and Outlays, Net		
Budget authority, gross (discretionary and mandatory)	13,642,921,411	13,340,647,981
Actual offsetting collections (discretionary and mandatory) (-)	(173,767,000)	(174,738,343)
Change in uncollected pymts from Fed sources (discretionary and mandatory) (+ or -)	63,248	(128,934)
Recoveries of prior year paid obligations (discretionary and mandatory)	975,731	
Budget authority, net (total) (discretionary and mandatory)	**$13,470,193,390**	**$13,165,780,704**
Outlays, gross (discretionary and mandatory)	$13,626,100,718	$13,364,253,034
Actual offsetting collections (discretionary and mandatory) (-)	(173,767,000)	(174,738,343)
Outlays, net (total) (discretionary and mandatory)	13,452,333,718	13,189,514,691
Distributed offsetting receipts (-)	(4,881,721,696)	(4,774,955,523)
Agency outlays, net (discretionary and mandatory)	**$8,570,612,022**	**$8,414,559,168**

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

Railroad Retirement Board

Statement of Social Insurance (Note 14, Note 15)

Actuarial Surplus or (Deficiency)

75-year Projection as of October 1, 2015

(Present values in billions of dollars)

	10/1/2015	1/1/2015	1/1/2014	1/1/2013	1/1/2012
Current participants who have attained retirement age:					
Contributions and earmarked taxes	$85.3	$85.4	$82.8	$81.1	$79.0
Expenditures for scheduled future benefits	131.2	130.6	125.8	122.6	118.8
Present Value of estimated future revenue less estimated future expenditures	(45.8)	(45.1)	(43.0)	(41.5)	(39.8)
Current participants not yet having attained retirement age:					
Contributions and earmarked taxes	92.5	88.0	85.5	84.2	81.3
Expenditures for scheduled future benefits	99.0	97.2	96.8	96.2	94.7
Present Value of estimated future revenue less estimated future expenditures	(6.5)	(9.2)	(11.3)	(12.0)	(13.4)
Net estimated present value of future revenue less future expenditures for current participants (closed group measure)	(52.4)	(54.4)	(54.4)	(53.5)	(53.1)
Plus: Treasury securities and assets held by the program	26.3	27.6	27.6	25.5	24.2
Closed group surplus/(unfunded obligation)	($26.1)	($26.8)	($26.7)	($28.1)	($29.0)
Future participants:					
Contributions and earmarked taxes	$58.0	$63.2	$62.8	$64.0	$64.0
Expenditures for scheduled future benefits	30.2	34.9	34.5	34.3	33.5
Present Value of estimated future revenue less estimated future expenditures	27.8	28.3	28.3	29.7	30.5
Net estimated present value of future revenue less future expenditures for current and future participants (open group measure)	(24.6)	(26.1)	(26.0)	(23.9)	(22.7)
Plus: Treasury securities and assets held by the program	26.3	27.6	27.6	25.5	24.2
Open group surplus/(unfunded obligation)	$1.7	$1.5	$1.6	$1.6	$1.5

Detail may not add to totals due to rounding.
The accompanying notes are an integral part of these financial statements.

Railroad Retirement Board
Statement of Changes in Social Insurance Amounts
Open Group Measure
For the Period Ended September 30, 2015
(in billions of dollars)

Net Present Value beginning of calendar year 2014	**$ (26.0)**
Reasons for changes in the NPV during the year:	
Changes in valuation period[1]	**0.1**
Changes in demographic data, assumptions, and methods[2]	**(0.1)**
Changes in economic data, assumptions, and methods[3]	**(0.1)**
Changes in law or policy[4]	**NA**
Changes in methodology and programmatic data[5]	**NA**
Changes in Medicare healthcare and other healthcare assumptions[6]	**NA**
Other changes	**NA**
Net change during calendar year 2014	**(0.1)**
Net Present Value end of calendar year 2014/beginning of year 2015	**$ (26.1)**
Reasons for changes in the NPV during the year:	
Changes in valuation period[1]	**(0.3)**
Changes in demographic data, assumptions, and methods[2]	**-**
Changes in economic data, assumptions, and methods[3]	**1.8**
Changes in law or policy[4]	**NA**
Changes in methodology and programmatic data[5]	**NA**
Changes in Medicare healthcare and other healthcare assumptions[6]	**NA**
Other changes	**NA**
Net change during 2015 (Through 9/30/2015)	**1.5**
Net Present Value end of fiscal year 2015	**$ (24.6)**

Detail may not add to totals due to rounding.
The accompanying notes are an integral part of these financial statements.

NOTES:

Beginning with the fiscal year 2016 reporting period, the valuation period for the Statement of Social Insurance is being changed from calendar year to fiscal year. The valuation date for the Statement of Social Insurance has been set back three months, from January 1, 2016 to October 1, 2015. This means that the primary reasons for the changes in the 2016 Statement of Changes in Social Insurance Amounts (SCSIA) are for the 9-month period between 1/1/2015 and 10/1/2015. The 2016 SCSIA will not be exactly comparable to the 2015 SCSIA which presents the primary reasons for the changes in social insurance amounts for the 12-month period between 1/1/2014 and 1/1/2015.

1. Changes in valuation period –

   Between 1/1/2014 and 1/1/2015:
   Changes in the valuation period from 2014-2088 to 2015-2089 resulted in a change of about $0.1 billion on the open group measure between 1/1/2014 and 1/1/2015.

   Between 1/1/2015 and 10/1/2015:
   Changes in the valuation period from calendar years 2015-2089 to fiscal years 2016-2090 resulted in a change of about ($0.3) billion on the open group measure between 1/1/2015 and 10/1/2015.

2. Changes in demographic data, assumptions, and methods –

   Between 1/1/2014 and 1/1/2015:
   Some demographic assumptions, such as the Annuitants Mortality Table, the Disabled Mortality Table for Annuitants with Disability Freeze, the Disabled Mortality Table for Annuitants without Disability Freeze, the Active Service Mortality Table, the Spouse Total Termination Table, the Mortality Improvement Scale, the probability of a spouse, the Mortality Table for Widows, the rates of immediate age retirement, the rates of immediate disability retirement, the rates of eligibility for disability freeze, service months, salary scales, and family characteristics, were changed between the Statement of Social Insurance as of 1/1/2014 and the Statement of Social Insurance as of 1/1/2015. Changes in demographic data, assumptions, and methods resulted in a change of about ($0.1) billion on the open group measure between 1/1/2014 and 1/1/2015.

   Between 1/1/2015 and 10/1/2015:
   Demographic assumptions were not changed between the Statement of Social Insurance as of 1/1/2015 and the Statement of Social Insurance as of 10/1/2015. Changes in demographic data had a minimal effect (less than $0.1 billion) on the open group measure between 1/1/2015 and 10/1/2015.

3. Changes in economic data, assumptions, and methods –

   Between 1/1/2014 and 1/1/2015:
   Both select and ultimate economic assumptions were changed between the Statement of Social Insurance as of 1/1/2014 and the Statement of Social Insurance as of 1/1/15. A COLA of 0.5% was used for 2016 in place of the

2.2% COLA assumed for 2016 in the prior year's report. A 1.6% COLA was assumed for 2017 instead of a 2.8% COLA. An ultimate COLA of 2.7% for 2018 and the following years was used in place of the ultimate COLA of 2.8% used in the prior year's report. An ultimate wage increase assumption of 3.7% was used in place of the 3.8% wage increase assumption used in the prior year's report. Also, the actual 2014 investment return of 5.5% was lower than the assumed 7.0% investment return used for 2014 in the prior year's report. Changes in economic data, assumptions, and methods resulted in a change of about ($0.1) billion from 1/1/2014 to 1/1/2015.

Between 1/1/2015 and 10/1/2015:
Ultimate economic assumptions were not changed between the Statement of Social Insurance as of 1/1/2015 and the Statement of Social Insurance as of 10/1/2015, but select economic assumptions were. The actual COLA of 0.0% was used for 2016 in place of the 0.5% COLA assumed for 2016 in the prior year's report. A 0.5% COLA was used for 2017 instead of a 1.6% COLA, and a 1.6% COLA was assumed for 2018 instead of a 2.7% COLA. A wage increase assumption of 2.5% was used for 2015 instead of a 3.7% wage increase assumption. Also, the actual 2015 investment return of 0.2% was lower than the assumed 7.0% investment return used for 2015 in the prior year's report. Economic data, assumptions, and methods had the greatest effect on the open group measure, resulting in a change of about $1.8 billion from 1/1/2015 to 10/1/2015.

4. There were no changes in law or policy.

5. There were no changes in methodology and programmatic data.

6. Medicare healthcare and other healthcare assumptions are not applicable to the Railroad Retirement program.

Notes to the Financial Statements: Fiscal Years Ended September 30, 2016 and 2015

1. Summary of Significant Accounting Policies

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 2016 are to be submitted to the President, the Congress, and the Director of OMB by November 15, 2016. 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, Social Insurance, and Changes in Social Insurance Amounts. 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.

The current and prior year balance sheet net asset amounts for the National Railroad Retirement Investment Trust (NRRIT) are unaudited figures that are within acceptable materiality amounts. The audited net asset NRRIT amount used in the computations for the Statement of Social Insurance is from the prior fiscal year. The balance sheet NRRIT amount is reasonable, not restated and was used to meet the goal of November 15 for the release of RRB's financial statements.

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 a fund from dedicated collections. Our authority to use these collections is 45 United States Code (USC) §231f(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 a fund from dedicated collections. 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 §231n(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; receiving credit for the interest portion of uncashed check transfers; and funds provided by the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010. Account 60X0113 is considered a fund from dedicated collections. 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 a fund from dedicated collections. 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. In addition, this fund contains the Limitation on Administration funds for extended unemployment benefits provided under Public Laws 111-92, 112-96, and 112-240. Account 60X8237 is considered a fund from dedicated collections.

- 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 a fund from dedicated collections. 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 a fund from dedicated collections. 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 a fund from dedicated collections. Our authority to use these collections is Public Law 114-53 and 114-113.

- 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.

- Railroad Unemployment Insurance Extended Benefit Payments, for Limitation Account – 60X0118: Funds provided under Public Law 111-92, Worker, Homeownership, and Business Assistance Act of 2009, and Public Law 112-96, Middle Class Tax Relief and Job Creation Act of 2012, and Public Law 112-240, American Taxpayer Relief Act of 2012.

- Railroad Unemployment Insurance Extended Benefit Payments – 60X0117: Funds provided under Public Law 111-92, Worker, Homeownership, and Business Assistance 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. 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 Department of the Treasury (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. *Funds from Dedicated Collections*

SFFAS No. 43, Funds from Dedicated Collections, amends SFFAS No. 27, Identifying and Reporting Earmarked Funds. Generally, funds from dedicated collections are financed by specifically identified revenues, provided to the government by non-Federal sources, often supplemented by other financing sources, which remain available over time. These specifically identified revenues and other financing sources are required by statute to be used for designated activities, benefits, or purposes, and must be accounted for separately from the government's general revenues. Funds from Dedicated Collections should be shown as a separate presentation and disclosure in the financial statements. The three required criteria for funds from dedicated collections are:

- A statute committing the Federal Government to use specifically identified revenues and/or other financing sources that are originally provided to the Federal Government by a non-Federal source only for designated activities, benefits, or purposes;

- Explicit authority for the fund to retain revenues and/or 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/or other financing sources that distinguish the fund from the Federal Government's general revenues.

Refer to Note 16, Funds from Dedicated Collections.

G. *Application of Critical Accounting Estimates*

The financial statements are based on the selection of accounting policies and the application of significant accounting estimates, some of which require management to make significant assumptions. Further, the estimates are based on conditions that may change in the future. Actual results could differ materially from the estimated amounts. The financial statements include information to assist in understanding the effect of changes in assumptions to the related information.

2. Related Parties

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

- 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 2016 and 2015, net payroll taxes transferred to the RRB by Treasury were $6.0 billion and $6.4 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 2016 and 2015, investments, including accrued interest, totaled $1.4 billion and $1.8 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 2016 due to the financial interchange advances during fiscal year2015 included principal of $3.8 billion and interest of $97 million. The amount paid by the RRB to Treasury in fiscal year 2015 due to the financial interchange advances during fiscal year 2014 included principal of $3.9 billion and interest of $103 million.

- The Social Security Administration (SSA) and the 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 2016, the RRB trust funds realized $4.7 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 were $1.5 billion for fiscal year 2016 and $1.5 billion for fiscal year 2015.

- The Centers for Medicare & Medicaid Services (CMS) participates in the annual financial interchange in the same manner as described for SSA. The RRB transferred $657 million and $595 million to CMS in fiscal years 2016 and 2015, 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 2016 and 2015 were $32.2 million and $37.8 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 2016 and $3.1 million for fiscal year 2015.

- The Department of Labor (DOL) invests Railroad Unemployment Insurance Act (RUIA) contributions. Accounts receivable with the DOL amounted to $68.0 million and $106.8 million for fiscal years 2016 and 2015, respectively.

- The National Railroad Retirement Investment Trust (NRRIT) transfers funds to the RRB for payment of railroad retirement benefits. During fiscal years 2016 and 2015, the NRRIT transferred $1,410 million and $1,191 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:

	2016	2015
A. Fund Balances:		
(1) Trust Funds	$137,382,423	$ 36,056,096
(2) General Funds	167,410,674	181,745,622
(3) Other Fund Types	0	0
Total	$304,793,097	$217,801,718
B. Status of Fund Balance with Treasury (FBWT)		
(1) Unobligated Balance		
(a) Available	$ 5,595,585	$147,704,817
(b) Unavailable	156,419,551	15,024,366
(2) Obligated Balance not yet Disbursed	142,777,960	55,072,535
(3) Non-Budgetary FBWT	0	0
Total	$304,793,097	$217,801,718

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 funds from dedicated collections, the RR and the SSEB Accounts.

	Amounts for Balance Sheet Reporting		
	Cost	Interest Receivable	Investments Net
Intragovernmental Securities:			
Non Marketable Par Value 2016	$1,375,959,000	$2,017,015	$1,377,976,015
Non Marketable Par Value 2015	$1,754,232,000	$2,759,920	$1,756,991,920

The balance on September 30, 2016, consisted of investments in 3.000 percent par value specials (with market value equal to face value) maturing on October 1, 2016. The balance on September 30, 2015, consisted of investments in 3.000 percent par value specials (with market value equal to face value) maturing on October 1, 2015. 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 Federal 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 Federal 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, 2016 and 2015. These figures were provided to the RRB by the NRRIT for the fiscal years ended September 30, 2016 and 2015.

Readers of these financial statements should be aware that the Railroad Retirement and Survivors' Improvement Act of 2001 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:

	2016	2015
Financial Interchange – Principal	$4,545,300,000	$4,365,800,000
Financial Interchange – Interest	4,600,000	117,000,000
Department of Labor	68,007,487	106,818,854
Total	$4,617,907,487	$4,589,618,854

• *Accounts Receivable, Net*

Accounts receivable, net at September 30 consisted of:

	2016	2015
Accounts receivable – Benefit overpayments	$49,908,964	$52,842,816
Accounts receivable – Past due RUI contributions and taxes	127,184	144,405
Accounts receivable – Interest, penalty & administrative costs	523,443	468,903
Total	$50,559,591	$53,456,124
Less: Allowances for doubtful accounts	12,503,720	13,131,344
Net Total	$38,055,871	$40,324,780

The RRB's September 30, 2016 accounts receivable balance (after deducting currently not collectible (CNC) receivables but prior to the application of the allowance for doubtful accounts) of $50,559,591 includes $45,492,223 (90%) in railroad retirement program receivables, $5,058,741 (10%) in railroad unemployment insurance program receivables, and $8,627 (0%) in employee debt receivables. The total allowance for doubtful accounts is $12,503,720. This includes $11,959,905 (96%) for the railroad retirement program and $543,815 (4%) 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. General Property, Plant and Equipment

These assets are stated at cost less accumulated depreciation/amortization. Beginning with fiscal year 2014, acquisitions are capitalized if the cost is $50,000 or more and the service life is 2 years or greater. Depreciation/amortization is computed on the straight-line method. These assets consisted of:

Classes of Fixed Assets	Service Lives	At September 30, 2016 Cost	Accumulated Depreciation	Net Book Value
Structures, facilities and leasehold Improvements	15 years	$2,723,731	$2,723,731	$0
ADP software	5 years	26,692,215	23,247,534	3,444,681
Equipment	5-10 years	6,985,178	6,590,707	394,471
Internal-Use Software in Development		1,708,999	0	1,708,999
		$38,110,123	$32,561,972	$5,548,151

Classes of Fixed Assets	Service Lives	At September 30, 2015 Cost	Accumulated Depreciation	Net Book Value
Structures, facilities and leasehold Improvements	15 years	$2,723,731	$2,723,731	$0
ADP software	5 years	24,628,040	22,399,214	2,228,826
Equipment	5-10 years	7,270,798	6,610,178	660,620
Internal-Use Software in Development		1,646,385	0	1,646,385
		$36,268,954	$31,733,123	$4,535,831

8. Liabilities

Liabilities at September 30 consisted of:

	2016	2015
Intragovernmental:		
Other – Unfunded Federal Employees' Compensation Act (FECA) Liability	$540,953	$630,355
Public:		
Other – Accrued Unfunded Leave	$6,481,900	$6,666,471
Total Liabilities Not Covered by Budgetary Resources	$7,022,853	$7,296,826
Total Liabilities Covered by Budgetary Resources	5,640,796,588	5,726,930,531
Total Liabilities	$5,647,819,441	$5,734,227,357

- *Debt*

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

	2016	2015
Beginning Balance, Principal	$3,497,900,000	$3,531,900,000
New Borrowing	3,921,400,000	3,845,300,000
Repayments	(3,842,600,000)	(3,879,300,000)
Ending Balance, Principal	3,576,700,000	3,497,900,000
Accrued Interest	39,266,150	39,220,317
Total	$3,615,966,150	$3,537,120,317

- *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 $14,263,555 and $13,942,906, at September 30, 2016 and 2015, 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 10,836 benefit cases, estimated at $5.4 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	2016 Total
Intragovernmental:			
Employer Contributions & Payroll Taxes Payable		$1,116,228	$1,116,228
Unfunded FECA Liability		540,953	540,953
Other Liabilities With Related Budgetary Obligations		0	0
Total Intragovernmental		1,657,181	1,657,181
Accrued Unfunded Liabilities		6,481,900	6,481,900
Accrued Payroll		2,915,528	2,915,528
Accrued RRB Contributions – Thrift Savings Plan		(288,926)	(288,926)
Contingent Liability (see Note 9 for details)	$116,000,000	227,600,000	343,600,000
Other		8,499,329	8,499,329
Total Other Liabilities	$116,000,000	$246,865,012	362,865,012

	Non-Current	Current	2015 Total
Intragovernmental:			
Employer Contributions & Payroll Taxes Payable		$757,259	$757,259
Unfunded FECA Liability		630,356	630,356
Other Liabilities With Related Budgetary Obligations		228,076	228,076
Total Intragovernmental		1,615,691	1,615,691
Accrued Unfunded Liabilities		6,666,471	6,666,471
Accrued Payroll		2,285,051	2,285,051
Accrued RRB Contributions – Thrift Savings Plan		(440,682)	(440,682)
Contingent Liability (see Note 9 for details)		481,500,000	481,500,000
Other		7,023,873	7,023,873
Total Other Liabilities	0	$498,650,404	$498,650,404

9. Commitments and Contingencies

The RRB is involved in the following actions:

- One railroad filed suit requesting a refund of $75.0 million (not including interest) representing the employer and employee share of taxes previously paid with respect to the exercise of non-qualified stock options granted to its employees, the vesting of restricted stock and restricted stock units granted to employees and certain ratification payments made to union members. The RRB's general counsel has determined that the likelihood of loss is reasonably possible.

- Another railroad filed suit requesting a refund of $12.6 million (not including interest) representing the employer's share of taxes related to non-qualified stock options, restricted stock and ratification payments exclusive of interest. The RRB's general counsel has determined that the likelihood of loss is reasonably possible.

- Several Class I railroads have filed claims for refund of taxes with the Internal Revenue Service (IRS). Of the $90.2 million in claims, the RRB's legal counsel has determined that it is reasonably possible that the RR and SSEB Accounts are contingently liable for $60.0 million, and the remaining $30.2 million 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, 2016, the RRB had contractual arrangements which may result in future financial obligations of $47.3 million.

- We also recorded a contingent liability in the amount of $343.6 million, for forthcoming adjustments to the financial interchange for military service credits due SSA.

10. Intragovernmental Costs and Exchange Revenue

	2016	2015
Railroad Retirement (RR) Act Program		
Intragovernmental Costs	$127,264,511	$126,254,733
Public Costs	12,461,733,115	12,310,179,463
Total RR Act Program Costs	$12,588,997,626	$12,436,434,196
Intragovernmental Earned Revenue	$32,198,145	$37,775,304
Public Earned Revenue	15,877	0
Total RR Act Program Earned Revenue	$32,214,022	$37,775,304
Railroad Unemployment Insurance (RUI) Act Program		
Intragovernmental Costs	$0	$3,743,339
Public Costs	177,403,754	117,847,348
Total RUI Act Program Costs	$177,403,754	$121,590,687
Intragovernmental Earned Revenue	$0	$0
Public Earned Revenue	16,389,717	15,328,849
Total RUI Act Program Earned Revenue	$16,389,717	$15,328,849

These totals do not include $24,512 and $29,170 of earned revenues not attributable to either program for fiscal years 2016 and 2015, 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.

11. Transfers To/From NRRIT

The RRB received a total of $1,410 million and $1,191 million from the NRRIT during fiscal years 2016 and 2015, respectively. These funds were received into the RR Account. Transfers were to fund the payment of benefits.

12. Undelivered Orders at the End of the Period

	2016	2015
Undelivered Orders	$27,875,879	$25,326,009

13. Explanation of 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 Statement of Budgetary Resources for the year ended September 30, 2015, to amounts included in the Budget of the United States Government. A reconciliation was not performed for the period ended September 30, 2016, since the RRB's Performance and Accountability Report is published in November 2016, and OMB's MAX system will not have actual budget data available until mid-December 2016.

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

		Fiscal Year 2015 (in millions)			
		Budgetary Resources	Obligations Incurred	Distributed Offsetting Receipts	Net Outlays
1.	Combined Statement of Budgetary Resources – September 30, 2015	13,580	13,398	4,775	8,415
2.	Expenditure Transfers from Trust Funds	(120)			
3.	Unobligated Balance, Brought Forward October 1, 2014 as adjusted	(239)			
4.	Recoveries of Prior Year Unpaid Obligations	(2)			
5.	Sickness Insurance Benefit Recoveries	(15)			
6.	Administrative Expense Reimbursement	(35)			
7.	Interfund Transfers: Federal Payment Obligations – Income Taxes Collected on Benefits (0113)	(724)			
8.	Intrafund Transfers: Receipts from the Old-Age and Survivors Insurance (OASI) Trust Fund	(4,258)			
9.	Intrafund Transfers: Receipts from the Disability Insurance (DI) Trust Fund	(419)			
	Financial Interchange				
10.	Accrued Receipts from the OASI and DI Trust Funds			7	(7)
11.	Accrued Transfers to the Federal Hospital Insurance Trust Fund			617	(617)
	NRRIT				
12.	NRRIT Obligations / Outlays	1,257	1,257		1,257
13.	Intrafund Transfers: NRRIT Transfer to RRA	(1,191)		1,191	(1,191)
14.	Proprietary Receipts: NRRIT – Gains and Losses	611		(611)	611
15.	Proprietary Receipts: NRRIT – Interest and Dividends	(286)		286	(286)
16.	Rounding	(1)	(1)	2	(1)
17.	Budget of the United States Government FY 2015 Actuals	8,158	14,654	6,267	8,181

14. Social Insurance

- Surplus/(unfunded obligation) represents combined values for the RR Account, SSEB Account, and NRRIT.

- Estimated future revenue includes tier I taxes, tier II 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.

- Detail may not add to totals due to rounding. Employee and beneficiary status are determined as of 1/1/2015, whereas present values are as of 10/1/2015.

  Beginning with the fiscal year 2016 reporting period, the valuation period of the Statement of Social Insurance is being changed from calendar year to fiscal year. The valuation date for the Statement of Social Insurance is being set back three months, from January 1, 2016, to October 1, 2015. Although the Statement of Social Insurance shows present values for the current year and four previous years, the present values for the previous calendar years are not being restated but will remain on a calendar year basis. This change is being made because of a request from the NRRIT to adjust the valuation period for the Statement of Social Insurance from calendar year to fiscal year for financial and administrative purposes. Financially, the NRRIT saves $200,000 per year in contract services required to prepare a second financial statement audit covering a three-month period (October 1 to December 1) after the first audit is achieved on a fiscal year basis.

Treasury Securities and Assets Held by the Program

Higher Treasury security and asset balances result in lower tax rates and consequently lower future tax income whereas lower Treasury security and asset balances result in higher rates and income.

15. Significant Assumptions

The estimated future revenue and expenditures 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 estimated future revenue and expenditures are also based on various economic, employment, and other actuarial assumptions. The ultimate economic assumptions are a 7.0 percent investment return, a 2.7 percent annual increase in the cost of living, and a 3.7 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 2016 Section 502 Report. Under employment assumption II, starting with an average 2015 employment of 230,000, (1) railroad passenger employment is assumed to remain level at 46,000, 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-Sixth Actuarial Valuation of the Assets and Liabilities Under the Railroad Retirement Acts as of December 31, 2013." This may be found on the RRB's website, www.rrb.gov.

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

Table S-1.	2010 Base Year RRB Annuitants Mortality Table
Table S-2.	2010 Base Year RRB Disabled Mortality Table for Annuitants with Disability Freeze
Table S-3.	2010 Base Year RRB Disabled Mortality Table for Annuitants without Disability Freeze
Table S-4.	2009 RRB Active Service Mortality Table
Table S-5.	2010 Base Year RRB Spouse Total Termination Table
Table S-6.	Probability of a retired employee having a spouse eligible for railroad retirement benefits
Table S-7.	2013 RRB Mortality Table for Widows
Table S-8.	1997 RRB Remarriage Table
Table S-9.	2004 RRB Total Termination Table for Disabled Children
Table S-10.	2013 RRB Mortality Improvement Scale
Table S-11.	Calendar year rates of immediate age retirement
Table S-12.	Rates of immediate disability retirement and of eligibility for disability freeze
Table S-13.	Calendar year rates of final withdrawal
Table S-14.	Service months and salary scales
Table S-15.	Family characteristics of railroad employees assumed for the valuation of survivor benefits

Note 16 Funds from Dedicated Collections

	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 Funds from Dedicated Collections
Balance Sheet as of September 30, 2016									
Assets									
Fund Balance with Treasury	$31,203,917	$54,252,999	$12,639,125	$15,419,157	$37,357,526	$503,870	$1,424,988		$152,801,582
Investments	691,615,922	686,360,093							1,377,976,015
NRRIT Net Invested Assets		25,149,221,659							25,149,221,659
Taxes and Interest Receivable	4,549,900,000	33,532,316	60,022,663		9,385	11,627,898		(3)	4,655,092,265
Other Assets					6,065,296		27,004		6,092,300
Total Assets	5,272,719,839	25,923,367,067	72,661,788	15,419,157	43,432,207	12,131,768	1,451,992	(3)	31,341,183,821
Liabilities Due and Payable	4,799,672,446	470,975,631	13,066,696		600,226	396,108	217,693	(3)	5,284,928,803
Other Liabilities	343,600,000	8,429,271			9,949,423		816,260		362,794,954
Total Liabilities	5,143,272,446	479,404,902	13,066,696		10,549,649	396,108	1,033,953	(3)	5,647,723,757
Unexpended Appropriations				15,419,157	50,875				15,470,032
Cumulative Results of Operations	129,447,393	25,443,962,165	59,595,092		32,831,683	11,735,660	418,039		25,677,990,032
Total Liabilities and Net Position	$5,272,719,839	$25,923,367,067	$72,661,788	$15,419,157	$43,432,207	$12,131,768	$1,451,992	($3)	$31,341,183,821
Statement of Net Cost for the Period Ended September 30, 2016									
Gross Program Costs	$7,336,523,115	$5,097,673,448	$148,643,696	$7,967	$145,960,947		$10,112,694	($551,563)	$12,738,370,304
Less Earned Revenues		15,877	16,381,727		31,293,145		1,330,000	(425,000)	$48,595,749
Net Program Costs	7,336,523,115	5,097,657,570	132,261,969	7,967	114,667,802	0	8,782,694	(126,563)	12,689,774,555
Costs Not Attributable to Program Costs									
Less Earned Revenues Not Attributable to Program Costs					24,512				24,512
Net Cost of Operations	$7,336,523,115	$5,097,657,570	$132,261,969	$7,967	$114,643,290	$0	$8,782,694	($126,563)	$12,689,750,043
Statement of Changes in Net Position for the Period Ended September 30, 2016									
Net Position Beginning of Period	$118,117,059	$24,967,653,628	$86,737,051	$15,376,925	$30,748,416	$13,878,958	$454,234		$25,232,966,271
Appropriations Received				762,832,696	50,875				762,883,571
Expended Appropriations				762,690,662					762,690,662
Other Adjustments				(99,801)					(99,801)
Appropriations Used				(762,690,662)					(762,690,662)
Taxes and Non-Exchange Revenue	2,822,785,139	3,138,330,438	92,831,576			27,146,208		(126,563)	6,080,966,798
Other Financing Sources	4,525,068,310	392,785,548	12,288,434	(762,682,696)	116,726,558	(29,289,506)	8,746,499		4,263,643,147
Transfers In From NRRIT		1,410,000,000							1,410,000,000
Change in NRRIT Assets		632,850,121							632,850,121
Net Cost of Operations	(7,336,523,115)	(5,097,657,570)	(132,261,969)	(7,967)	(114,643,291)		(8,782,694)	126,563	(12,689,750,043)
Change in Net Position	11,330,334	476,308,537	(27,141,959)	42,232	2,134,142	(2,143,298)	(36,195)		460,493,793
Net Position End of Period	$129,447,393	$25,443,962,165	$59,595,092	$15,419,157	$32,882,558	$11,735,660	$418,039		$25,693,460,064

Note 16 Funds from Dedicated Collections

	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 Funds from Dedicated Collections
Balance Sheet as of September 30, 2015									
Assets									
Fund Balance with Treasury	$372,428	$4,621,357	$1,021,433	$15,376,925	$35,555,404	$1,296,026	$1,496,549		$59,740,122
Investments	882,048,961	874,942,959							1,756,991,920
NRRIT Net Invested Assets		24,516,371,538							24,516,371,538
Taxes and Interest Receivable	4,482,800,000	35,264,769	98,261,148		1,933	12,561,718			4,628,889,568
Other Assets					5,056,209	0	27,004		5,083,213
Total Assets	5,365,221,389	25,431,200,623	99,282,581	15,376,925	40,613,546	13,857,744	1,523,553		30,967,076,361
Liabilities Due and Payable	4,765,604,330	456,522,884	12,545,530		788,174	(21,213)	247,820		5,235,687,525
Other Liabilities	481,500,000	7,024,111			9,076,956		821,499		498,422,566
Total Liabilities	5,247,104,330	463,546,995	12,545,530		9,865,130	(21,213)	1,069,319		5,734,110,091
Unexpended Appropriations				15,376,925					15,376,925
Cumulative Results of Operations	118,117,059	24,967,653,628	86,737,051		30,748,416	13,878,957	454,234		25,217,589,345
Total Liabilities and Net Position	$5,365,221,389	$25,431,200,623	$99,282,581	$15,376,925	$40,613,546	$13,857,744	$1,523,553		$30,967,076,361
Statement of Net Cost for the Period Ended September 30, 2015									
Gross Program Costs	$7,306,352,606	$4,962,661,646	$100,957,567	$23,253	$146,054,966	$0	$10,191,282	($444,692)	$12,525,796,628
Less Earned Revenues		5,203	15,328,849		36,700,724		1,494,377	($425,000)	53,104,153
Net Program Costs	7,306,352,606	4,962,656,443	85,628,718	23,253	109,354,242	0	8,696,905	(19,692)	12,472,692,475
Costs Not Attributable to Program Costs									
Less Earned Revenues Not Attributable to Program Costs					$29,170				29,170
Net Cost of Operations	$7,306,352,606	$4,962,656,443	$85,628,718	$23,253	$109,325,072	$0	$8,696,905	($19,692)	$12,472,663,305
Statement of Changes in Net Position for the Period Ended September 30, 2015									
Net Position Beginning of Period	$113,826,449	$26,479,096,648	$112,183,091	$16,634,136	$22,266,887	$9,910,701	$478,329		$26,754,396,241
Appropriations Received				722,754,523					722,754,523
Expended Appropriations				723,913,825					723,913,825
Other Adjustments				(97,908)					(97,908)
Appropriations Used				(723,913,825)					(723,913,825)
Taxes and Non-Exchange Revenue	3,119,142,171	3,353,044,701	49,891,332		0	28,063,244	0	(19,692)	6,550,121,756
Other Financing Sources	4,191,501,045	481,443,213	10,291,346	(723,890,573)	117,806,601	(24,094,988)	8,672,810		4,061,729,454
Transfers In From NRRIT		1,191,000,000							1,191,000,000
Change in NRRIT Assets		(1,574,274,491)							(1,574,274,491)
Net Cost of Operations	(7,306,352,606)	(4,962,656,443)	(85,628,718)	(23,253)	(109,325,072)		(8,696,905)	19,692	(12,472,663,305)
Change in Net Position	4,290,610	(1,511,443,020)	(25,446,040)	(1,257,211)	8,481,529	3,968,256	(24,095)		(1,521,429,971)
Net Position End of Period	$118,117,059	$24,967,653,628	$86,737,051	$15,376,925	$30,748,416	$13,878,957	$454,234		$25,232,966,270

17. 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 Category B direct obligations are $13,610,442,574 and the reimbursable obligations are $32,385,435. These are reported under New obligations and upward adjustments on the SBR in the amount of $13,642,828,009 which combines the direct and reimbursable obligations.

This disclosure agrees with the aggregate of RRB direct and reimbursable obligations as reported on the RRB's fiscal year 2016 year-end SF-133, *Report on Budget Execution and Budgetary Resources*, and line 2190 in the Statement of Budgetary Resources.

18. Terms of Borrowing Authority Used

The RRB, Social Security Administration and Centers for Medicare and Medicaid Services are parties to a financing arrangement described as the "financial interchange".

The financial interchange between the railroad retirement and social security systems is intended to put the Social Security Old-Age, Survivors, and Disability Insurance (OASDI) and Hospital Insurance (HI) trust funds in the same position they would have been had railroad employment been covered under the Social Security and Federal Insurance Contributions Acts.

Financial interchange transfers are made in a lump sum for a whole fiscal year in the June following the close of a fiscal year. The Railroad Retirement Solvency Act of 1983, as amended, provided for monthly advances of the financial interchange from the U.S. Treasury general fund to be repaid when the financial interchange is settled each June. Each advance/loan is equal to an estimate of the transfer the RRB would have received in the preceding month if the financial interchange with social security were on an up-to-date basis, with interest adjustments. The RRB must repay these advances/loans when it receives the transfer from social security against which the money was advanced.

Section 7(c)(4) of the 1974 Railroad Retirement Act (RRA) as amended provides the rules for repayment of the financial interchange 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 financial interchange determination from the close of the prior fiscal year until the date of the transfer.

19. Available Borrowing Authority, End of the Period

The amount of RRB available borrowing authority at the end of the period associated with financial interchange advances is $3,921,400,000.

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

There was an increase of $632.85 million in NRRIT net assets from the SOSI, October 1, 2015, valuation date and the September 30, 2016, balance sheet date. Other than this event, no other material events or transactions have occurred subsequent to September 30, 2016, that we are aware of. We have evaluated subsequent events through November 16, 2015, the date the financial statements were released.

22. Adjustment to Unobligated Balance, Brought Forward, October 1, and Obligated Balance, Start of the Year

In fiscal year 2016, there is not an adjustment to unobligated balance brought forward. In fiscal year 2015, there is an adjustment to the unobligated balance brought forward of $59,840,279 due to a decrease to indefinite borrowing authority realized.

23. Permanent Indefinite Appropriations

In fiscal year 2016, the Railroad Retirement Board had the following permanent indefinite appropriations that were available until expended:

- 60X0113 – 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; receiving credit for the interest portion of uncashed check transfers; and funds provided by the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010. Account 60X0113 is considered a fund from dedicated collections. This account has no basis in law.

- 60X8010 – 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 a fund from dedicated collections. Our authority to use these collections is 45 USC §231n-1(c)(1).

- 60X8011 – 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 a fund from dedicated collections. Our authority to use these collections is 45 United States Code (USC) §231f(c)(1).

- 60X8051.001 – 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 a fund from dedicated collections. Our authority to use these collections is 45 USC §360.

- 60X8051.002 – 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 a fund from dedicated collections. 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.

Note 24 Reconciliation of Net Cost of Operations to Budget

For the Years Ended September 30, 2016 and 2015
(in dollars)

	2016	2015
Resources Used to Finance Activities:		
Budgetary Resources Obligated		
Obligations Incurred	$13,642,828,009	$13,397,595,266
Less: Spending Authority from Offsetting Collections and Recoveries	(173,208,700)	(177,123,052)
Obligations Net of Offsetting Collections and Recoveries	13,469,619,309	13,220,472,214
Less: Offsetting Receipts	(4,881,721,696)	(4,774,955,523)
Net Obligations	**8,587,897,613**	**8,445,516,691**
Other Resources		
Imputed Financing from Costs Absorbed by Others	6,594,143	7,378,454
Other	770,860,121	(1,572,274,492)
Net Other Resources Used to Finance Activities	**777,454,264**	**(1,564,896,038)**
Total Resources Used to Finance Activities	**9,365,351,877**	**6,880,620,653**
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	(2,549,870)	(3,239,143)
Budgetary Offsetting Collections & Receipts That Do Not Affect Net Cost of Operations	17,434,450	16,282,438
Resources That Finance the Acquisition of Assets	(769,687,581)	1,571,477,862
Other Resources or Adjustments to Net Obligated Resources That Do Not Affect Net Cost of Operations	4,119,696,078	4,052,351,000
Total Resources Used to Finance Items Not Part of the Net Cost of Operations	**3,364,893,077**	**5,636,872,157**
Total Resources Used to Finance the Net Cost of Operations	**12,730,244,954**	**12,517,492,810**
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	(184,571)	(89,651)
Other	(13,401,722)	(13,519,306)
Total Components of Net Cost of Operations That Will Require or Generate Resources in Future Periods	**(13,586,292)**	**(13,608,957)**
Components Not Requiring or Generating Resources:		
Depreciation and Amortization	1,114,467	1,007,707
Total Components of Net Cost of Operations That Will Not Require or Generate Resources	**1,114,467**	**1,007,707**
Total Components of Net Cost of Operations That Will Not Require or Generate Resources in the Current Period	**(12,471,825)**	**(12,601,250)**
Net Cost of Operations	**$12,717,773,129**	**$12,504,891,560**

25. Change in Statement of Budgetary Resources Presentation

The Office of Management and Budget revised Circular A-136 for fiscal year 2016 Financial Reporting Requirements. This revision changed the presentation of line items on the Statement of Budgetary Resources. Incorporating the new presentation led to immaterial differences in the fiscal year 2016 balances of Unobligated balance brought forward, October 1, Uncollected payments, Federal sources, brought forward, October 1 (-), and the Obligated balance, start of year (+ or -) with the corresponding fiscal year 2015 line item ending balance.

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 I payroll taxes are coordinated with social security taxes so that employees and employers pay tier I taxes at the same rate as social security taxes. In addition, both employees and employers pay tier II taxes that are used to finance railroad retirement benefit payments over and above social security levels. The tier II 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 additional amount of social security payroll and income taxes which social security would have received 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 $81.5 billion, or 34.6 percent of the estimated future revenue of $235.8 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, 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 October 1, 2015. The figures in the table are based on the 2016 Section 502 Report extended through fiscal year 2090. The present values of estimated future revenue and expenditures in the table are based on estimates of revenue and expenditures through the fiscal year 2090. The estimates include revenue 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 2016 Section 502 Report. Under employment assumption II, starting with an average 2015 employment of 230,000, (1) railroad passenger employment is assumed to remain level at 46,000, 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:

- Revenue: sources of revenue are payroll taxes, income taxes, investment income, and financial interchange transfers.
- Revenue excluding interest[a]**:** revenue, as defined above, excluding the investment income from assets of the trust fund.
- Expenditures**:** benefit payments and administrative expenses.
- Cashflow**:** either (1) revenue excluding interest or (2) expenditures, depending on the context, expressed in nominal dollars.
- Net Cashflow**:** revenue excluding interest less expenditures, expressed in nominal dollars.

The Statement of Social Insurance and the required supplementary information are based on actuarial and economic assumptions used in the 2016 Section 502 Report extended through fiscal year 2090, the RRA, and the Railroad Retirement Tax Act. The charts in the required supplementary information are on a calendar year basis. This information includes:

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

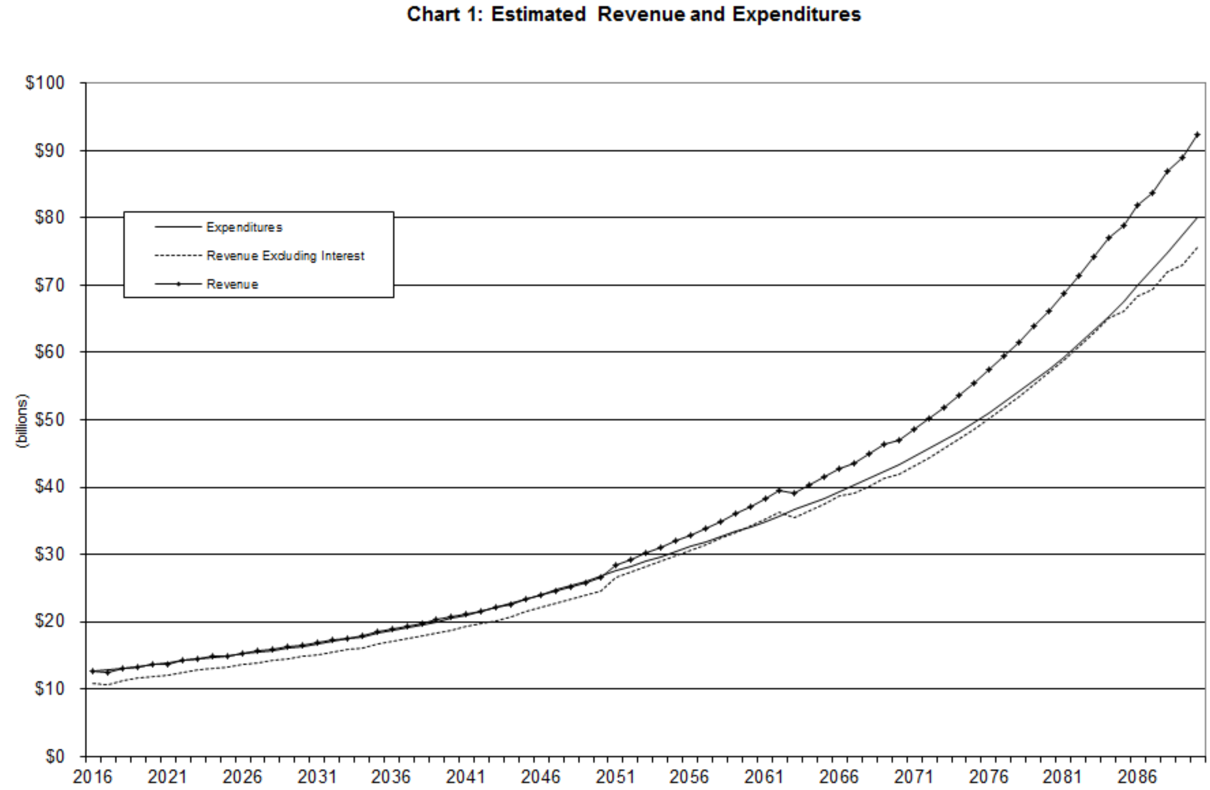
(2) estimated annual revenue excluding interest and expenditures in nominal dollars and as a percentage of taxable payroll;

(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.

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

[a] Interest income in this section refers to total investment income including dividends and capital gains.

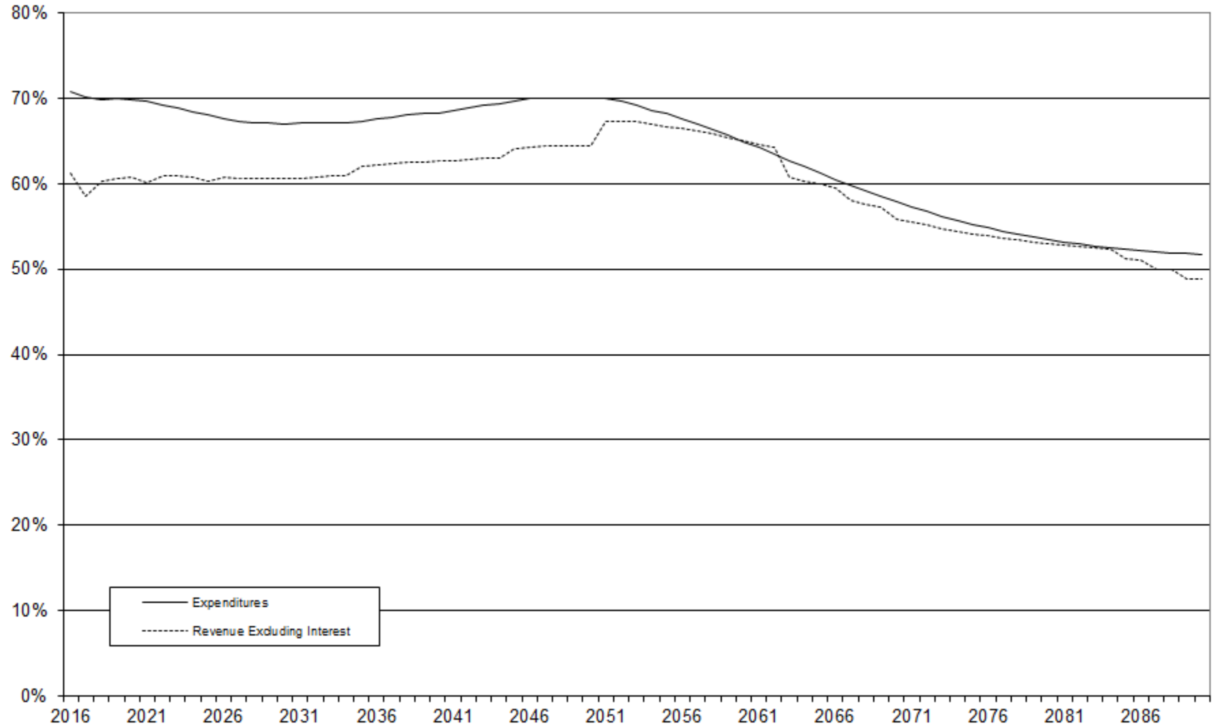


Cashflow Projections – Chart 1 shows actuarial estimates of railroad retirement annual revenue, revenue excluding interest, and expenditures for 2016-2090 in nominal dollars. The estimates are for the open-group population, which includes all persons projected to participate in the railroad retirement 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 who already have been 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 revenue exceeds annual expenditures except in 2017 through 2022, 2025, 2043, 2044, and 2046 through 2050. Without investment income, however, annual expenditures are greater than annual revenue except in 2060 through 2062. Reasons for this pattern include participant demographics, the assumed drop in railroad employment, and the automatic tier II 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 II tax rates respond automatically to changing account balances.

Percentage of Taxable Payroll – Chart 2 shows estimated annual revenue excluding interest and expenditures for the railroad retirement program expressed as percentages of taxable payroll. Expenditures as a percentage of payroll range between 67 percent and 71 percent through 2057, after which the percentage decreases until reaching 52 percent in 2085-2090. This is largely due to the anticipated decline in the number of annuitants per full-time employee. Except for the revenue from tier I payroll taxes, the sources of revenue vary as a percentage of payroll.

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



<u>Sensitivity Analysis</u> -- 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, spouse 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 October 1, 2015, and are based on estimates of revenue and expenditures during the fiscal years 2016-2090 projection period.

Employment: Average employment in the railroad industry has generally been in decline for some years. Although employment has increased in recent years, it began to decrease again in 2015 and is expected to continue declining in future years. Since employment is a key consideration, projections of revenue 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 calendar year 2015 is equal to 230,000. 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 46,000, 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.

Table 1 shows the excess of assets and the estimated present value of revenue over the estimated present value of expenditures for the three employment assumptions.

Table 1

Excess of Assets and Estimated Present Value of Revenue over Estimated Present Value of Expenditures for Three Employment Assumptions, 2016-2090
(in billions)

Employment Assumption	I	II	III
Present Value	$2.3	$1.7	$(0.8)
Average Tier 2 tax rate[a]	16.5%	18.8%	21.1%

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

Chart 3a: Combined Balance of the RR Account, NRRIT and SSEB Account under Three Employment Assumptions

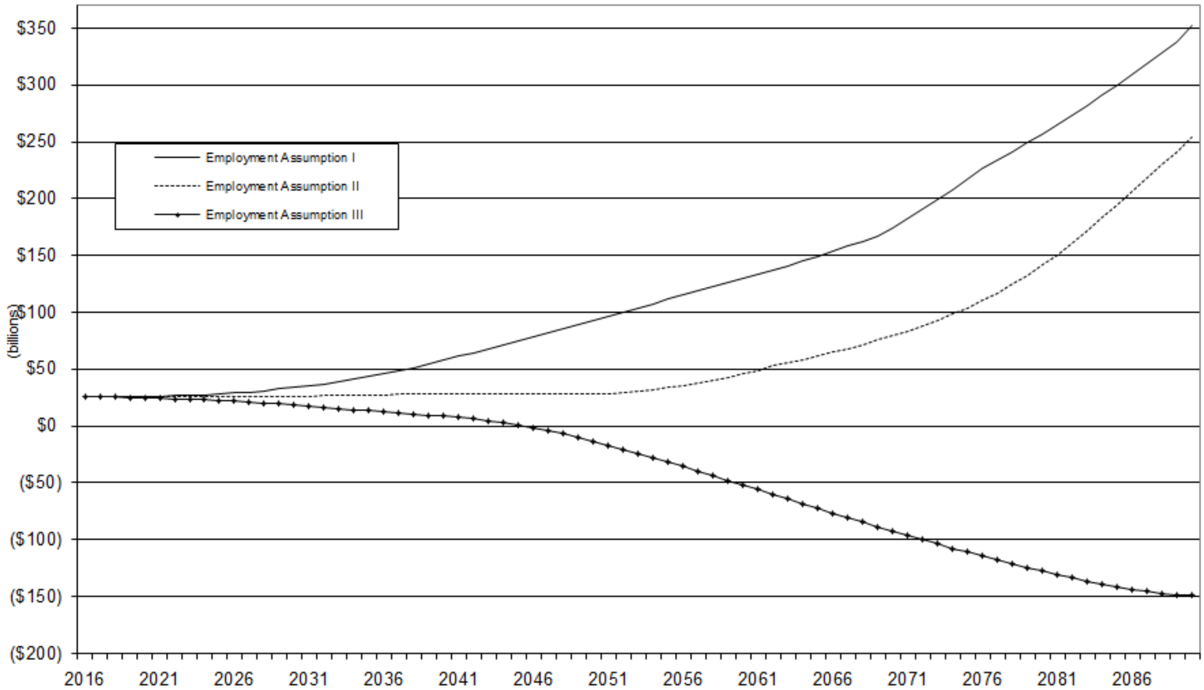
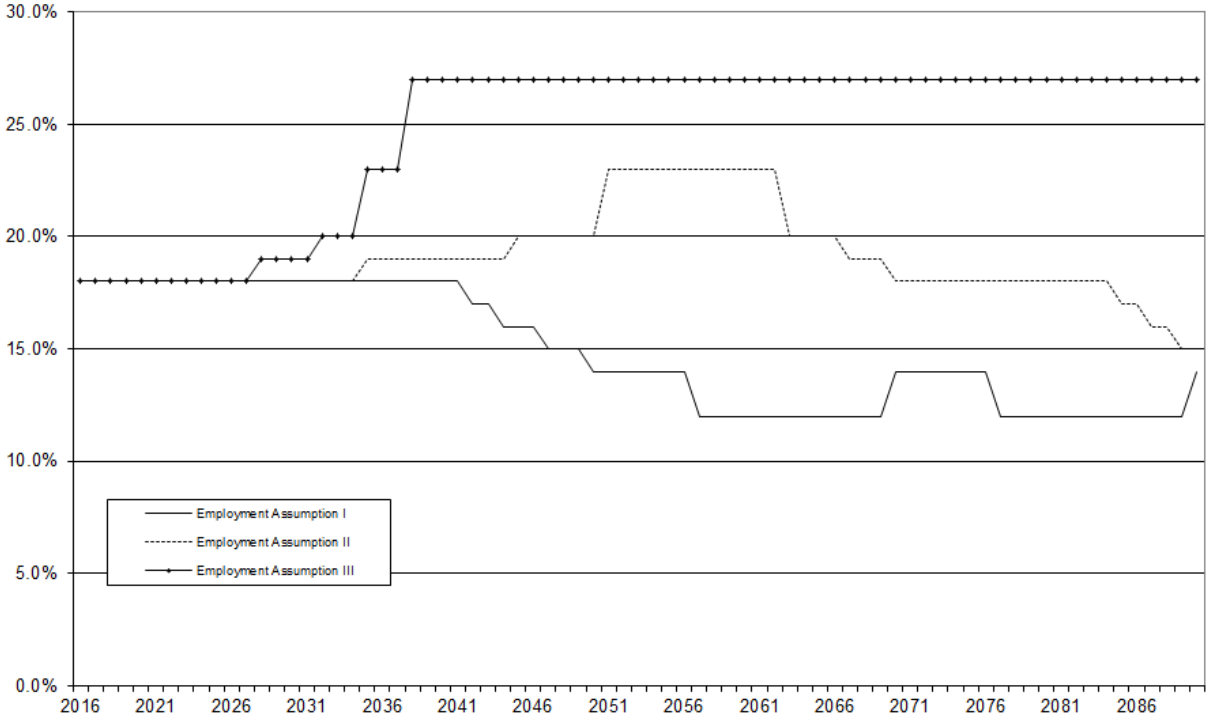


Chart 3a shows the combined balance of the accounts under each of the three employment assumptions. Note that the combined account balance is positive throughout the entire period for assumptions I and II but becomes negative in 2046 for assumption III and remains so throughout the remainder of the period. Negative after-transfer balances under employment assumption III indicate the amount that would be owed, including interest, if unreduced benefits were paid by borrowing.

Chart 3b shows the tier II tax rate under these employment assumptions. The tax rate reaches 12 percent in 2057 under employment assumption I and remains between 12 percent and 14 percent through the end of the projection period. Under employment assumption II, the tax rate first increases to 23 percent in 2051 through 2062 and then decreases to 15 percent in 2089 and 2090. Under employment assumption III, the tax rate reaches the maximum of 27 percent in 2038, remaining at that level through the rest of the 75-year period.

Chart 3b: Tier II Tax Rate under Three Employment Assumptions



The tier II 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 to the total benefits and administrative expenses paid from the RR Account and the NRRIT. Therefore, the tier II tax rate will be affected by employment assumption. The tier II tax rate adjustment mechanism reduces but does not eliminate the risk of insolvency. The tier I 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 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 10 percent. Table 2 shows the excess of assets and the estimated present value of revenue over the estimated present value of expenditures for the three investment return assumptions. If the tier II tax rate were fixed, the actuarial surplus would increase with increasing investment return. However, the tier II 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 10 percent scenario.

Table 2

Excess of Assets and Estimated Present Value of Revenue over Estimated Present Value of Expenditures for Three Investment Return Assumptions, 2016-2090
(in billions)

Investment Return Assumption	4%	7%	10%
Present Value	$7.4	$1.7	$1.0
Average Tier II tax rate	21.2%	18.8%	15.9%

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

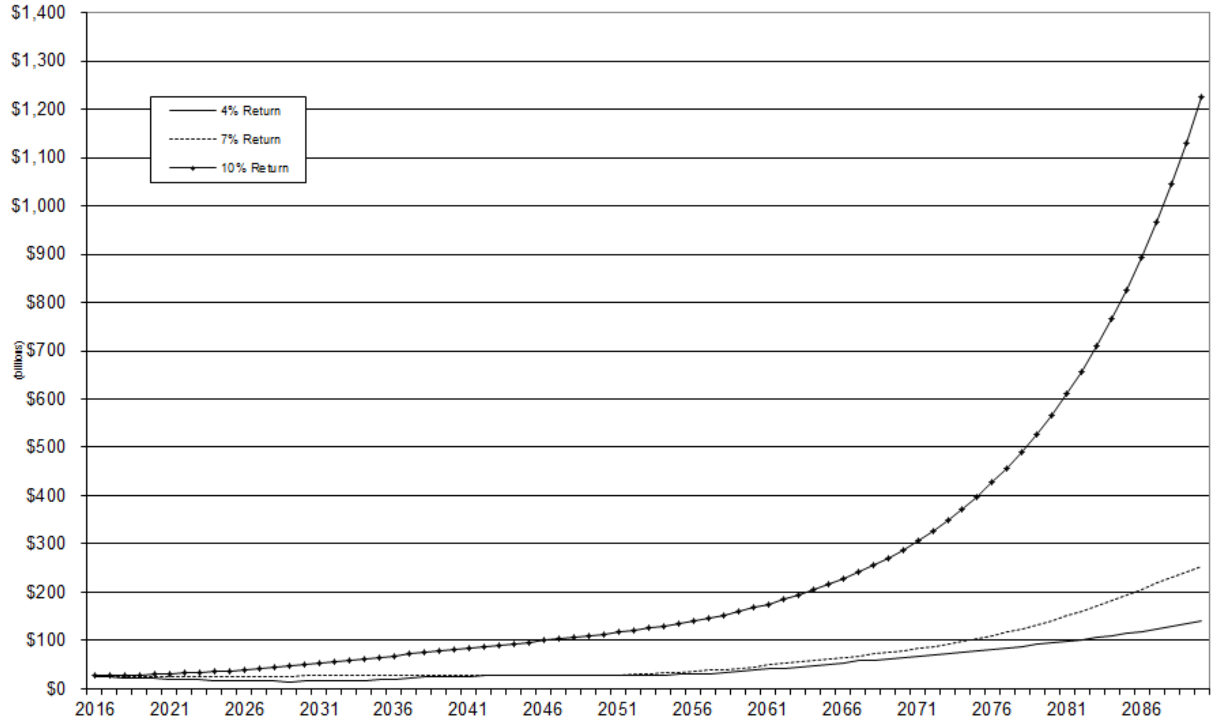
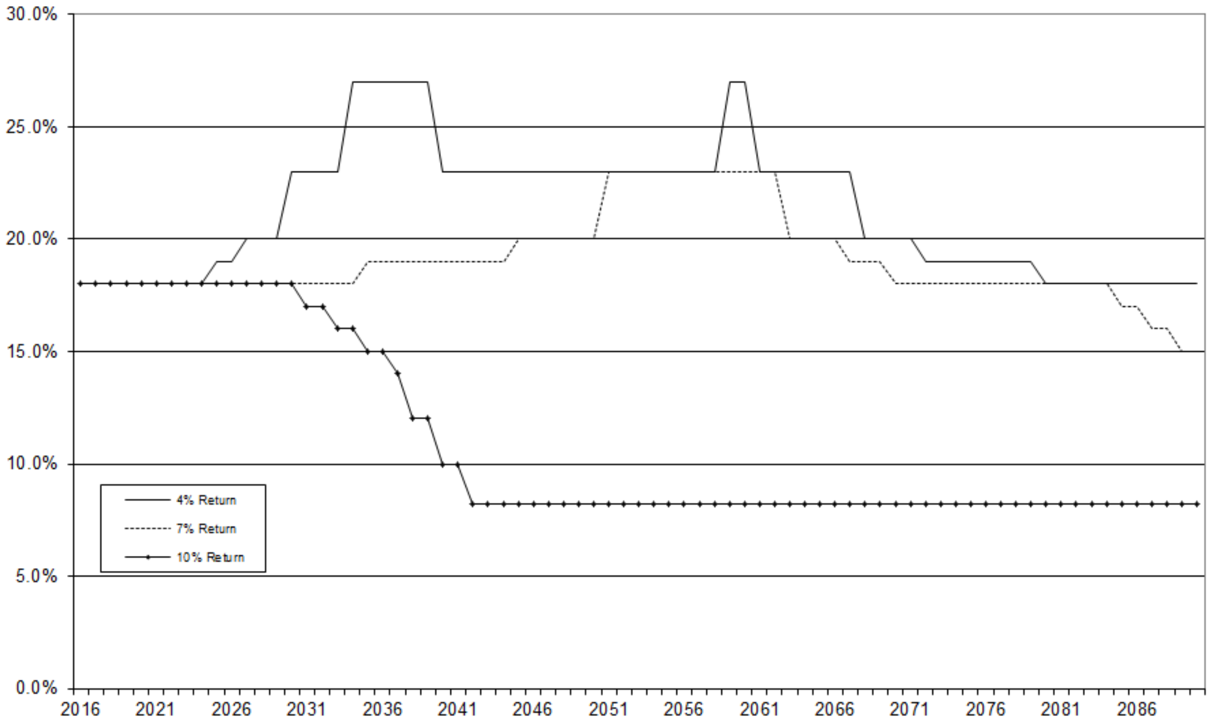


Chart 4a shows the combined account balance under the three investment return assumptions for the projection period. At a 4 percent investment return, the account balance remains positive, reaching its lowest value in 2029, and then increases. With a 7 percent investment return, the account balance remains relatively level, between $25 billion and $29 billion, through 2050, and then increases through the end of the projection period. A 10 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, 2016.

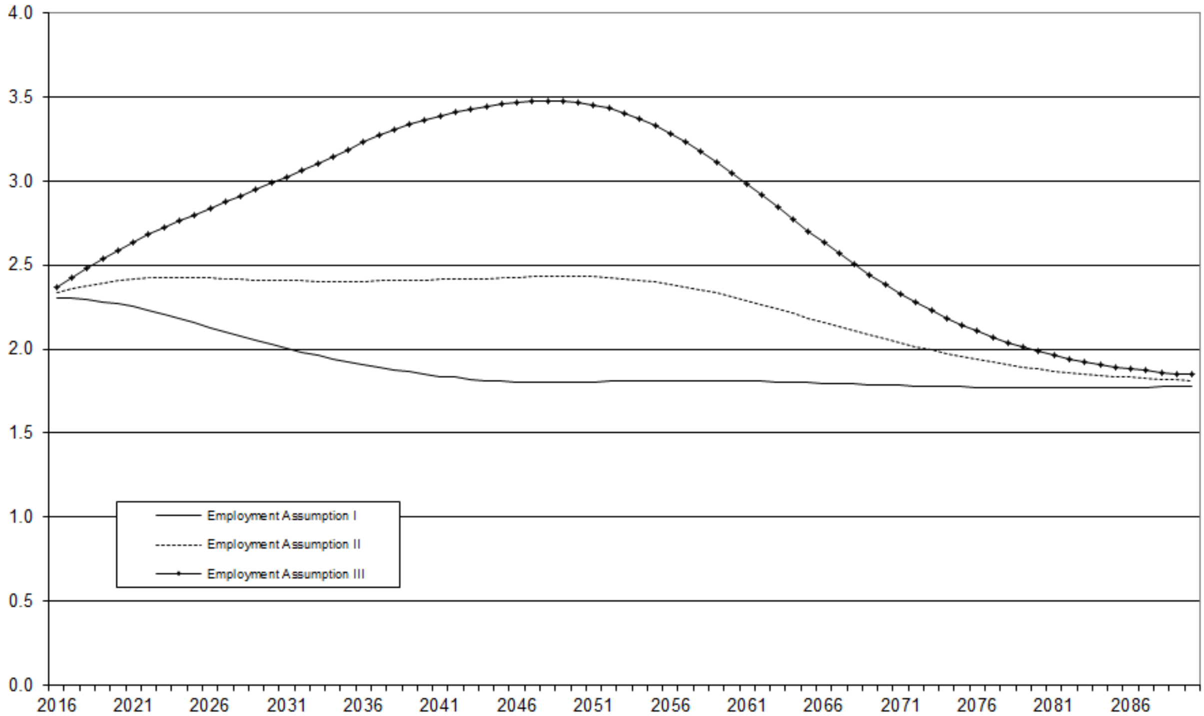
Chart 4b shows the tier II tax rate under the same three investment return assumptions. With a 4 percent investment return, the maximum tier II tax rate applies in 2034 through 2039 and 2059 and 2060. With the 7 percent investment return, the maximum tax rate never applies during the projection period. With a 10 percent investment return, the maximum tax rate is also never applicable, and the minimum tax rate of 8.2 percent is paid beginning in 2042. As mentioned above, the tier II 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 I tax rates will not.

Chart 4b: Tier II 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 2016. For assumptions II and III, the ratio is highest in 2050 and 2048, respectively. For all three employment assumptions, the average number of annuitants per employee declines to around 1.8 at 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
COMBINING STATEMENT OF BUDGETARY RESOURCES
FOR THE YEAR ENDED SEPTEMBER 30, 2016
(in dollars)

	COMBINED RAILROAD RETIREMENT PROGRAM	COMBINED RAILROAD UNEMPLOYMENT AND SICKNESS INSURANCE PROGRAM	LIMITATION ON THE OFFICE OF INSPECTOR GENERAL	COMBINED TOTALS
Budgetary Resources				
Unobligated balance brought forward, Oct 1 (Note 25)	39,689,816	141,573,919	664,870	181,928,605
Adjustment to unobligated balance brought forward, Oct 1 (+ or -) (Note 22)	0	0	0	0
Unobligated balance brought forward, Oct 1, as adjusted	39,689,816	141,573,919	664,870	181,928,605
Recoveries of unpaid prior year obligations	462,234	0	18,446	480,680
Other changes in unobligated balance (+ or -)	(8,218,686)	0	41,286	(8,177,400)
Unobligated balance from prior year budget authority, net	31,933,364	141,573,919	724,602	174,231,885
Appropriations (discretionary and mandatory)	9,403,939,274	144,951,093	(96,976)	9,548,793,391
Borrowing authority (discretionary and mandatory) (Note 19)	3,921,400,000	0	0	3,921,400,000
Spending authority from offsetting collections (discretionary and mandatory)	143,107,972	19,853,048	9,767,000	172,728,020
Total budgetary resources	**$13,500,380,610**	**$306,378,060**	**$10,394,626**	**$13,817,153,296**
Status of Budgetary Resources				
New obligations and upward adjustments (total) (Note 17)	$13,468,384,479	$164,716,237	$9,727,293	$13,642,828,009
Unobligated balance, end of year				
Apportioned, unexpired accounts	5,424,268	100,000	71,317	5,595,585
Unapportioned, unexpired accounts	14,857,730	141,561,823	0	156,419,553
Unexpired unobligated balance, end of year	20,281,998	141,661,823	71,317	162,015,138
Expired unobligated balance, end of year	11,714,133	0	596,016	12,310,149
Unobligated balance, end of year (total)	31,996,131	141,661,823	667,333	174,325,287
Total Budgetary Resources	**$13,500,380,610**	**$306,378,060**	**$10,394,626**	**$13,817,153,296**
Change in Obligated Balance				
Unpaid obligations:				
Unpaid obligations, brought forward, Oct 1	$987,043,231	$6,035,899	$831,676	$993,910,806
New obligations and upward adjustments	$13,468,384,479	$164,716,237	$9,727,293	13,642,828,009
Outlays (gross) (-)	($13,449,164,131)	($167,153,715)	($9,782,872)	(13,626,100,718)
Recoveries of prior year unpaid obligations (-)	($462,234)	$0	($18,446)	(480,680)
Unpaid obligations, end of year	$1,005,801,345	$3,598,421	$757,651	1,010,157,417
Uncollected payments:				
Uncollected pymts, Fed sources, brought forward, Oct 1 (-) (Note 25)	(4,175)	(193,431)	3	(197,603)
Change in uncollected pymts, Fed Sources (+ or -)	(723)	63,971	0	63,248
Uncollected pymts, Fed sources, end of year (-)	(4,898)	(129,460)	3	(134,355)
Memorandum (non-add) entries:				
Obligated balance, start of year (+ or -) (Note 25)	$987,039,056	$5,842,468	$831,679	$993,713,203
Obligated balance, end of year (+ or -)	$1,005,796,447	$3,468,961	$757,654	$1,010,023,062
Budget Authority and Outlays, Net				
Budget authority, gross (discretionary and mandatory)	$13,468,447,246	$164,804,141	$9,670,024	$13,642,921,411
Actual offsetting collections (discretionary and mandatory) (-)	($144,041,695)	($19,917,019)	($9,808,286)	(173,767,000)
Change in uncollected pymts, Fed sources (discretionary and mandatory) (+ or -)	($723)	$63,971	$0	63,248
Recoveries of prior year paid obligations (discretionary and mandatory)	$934,445	$0	$41,286	975,731
Budget authority, net (total) (discretionary and mandatory)	**$13,325,339,273**	**$144,951,093**	**($96,976)**	**$13,470,193,390**
Outlays, gross (discretionary and mandatory)	$13,449,164,131	$167,153,715	$9,782,872	$13,626,100,718
Actual offsetting collections (discretionary and mandatory) (-)	(144,041,695)	(19,917,019)	(9,808,286)	(173,767,000)
Outlays, net (total) (discretionary and mandatory)	13,305,122,436	147,236,696	(25,414)	13,452,333,718
Distributed offsetting receipts (-)	(4,881,721,696)	0	0	(4,881,721,696)
Agency outlays, net (discretionary and mandatory)	**$8,423,400,740**	**$147,236,696**	**($25,414)**	**$8,570,612,022**

UNITED STATES RAILROAD RETIREMENT BOARD

OFFICE OF INSPECTOR GENERAL

Independent Auditor's Report

To Board Members:

Report on the Financial Statements

We were engaged to audit the accompanying balance sheet of the Railroad Retirement Board (RRB) as of September 30, 2016 and 2015; the related statements of net cost, changes in net position, and budgetary resources for the years then ended; the statement of social insurance as of October 1, 2015, January 1, 2015, 2014, 2013, and 2012, the statement of changes in social insurance amounts for the period ended September 30, 2015; and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on an audit conducted in accordance with auditing standards generally accepted in the United States of America. As described in the Basis for Disclaimer of Opinion paragraphs we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis for Disclaimer of Opinion

The National Railroad Retirement Investment Trust (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 Office of Inspector General (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. The financial statements of the NRRIT were audited by other auditors, whose audit reports were received within the timeframes established for the audit of the RRB's financial statements. Pursuant to the group financial statement audit requirements promulgated by the American Institute of Certified Public Accountants (AICPA) in AICPA Professional Standards in AU-C section 600, *Special Considerations - Audits of Group Financial Statements*, we made an inquiry requesting communication with and cooperation from NRRIT auditors. RRB management informed us that contact between RRB OIG and NRRIT auditors is inconsistent with the independent status of the NRRIT under section 15(j) of the Railroad Retirement Act. As a result, NRRIT auditors were unable to comply with the group financial statement audit requirements. Consequently, we were unable to perform the specified AU-C section 600 group audit procedures and have determined that undetected misstatements, which could be material and pervasive, could exist.[1]

The net assets of the NRRIT represent $25.1 billion and $24.5 billion or approximately 80% and 79% of the total assets reported for the RRB for fiscal years 2016 and 2015, respectively. NRRIT assets also represent approximately 93% and 95% of the Treasury securities and assets held by the Railroad Retirement program as of October 1, 2015 and January 1, 2015, respectively. Related changes in the net value of investments held by the NRRIT are reported as a source of financing which contributed a net gain of approximately $633 million during fiscal year 2016 and a net loss of $1.6 billion during fiscal year 2015.

Disclaimer of Opinion

Due to the significance of the matters described in the Basis for Disclaimer of Opinion paragraphs, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the financial position of the RRB, its consolidated net cost of operations and changes in net position, and combined budgetary resources as of September 30, 2016 and 2015; and the financial condition of the Railroad Retirement program as of October 1, 2015, January 1, 2015, 2014, and 2013; and changes in the financial condition of the program for the period ended September 30, 2015. Accordingly, we do not express an opinion on these financial statements.

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[1] Misstatements in the NRRIT net assets could be both material and pervasive. AICPA AU-C 705.06 defines pervasive as "[a] term used in the context of misstatements to describe the effects on the financial statements of misstatements or the possible effects on the financial statements of misstatements, if any, that are undetected due to an inability to obtain sufficient appropriate audit evidence." In context to the RRB's financial statements, the "[p]ervasive effects on the financial statements are those that, in the auditor's professional judgment" are confined to specific elements, accounts, or items of the financial statements, and "represent or could represent a substantial proportion of the financial statements."

Emphasis of Matter

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 $4.1 billion (net), or about 33% of the financing sources reported on the RRB's statement of changes in net position for fiscal year 2016 before considering the change in the reported value of NRRIT net assets. For fiscal year 2015, financial interchange transfers of $4.0 billion (net) represented about 32% of the financing sources reported before considering the reduction in the reported value of NRRIT assets. Our opinion is not modified with respect to this matter.

Other Matter

Accounting principles generally accepted in the United States of America require that the following required supplementary information be presented to supplement the basic financial statements: Management Discussion and Analysis section beginning on page 7, Social Insurance beginning on page 88, and Combining Statement of Budgetary Resources on page 99. Such information, although not a part of the basic financial statements, is required by the Federal Accounting Standards Advisory Board and Office of Management and Budget (OMB), which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to the auditor's inquiries, the basic financial statements and other knowledge the auditor obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on this information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Report on Other Legal and Regulatory Requirements

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in U.S. Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Bulletin No. 15-02, *Audit Requirements for Federal Financial Statements.*

Consideration of Internal Control

In planning and performing our audit, we considered the RRB's internal control over financial reporting to design audit procedures that are appropriate to express an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of internal control. Accordingly, we do not express an opinion on internal control over financial reporting.

The material weakness for financial reporting that was originally reported in fiscal year 2014 continues to exist.[2] A new material weakness for the control environment has been identified.

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.

Material Weaknesses

Financial Reporting

- Ineffective Controls

RRB OIG auditors continued to find ineffective controls for material transactions. During our audit, we found numerous transactions representing approximately $14.2 billion that did not have adequate supporting documentation when they were recorded and approved in the RRB's financial reporting system. These transactions primarily consisted of benefit payment disbursements and RRB investments that were redeemed to fund benefit payment disbursements. The RRB's Bureau of Fiscal Operations (BFO) documents its official record of supporting documentation for each recorded transaction as attachments in its financial reporting system. Upon notification of inadequate supporting documentation by RRB OIG auditors, BFO staff provided the missing documents to validate the transactions; however, the official records were not updated to include the missing documents. Subsequent communication between RRB OIG auditors and BFO management resulted in revision of BFO procedures to allow

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[2] RRB OIG, *Report on the Railroad Retirement Board's Year 2014 Financial Statements*, OIG Audit Report No. 15-01 (Chicago, IL: November 17, 2014).
A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

additional documentation to be added to supporting attachments without altering any aspect of the previously recorded transactions.

BFO revised other portions of its procedures and holds quarterly internal quality assurance meetings to discuss voucher exceptions in an effort to address our recommendations for this portion of the material weakness. We have determined that the corrective actions taken are not sufficient and that additional corrective actions are needed to address these internal control deficiencies.

- Communication with the NRRIT's Auditor

RRB OIG auditors have rendered disclaimer opinions on the RRB's financial statements since fiscal year 2013 because of RRB management's unwillingness to provide OIG auditors with cooperation and communication from NRRIT auditors. This lack of cooperation and communication prevents OIG auditors from obtaining sufficient appropriate audit evidence regarding the RRB's financial statements. Although AICPA AU-C section 600 guidance requires that the group auditor (RRB OIG) communicate with and receive cooperation from the component auditor (NRRIT's auditor), RRB management continues to prevent this from occurring, citing section 15(j) of the Railroad Retirement Act as the basis for denial. During fiscal year 2014, we recommended that an independent committee be established to identify a functional solution that would enable communication between OIG and NRRIT's auditors. Although RRB management did not concur with this recommendation, we will continue to cite this issue and the need for corrective action.

Control Environment

The RRB's control environment has been identified as a new material weakness because a principle control for the RRB's control environment, the enforce accountability principle, is ineffective. The Federal Managers' Financial Integrity Act (FMFIA) provides that internal accounting and administrative controls shall be established to provide reliable financial reporting and to maintain accountability over assets.[3] OMB issued additional guidance to further define management's responsibility for ensuring that organizations are committed to sustaining effective internal control environments.[4] One of the five principles of the control environment, the enforce accountability principle, states that management should hold individuals accountable for their internal control responsibilities. Management, with oversight from the oversight body, should take corrective action as necessary to enforce accountability for internal control in the entity. We have determined that RRB management has not taken corrective actions to address high level, monetarily significant matters that were not in accordance

[3] Public Law 97-255 (September 8, 1982).
[4] OMB, *Management's Responsibility for Enterprise Risk Management and Internal Control*, M-16-17 (July 15, 2016).

with authoritative guidance, previous agreements, and laws and regulations regarding matters that could have a detrimental effect on the reliability of financial reporting at the RRB and at governmentwide levels.

In addition, RRB management does not always communicate matters of audit significance with RRB OIG auditors and RRB management had not responded to numerous requests to reconsider its determinations and to discuss many of the matters detailed in this finding. AICPA AU-C section 260, *The Auditor's Communication With Those Charged with Governance*, explains the importance of communication between auditors and agency management and indicates that inadequate two-way communication may indicate an unsatisfactory control environment, thereby impacting the risk of material misstatements.

Detailed examples of our audit concerns are provided below.

- RRB management determined that the NRRIT should be a disclosure entity that would result in removal of its net assets from RRB and governmentwide financial statements. RRB management also determined that the RRB has no ownership interest in the NRRIT. These determinations were made in regard to new Federal Accounting Standards Advisory Board's Statement of Federal Financial Accounting Standards 47 (SFFAS 47), *Reporting Entity*, that becomes effective in fiscal year 2018. The RRB's General Counsel issued a legal opinion stating that the NRRIT meets the characteristics of a disclosure entity more than a consolidating entity.[5] RRB OIG auditors reviewed applicable laws, regulations, and authoritative guidance and determined that the NRRIT should be classified as a consolidating entity, which would result in continuance of its net assets being reported in the RRB's financial statements. RRB OIG auditors are concerned about the precedent set as a result of RRB management's determination that it does not have legal ownership of NRRIT net assets. Discussions regarding these matters remain in progress with the SFFAS 47 working group.

  BFO management concluded that NRRIT classification as a disclosure entity would resolve the basis for RRB financial statement disclaimers because such classification would remove NRRIT net assets from the RRB's financial statements. RRB OIG auditors did not agree or disagree with this conclusion.

  RRB management did not inform RRB OIG auditors of these significant determinations regarding the NRRIT. Instead RRB OIG auditors learned of them through BFO's external communications with the SFFAS 47 working group.

[5] RRB General Counsel, *National Railroad Retirement Investment Trust Assets Statement of Federal Financial Accounting Standards 47, Reporting Entity*, Legal Opinion 2016-53 (Chicago, IL: October 31, 2016).

- RRB management has taken no action to address communication and coordination between RRB OIG and NRRIT auditors for the communication portion of the material weakness for financial reporting. RRB Board members did not provide a written response for the corresponding recommendation despite six requests from RRB OIG auditors over a two month period; a verbal response of nonconcurrence was eventually provided by the RRB's former Chief Financial Officer.

- RRB management changed the social insurance valuation date from January 1, 2016 to October 1, 2015, despite a longstanding agreement among OMB, U.S. Department of Treasury, RRB, RRB OIG, and NRRIT for the continued valuation date of January 1, which would remain consistent with other social insurance reporting agencies. This change was made at the request of the NRRIT to save approximately $200,000 per year by not having a second audit conducted by their independent auditors and to align the valuation timeline of RRB and NRRIT assets; however, RRB OIG auditors determined that this cost savings represents less than 0.3 percent of NRRIT annual expenses. RRB OIG auditors learned that the RRB's Bureau of the Actuary's workload has increased as a result of this change because records to support two valuation dates have to be maintained due to other mandated reporting requirements for RRB solvency reports.

- RRB management has not acknowledged inaccurate Medicare cost reimbursements, does not plan to take corrective action for these inaccuracies, and does not plan to address nonadherence to applicable authoritative guidance regarding these computations despite RRB OIG findings that resulted from a separate audit.[6]

- RRB management planned to reclassify the RRB's financial interchange system that records approximately $12 billion in transactions from a major application system to a minor application system despite being informed that this would result in being noncompliant with OMB guidance used as criteria in a separate information security audit that is also conducted by RRB OIG auditors. RRB management also did not provide a rationale to support this reclassification despite numerous requests from RRB OIG auditors. On November 2, 2016, RRB management informally notified the OIG that the financial interchange system had been reassessed in accordance with applicable guidance and has determined that it would continue to be categorized as a major application system. On November 10, 2016, RRB OIG auditors received formal notification of RRB management's determination.

- RRB management uses an inaccurate definition of improper payments that impacts the accuracy and completeness of amounts reported for the RRB and, despite OIG findings from a separate audit that its improper payments are

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[6] RRB OIG, *Railroad Retirement Board Did Not Calculate Reimbursed Medicare Costs in Accordance with Federal Requirements*, OIG Audit Report No. 16-10 (Chicago, IL: August 22, 2016).

understated, RRB management did not concur with our recommendation to revise the process it uses although it is no longer sufficient for improper payment reporting purposes.[7]

The enforce accountability principle was ineffective because RRB management has not always been held accountable for their internal control responsibilities in regard to the application of authoritative guidance and laws and regulations and RRB management communication with RRB OIG auditors was inadequate due to inaction by senior management officials. The RRB's Executive Committee, composed of bureau directors from each RRB bureau, is responsible for daily agency operations to ensure conformance with laws, regulations, and policies. This committee also functions as the RRB's senior management council for internal control responsibilities outlined in OMB guidance.

Recommendations for improvement will be provided in our letter to management audit report that will discuss internal control concerns as related to the financial statement audit.

Compliance with Laws and Regulations

Our tests of the RRB's compliance with selected provisions of laws and regulations for fiscal year 2016 disclosed no instances of noncompliance that are reportable under auditing standards generally accepted in the United States of America 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.

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 FMFIA are met, and (3) complying with applicable laws and regulations.

We are 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. We considered the RRB's compliance with laws and regulations for fiscal

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[7] RRB OIG, *Audit of the Railroad Retirement Board's Compliance with the Improper Payments Elimination and Recovery Act of 2010 in the Fiscal Year 2015 Performance and Accountability Report*, OIG Audit Report No. 16-07, Recommendation 1 (Chicago, IL: May 13, 2016).

year 2016. In order to fulfill these responsibilities, we:

- 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;
- assessed the reconciliation of the beginning and ending open group measure including the significant components of the change presented in the statement of changes in social insurance amounts;
- 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;
- 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, including:
    - 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 fiscal year 2016 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 for the fiscal year ended September 30, 2016. We caution that noncompliance may occur and not be detected by these tests and that such testing may not be sufficient for other purposes.

RRB MANAGEMENT'S COMMENTS

Agency management commented that they will continue their efforts to pay benefits to the right people, in the right amounts, in a timely manner, and will take appropriate action to safeguard RRB trust funds. They also stated that although material weaknesses were identified and a disclaimer opinion was provided on the agency's financial statements, agency management has devoted substantial resources to strengthen processes, internal controls, and will continue to implement solutions.

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 and, accordingly, we express no opinion on the response.

Original Signed

Martin J. Dickman
Inspector General
Chicago, Illinois

November 7, 2016 except for matters
relating to the net assets of the NRRIT as of
September 30, 2016 as to which the date is
November 15, 2016

Attachment
Page 11
FORM G-115f (1-92)
RAILROAD RETIREMENT BOARD

UNITED STATES GOVERNMENT
MEMORANDUM

NOV 1 0 2016

TO : Heather J. Dunahoo
Assistant Inspector General for Audit

FROM : Lawrence Haskin
Acting Chief Financial Officer

LAWRENCE HASKIN

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Date: 2016.11.10 14:48:17 -06'00'

SUBJECT: FY 2016 Financial Statement Audit – Auditor's Report

My office, and those of the Board Members, have reviewed the Office of Inspector General's report. We will continue our efforts to 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. Although material weaknesses were identified and a disclaimer opinion provided on the agency's financial statements, we have devoted substantial resources to strengthen processes and internal controls and will continue to implement solutions. We will continue to work closely and cooperatively with your office to help ensure that the RRB will be able to meet this year's reporting deadline of November 15, 2016.

cc: The Board
Executive Committee

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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 (OMB) Circular A-136, which require that the Inspectors General identify what they consider the most serious management challenges facing its respective agency and briefly assess the agency's progress in addressing those challenges.

Congress created the railroad retirement system more than 80 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 widows, 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 2015, the Railroad Retirement Board (RRB) paid about $12.2 billion in retirement and survivor benefits to approximately 558,000 beneficiaries and approximately $85.1 million in net unemployment and sickness insurance benefits.[1]

Our identification of challenges facing RRB management is based on recent audits, evaluations, investigations, and current issues of concern to the Office of Inspector General (OIG). The RRB OIG identified the following seven major management challenges facing the RRB during fiscal year 2016.

Most Serious Management and Performance Challenges Facing the RRB as of October 1, 2016 (as identified by the Inspector General)	
Challenge 1	*Program Integrity to Strengthen Disability Programs*
Challenge 2	*Information Technology Security and System Modernization*
Challenge 3	*Management of Railroad Medicare*
Challenge 4	*RRB's Continued Noncompliance with IPERA*
Challenge 5	*Agency Succession Planning*
Challenge 6	*Weaknesses Related to Financial Statement Reporting*
Challenge 7	*Limited Transparency at the National Railroad Retirement Investment Trust*

[1] United States Railroad Retirement Board (RRB), *Performance and Accountability Report, Fiscal Year 2015* (Chicago, IL: November 2015).

844 N RUSH STREET CHICAGO IL 60611-2092

Challenge 1 – Program Integrity to Strengthen Disability Programs

Two types of disability awards are administered by the RRB, the occupational disability annuity and the total and permanent disability annuity. A railroad employee is considered to be occupationally disabled if a physical and/or mental impairment permanently disqualified them from performing his or her regular railroad occupation (even though the employee may be able to perform other kinds of work). Occupational disability annuities are payable to qualified applicants at or after the age of 60 with 10 years of service, or at any age if the employee has at least 20 years of service. According to the RRB's 2016 Annual Report, in fiscal year 2015, occupational disability annuities totaling approximately \$853 million were paid to approximately 23,500 annuitants.[2] The approval rate for occupational disabilities was approximately 97 percent in fiscal year 2015 and has remained relatively consistent for months in 2016 for which data has been reported. A total and permanent disability annuity is payable regardless of age to employees with at least 10 years of service but requires that the applicant not be able to perform any substantial gainful activity. The RRB's approval rate for a total and permanent disability was approximately 78 percent as of May 2016.

These two disability benefits remain the subject of sustained scrutiny by the Congress, the OIG, and the Government Accountability Office (GAO) as a result of continued program vulnerabilities and ineffective oversight from the RRB.

In 2007, the OIG initiated a joint investigation with the Federal Bureau of Investigation that identified a far reaching occupational disability fraud scheme perpetrated by a number of Long Island Rail Road (LIRR) retirees, doctors, and disability facilitators. This case was prosecuted by the U.S. Attorney's Office for the Southern District of New York. All 33 people charged in connection with the LIRR disability fraud scheme have either pled guilty (28 individuals) or been convicted at trial (5 individuals). OIG estimates that 700 individuals may have been involved in this fraud scheme and investigations are ongoing.

Through the LIRR investigation and subsequent work, significant deficiencies were identified within the occupational disability program and the OIG has made numerous recommendations for improvement through audits, OIG Alerts, and investigations. Further, according to a 2009 GAO audit of the RRB's occupational disability program, "a nearly 100-percent approval rate in a federal disability program is troubling, and could indicate lax internal controls in RRB's decision-making process, weaknesses in program design, or both."[3]

The OIG remained so concerned by the RRB's failure to address deficiencies in its occupational disability program that in February 2014, the Inspector General (IG) issued a seven-day letter alerting the RRB of its concerns and outlined

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[2] United States Railroad Retirement Board, *2016 Annual Report*, (Chicago, IL).
[3] Government Accountability Office (GAO), *Railroad Retirement Board: Review of Commuter Railroad Occupational Disability Claims Reveals Potential Program Vulnerabilities*, GAO-09-821R (Washington D.C.: September 9, 2009).

particularly serious or flagrant problems, abuses, and deficiencies relating to the occupational disability program.[4] The IG urged the agency to institute substantial and meaningful corrective actions.

In May 2015, the U.S. House of Representatives Committee on Oversight and Government Reform's Subcommittee on Government Operations convened a hearing to examine if the RRB was doing enough to prevent fraud in its occupational disability program and to assess the RRB's process for determining which workers are eligible for benefits.[5] In testimony, the IG detailed the systemic deficiencies within the RRB's occupational disability program, as well as several key OIG recommendations aimed at addressing these deficiencies.

In response to significant Congressional pressure and oversight by the OMB, GAO, and the OIG, the RRB has taken some steps to improve its occupational disability program. For example, it released a Disability Program Improvement Plan (DPIP), which outlines 18 initiatives aimed at improving program integrity within its disability program. During fiscal year 2015, RRB contractors completed a fraud prevention/detection assessment of the RRB's benefit paying programs, which reiterated much of what GAO and OIG have previously reported. These contractors reported that a number of important vulnerabilities exist within the RRB's disability program and offered a number of recommendations for improvement. Additionally, during fiscal year 2016, the RRB hired a Chief Medical Officer to provide medical guidance to the RRB's disability adjudication staff.

However, foundational flaws and a culture seemingly entrenched in defending its disability program, at the expense of strengthened program integrity, have resulted in little meaningful improvement or change. When its DPIP was first released, it contained many program changes that, if effectively implemented, would have improved program integrity. On the surface, it appears the RRB has made much progress in DPIP implementation. The RRB's September 2016 DPIP shows that it has "closed" 7 of the 18 initiatives. However, from an oversight and program improvement perspective, this document does not accurately reflect actual implementation of program improvements because tasks that the RRB has taken action on, as well as those that it has not taken action on, are both marked "closed." This poses challenges for the Congress and other oversight bodies because they cannot easily identify which tasks and initiatives have actually been completed.

[4] RRB Office of Inspector General (OIG), *Seven-Day Letter to Congress* (Chicago, IL: February 10, 2014).
[5] U.S. House of Representatives Committee on Oversight and Government Reform's Subcommittee on Government Operations Hearing, *Is the Railroad Retirement Board Doing Enough to Protect Against Fraud?* (Washington D.C.: May 1, 2015).

The OIG has brought certain specific and ongoing concerns regarding the DPIP to the RRB's attention. First, RRB OIG remains concerned that the RRB has not taken adequate steps to assure the collection of information on a disability applicant's job duties from railroad employers. In May 2016, the IG issued an alert to the RRB's three member Board (the Board) revisiting a critical program vulnerability previously identified by the OIG. Specifically, the alert reiterated that the RRB's continued failure to verify self reported job information with a third party (i.e., railroad employers) during the occupational disability adjudication process jeopardizes program integrity and does not comply with RRB regulations.[6] In 2016, RRB published their intent to replace the current job verification forms (G-251a and G-251b) with a singular version.[7] While this form has undergone extensive revisions as part of the DPIP, language in the Federal Registrar stated twice that completion of this form is voluntary. This is incongruent with RRB regulations that state RRB "shall also consider the employer's description of the physical requirements and environmental factors relating to the employee's regular railroad occupation, as provided by the employer on the appropriate form." This, among other third party verifications, is an important program integrity step that the RRB has not fully implemented through its DPIP. In 2015, about 6 percent of disability determinations included an employer provided form. From January through August 2016, employers provided job description information in approximately 11 percent of cases, with about 26 percent doing so in August 2016 (the month with most recently reported data).[8] An increase in submission of this information is promising but until the RRB makes this information mandatory and based on the individual's specific job duties, it cannot fully assess an applicant's eligibility.

Another program improvement that has not been fully implemented is action to prevent occupational disability adjudications based on the simple task standard for railroad employees. In May 2015, the OIG issued an alert to the Board recommending improvements to the disability program. One of the recommended improvements was that the RRB should formalize and implement procedures clarifying that an occupational disability application should be assessed against an applicant's permanent inability to perform the essential functions of their regular railroad occupation and not just a single task or function.[9] The RRB implemented a portion of the recommendation by agreeing to provide refresher training to disability examiners to clarify that occupational disabilities should be awarded only to applicants whose conditions are such that they are unable to perform their regular railroad occupation. However, the portion of the

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[6] OIG Alert Number 16-03, *Systemic Vulnerability within the Railroad Retirement Board's Occupational Disability Program*, (Chicago, IL: May 11, 2016).
[7] Form G-251 is the "Vocational Report" where the disability applicant self reports all information related to their disability. Forms G-251a and G-251b are the "Job Information" forms that are sent to the employer to verify the job information submitted by the applicant on form G-251. In 2016, the RRB proposed to combine the G-251a and G-251b into one form, a revised G-251a, to be sent to the railroad employer to verify the job information reported by the applicant on Form G-251.
[8] The 26 percent includes submission of the G-251a and "Other (Employer Job Description)", as reported by RRB.
[9] OIG Alert Number 15-05, *Recommended Improvements to the Disability Program*, (Chicago, IL: May 8, 2015).

recommendation pertaining to formalizing procedures so that an occupational disability application is not assessed based on inability to perform just a single task or function, was not fully implemented. The action taken—to review the disability procedures and verify that they do not include allowing an individual to be found occupationally disabled for an inability to perform a nonessential job task or function—rather than formalizing and implementing procedures, did not effectively address the IG's recommendations and does not leave claims examiners unequivocal guidance should they face such a situation.

In addition to the ineffective DPIP implementation, the RRB has been resistant to other recommendations to improve its disability programs. A fiscal year 2016 OIG audit identified control weaknesses diminishing the value of medical opinions in the RRB's disability determination process.[10] The OIG made 18 recommendations to improve the effectiveness of controls associated with the medical opinions. RRB management agreed to take action on 12 of the 18 recommendations. The six recommendations that the RRB did not concur with related to improving the value of medical opinions provided during the disability determination process. By not implementing these recommendations, the RRB does not receive the full value of the medical opinions, which is a key control intended to incorporate medical professionals as a component of the disability determination process.

Finally, we are significantly concerned with RRB's lack of action regarding recovery of potentially fraudulent payments made to LIRR annuitants. Specifically, OIG has recommended RRB use its fraud or similar fault authority to collect payments made to annuitants based on fraudulent or misleading information. After the LIRR fraud was uncovered and prosecutions were ongoing, RRB terminated benefits of annuitants who applied using medical documentation supplied by specific healthcare providers convicted of fraud. The annuitants were subsequently allowed to reapply with new medical information and more than 80 percent did. This resulted in an approval rate of over 90 percent for the terminated LIRR beneficiaries who refiled. It remains imperative that the RRB use every avenue to recover payments lost due to fraud or similar fault and to prevent the continued abuse of its occupational disability program. Allowing individuals to commit fraud against the program, with no repercussions, only encourages future fraud and abuse of the program.

As responsible public stewards, RRB management must implement comprehensive and meaningful procedural and cultural change to ensure that disability benefits are adjudicated accurately; awarding benefits only to those who are eligible after an independent, thorough review of the application and all required supporting documentation. Further, the RRB must work to ensure programmatic improvements, even those requiring legislative changes, are made expeditiously. If implemented properly, the OIG's prior recommendations provide

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[10] RRB OIG, *Control Weaknesses Diminish the Value of Medical Opinions in the Railroad Retirement Board Disability Determination Process*, OIG Audit Report No. 16-05 (Chicago, IL: March 9, 2016).

valuable steps to improve program integrity. Without these changes, the RRB's propensity to inaccurately adjudicate disability applications will continue to cost taxpayers millions in unwarranted expenses annually.

Challenge 2 – Information Technology Security and System Modernization

As with all federal agencies, the RRB faces the challenge of how to modernize its technology and safeguard sensitive data, all while accomplishing the agency's mission. The RRB is continually updating and enhancing existing technologies and implementing new systems; however, the OIG has concerns that these changes do not adequately address the inherent risks in information technology (IT) security and projects.

In fiscal year 2016, the RRB completed migration of the Program Accounts Receivable (PAR) system to the Financial Management Integrated System (FMIS). In March 2016, the RRB also completed transitioning to a Voice over Internet Protocol telecommunications system at Headquarters. Also, secure wireless access was implemented in April 2016.

The RRB has begun or plans to undergo other major IT initiatives in the coming years, such as:

- RRB legacy systems modernization,
- continued implementation of its "Office in the Cloud" plan, which is technology to offer a virtual office to a mobile workforce, and
- expansion of the imaging system for disability records.

Each of these is a major project, requiring significant planning and oversight. IT acquisitions and improvements governmentwide are so difficult that this matter is on GAO's High Risk List. Federal IT investments too frequently fail or incur cost overruns and schedule slippages, while contributing little to mission related outcomes; often suffering from a lack of disciplined and effective management, such as project planning, requirements definition, and program oversight and governance. In many instances, agencies have not consistently applied best practices that are critical to successfully acquiring IT investments.

The RRB legacy systems modernization is one of the largest IT projects ever undertaken by the RRB. The RRB estimated the project to cost $15.6 million. This project is expected to take over six years during which approximately 12 million lines of code are to be translated to more modern computer language, followed by a systems reengineering project. However, based on a review of a draft of the fiscal year 2018 Capital Plan, the existing mainframe at the RRB will reach the end of its useful life before the legacy systems modernization project is complete. The Capital Plan states that the RRB plans to utilize the National Information Technology Center for its mainframe operations, temporarily, until the legacy systems modernization project is completed. During fiscal year 2016, the RRB installed new hardware and software for three components of the new infrastructure. The contractor also converted all COBOL code scheduled for the first year. Projects of such size, length, and cost are at significant risk of cost overruns and project failure.

Regarding the RRB "Office in the Cloud Plan," cloud technology for a mobile workforce comes with possible security and privacy risks of valuable data that is susceptible to vulnerabilities, as well as long term considerations of cost and data access. The security and cost risks remain a concern of the OIG.

In April 2016, the OIG reported on an audit of the information security at the RRB, which is mandated by the Federal Information Security Management Act of 2002 (FISMA).[11] The audit included testing the effectiveness of the information security policies, procedures, and practices of a representative subset of the agency's information systems; accessing agency compliance with FISMA requirements and related information security policies, procedures, standards, and guidelines; and preparing a report on selected elements of the agency's information security program in compliance with OMB fiscal year 2015 FISMA reporting instructions.

While it was determined during the audit that the RRB is continuing to make progress in implementing an information security program that meets the requirements of FISMA, a fully effective security program has not been achieved. The OIG made twenty-three recommendations related to its findings.

Given the historic challenges in IT, both at RRB and across government, as well as the increased scrutiny of information technology security, the OIG considers these, and other major technology initiatives to be of increased risk, requiring close attention and oversight.

Challenge 3 – Management of Railroad Medicare

The Social Security Administration delegated authority to the RRB to administer certain provisions of the Medicare program for Qualified Railroad Retirement Beneficiaries (QRRB) and active Railroad employees. These provisions included enrollment, premium collection, and selection of a carrier to process Medicare Part B claims nationwide. The RRB is responsible for administering its contract with Palmetto GBA, its Part B carrier. In fiscal year 2015, the RRB withheld approximately $536 million in premiums, and Palmetto processed about $829 million in payments for services covered by Medicare Part B. Since 1983, the Centers for Medicare and Medicaid Services (CMS) has reimbursed the RRB for Medicare program related work performed. This reimbursement was approximately $32.9 million in fiscal year 2015.[12]

[11] RRB OIG, *Fiscal Year 2015 Audit of Information Security at the Railroad Retirement Board,* OIG Audit Report No. 16-06 (Chicago, IL: April 26, 2016).
[12] RRB 2016 Annual Report.

In December 2015, the RRB reported that a miscalculation had occurred resulting in Medicare beneficiaries paying an incorrect reduced variable rate. At that time, RRB indicated it was not planning to collect any underpayments. After communication by OIG, RRB ultimately identified that 2,222 beneficiaries had underpaid premiums totaling approximately $6 million. Of this amount, 893 were deceased beneficiaries totaling approximately $1.68 million and 1,329 were current beneficiaries totaling approximately $4.36 million. While the rate was corrected for the January 2016 premium, the RRB is considering a wholesale write off of the undercollected premiums. The OIG is concerned that the RRB's decision will leave $6 million uncollected. Since RRB's mission requires appropriate action to safeguard the Hospital Insurance and Supplemental Medical Insurance Trust Funds (Medicare Trust Funds), it is imperative that the RRB calculate and collect the proper Medicare premiums due, take action to collect premiums owed, and prevent these errors in the future.

In August 2016, an OIG audit reported that the RRB did not calculate reimbursed Medicare costs in accordance with federal requirements.[13] Controls were not adequate to ensure the RRB's cost allocation plans and Medicare reimbursement calculations were accurate and supported. Railroad Medicare cost allocation policies and procedures were not effective in preventing errors. In addition, labor costs were reimbursed based on management's professional judgment, and indirect costs had not been formally approved by CMS. These weaknesses resulted in unsupported Medicare direct costs totaling approximately $30.4 million and unsupported indirect costs ranging from $9.5 million to $33.8 million for fiscal years 2010 through 2014. The OIG issued 26 recommendations to address the weaknesses identified. RRB management concurred with 10 and did not concur with 16 of the recommendations. The OIG was concerned by the significant nonconcurrence from RRB management and conducted subsequent discussions but RRB management made no revisions in its official responses to the audit report. Most of the RRB's nonconcurrence was with recommendations that would require retroactive assessment of the accuracy of reimbursements received from CMS and have the potential to cause a violation of the Antideficiency Act.[14] The OIG and the RRB also have a fundamental disagreement on the applicability of and the RRB's compliance with OMB Circular A-87. This circular established principles and standards for allowable cost reimbursements between governmental units that RRB was required to follow, based on its agreement with CMS.[15] The OIG believes that the RRB should take all necessary steps to implement these recommendations in order to assure the accuracy of prior and future reimbursements.

[13] RRB OIG, *Railroad Retirement Board Did Not Calculate Reimbursed Medicare Costs in Accordance with Federal Requirements*, OIG Audit Report No. 16-10 (Chicago, IL: August 22, 2016).
[14] The Antideficiency Act is codified in several sections of title 31 of the United States Code (USC) including 31 USC 1341(a), 1342, 1349-1351, 1511(a), and 1512-1519.
[15] OMB Circular No. A-87, *Cost Principles for State, Local, and Indian Tribal Governments* (Washington DC: May 10, 2004). A-87 was relocated to 2 Code of Federal Regulations (CFR) Part 225 (effective August 31, 2005). OMB has consolidated and streamlined its guidance located at 2 CFR Part 200.

Additionally, OIG is concerned that Railroad Medicare is not using the CMS Fraud Preventative System (FPS). Implemented in July 2011 by CMS, FPS is utilized by CMS to assist in reducing improper Medicare payments.[16] While FPS has been integrated with CMS systems that process claims, it has not been integrated with the payment processing system used for Railroad Medicare claims. Railroad Medicare has been approved for on-boarding to FPS with implementation planned for December 2016 or January 2017.

The Railroad Medicare Program continues to be a challenge to the RRB and a significant concern to the OIG. The RRB must continue to improve controls over the $829 million in Railroad Medicare payments made on behalf of its beneficiaries.

Challenge 4 – RRB's Continued Noncompliance with Improper Payments Elimination and Recovery Act

In 2015 and 2016, OIG reported that RRB was not in compliance with the Improper Payments Elimination and Recovery Act (IPERA) of 2010, which amended the Improper Payments Information Act of 2002 (IPIA).[17] In May 2015, OIG issued an audit report to assess the RRB's fiscal year 2014 compliance with IPERA. The audit determined that the RRB was not in full compliance with IPERA reporting requirements.[18] Specifically, RRB did not comply with the risk assessment requirements because it did not assess risks for all of the programs that it administers. As a result, the OIG was unable to assess compliance for the publication requirement for improper payment estimates for all of the programs and activities identified as susceptible to significant improper payments under the risk assessment. The audit also reported that improvements were needed for the RRA program and the Railroad Unemployment Insurance Act (RUIA) program, to ensure completeness of reported amounts for the RRA, as well as the accuracy of the reported improper payment amounts for the RRA and the RUIA programs, to include understatements and insufficient supporting documentation. RRB developed a risk assessment plan in response to the OIG's determination that the RRB was not in compliance with IPERA. The OIG reviewed the risk assessment plan developed by RRB in fiscal year 2016 and assessed it as noncompliant because it did not meet the minimum requirements as specified in OMB guidance.

In May 2016, the OIG determined that the RRB remained noncompliant with IPERA for the second consecutive year for the risk assessment requirement.[19]

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[16] GAO, Medicare Fraud Prevention: *CMS Has Implemented a Predictive Analytics System, but Needs to Define Measures to Determine Its Effectiveness*, GAO-13-104 (Washington, D.C.: October 2012).
[17] Public Laws 111-204 and 107-300, respectively.
[18] RRB OIG, *Audit of the Railroad Retirement Board Compliance with the Improper Payment Elimination Recovery Act of 2010 in the Fiscal Year 2014 Performance and Accountability Report*, OIG Audit Report No. 15-06 (Chicago, IL: May 15, 2015).
[19] RRB OIG, *Audit of the Railroad Retirement Board's Compliance with the Improper Payment Elimination and Recovery Act of 2010 in the Fiscal Year 2015 Performance and Accountability Report*, OIG Report No. 16-07 (Chicago, IL: May 13, 2016).

Specifically, risk assessment documentation did not meet the minimum requirements specified in OMB guidance. The OIG also determined that improvement was still needed to ensure the accuracy of reported improper payment amounts for RRA and RUIA programs because both programs reported understated amounts of approximately $12 million and $904,000. In addition, the OIG identified other improper payment reporting deficiencies which made the RRB improper payments report incomplete.

In its 2016 report, the OIG made six detailed recommendations to address the identified weaknesses. The RRB concurred with three of the recommendations. The RRB requested a legal opinion for two other recommendations that pertained to incorrect classifications of RUIA underpayment cases. The RRB classified these cases as proper based on the methodology that it used, which was that the amount of payment was correct based on the information known when it was initially paid. When new or corrected information was received subsequent to the original payment that resulted in a change in the original payment, RRB still classified the payment as proper, as long as the new or corrected information was received within the reporting year and the payment did not retroact beyond the reporting year. The RRB deems this as a timely adjustment and its methodology uses timeliness in determinations of proper or improper. However, the OIG believes these cases should have been classified as improper based on OMB guidance for improper payments, which has a specific definition for improper payments that does not include timeliness. In June 2016, the RRB's General Counsel issued a legal opinion agreeing with the RRB's categorization that these cases were proper. The OIG disagrees and, as a result, subsequent audits will still deem RUIA cases of this type as improper.

Finally, the RRB did not concur with the OIG recommendation that it revise its overall process for the RRA program that supports improper payment reporting requirements to ensure the accuracy of the data. The RRB's nonconcurrence was based on some refinements to its methodology considering the previous year's audit. The RRB was required to resubmit the refined methodology to OMB for approval. OMB is reviewing the resubmitted methodology and the RRB is waiting for OMB's formal response. The RRB also stated that the overall process has been in place since fiscal year 2002 and there has been no significant challenge of the process. RRB routinely reviews its process and make adjustments as appropriate based on applicable subsequent guidance documents issued by OMB. The OIG believes that the current process is insufficient for improper payment reporting purposes. We reiterate the need for revision of the overall process to improve the accuracy of improper payment reporting. Without a thorough and reliable assessment of its improper payment program, the RRB is at risk of failing to identify all improper payments and the root causes of improper payments, which ultimately will allow them to continue.

Because the agency was deemed noncompliant for two consecutive years for the same programs or activities, IPERA guidance states that the Director of OMB will review the program and determine if additional funding would help the agency to become compliant. IPERA compliance remains a challenge for the RRB given that policies and procedures that it developed for IPERA risk assessments were incomplete, thereby directly impacting the risk assessments prepared for the various programs that the RRB administers.

Challenge 5 – Agency Succession Planning

RRB, like most federal agencies, is faced with a significant portion of its workforce currently eligible to retire or able to do so in the near future. RRB's Bureau of Human Resources estimated that, by fiscal year 2019, more than 40 percent of personnel will be eligible for retirement, with approximately 55 percent having more than 20 years or more of service.[20] Further, the agency is run by a three member Board. The Office of Chairman has been vacant since the retirement of the Chairman on August 31, 2015. A top priority for agency leadership will be to ensure the transfer of knowledge to ensure continuing and uninterrupted operations of the agency.

In September 2011, the OIG reported that the RRB had identified staff attrition as an ongoing concern.[21] The report also stated that these changes would impact every aspect of the agency's operations, to include senior level management. While RRB has a Human Capital Management Plan and Succession Plan, it was not funded. Also, while the plan identified the RRB's need to retain and restore employees, the impact of declining budgetary resources was not considered. The OIG concluded that RRB management should enhance the plan by evaluating the possibility of staff and financial reductions and then by establishing a contingency plan to address staff and funding necessities for plan readiness.

While attrition presents a significant challenge, it also presents a unique opportunity for the RRB to quickly change its culture. RRB's culture focuses on paying benefits quickly, increasing the likelihood of erroneous payments in the disability program; a foundational flaw that leaves the program susceptible to fraud and abuse. One way to make significant and timely change to an agency's culture is through the introduction of new personnel who provide new ideas, different views, and a willingness to question the status quo. Of course, the agency would need to promote new thinking and views in order to change its culture.

While attrition of a significant portion of its staff is a significant challenge facing the RRB, it should look for ways to maximize the effectiveness of these changes to leverage new skills and thinking.

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[20] RRB 2016 Annual Report.

[21] RRB OIG, *Office of Inspector General's Proposal to Improve Business Efficiency at the Railroad Retirement Board*, (Chicago, IL: September 21, 2011).

Challenge 6 – Weakness Related to Financial Statement Reporting

The OIG is mandated to audit the RRB's consolidated balance sheet, as well as the related statements of net cost, changes in net position, the budgetary resources, the statement of social insurance, the statement of changes in social insurance, and the related notes to the financial statements. RRB management's responsibility is the preparation and fair presentation of said financial statements in accordance with accounting principles generally accepted in the United States of America. Upon RRB's completion of these financial statements, the OIG is responsible for expressing an opinion on the financial statements, which are based on the audit being conducted in accordance with the auditing standards generally accepted in the United States of America.

The OIG reported a material weakness for financial reporting in fiscal year 2014 and 2015. The material weakness included a previously reported significant deficiency for budgetary reporting. Corrective actions for the budgetary reporting deficiencies identified, have still not been completed. During the course of the audits, material financial recording errors were detected and internal control procedures were not consistently performed timely or effectively.

This material weakness, which consists of ineffective controls and the lack of communication with the National Railroad Retirement Investment Trust's (NRRIT) auditor, continues to exist. The lack of communication with the NRRIT auditor is the basis for the disclaimer opinion rendered for the RRB's financial statements.

Although RRB's Bureau of Fiscal Operation's management has taken corrective actions for ineffective controls, the actions continue to be insufficient and the OIG continues to identify material transactions that were recorded without sufficient supporting documentation.

The OIG will report a new material weakness in fiscal year 2016. Specifically, the OIG has determined that the RRB's control environment may have a detrimental effect on the RRB's financial statements. OMB issued guidance defining management's responsibility for ensuring that an organization is committed to sustaining an effective control environment.[22] The guidance explains five principles of the control environment and if one principle is ineffective, management would be unable to conclude that the control environment is effective. The material weakness that the OIG reported is based on an ineffective control principle, the enforce accountability principle, which states that management should hold individuals accountable for their internal control responsibilities. RRB management has not taken the necessary corrective actions to address several significant matters and we are concerned that ongoing noncompliance with applicable laws, regulations, and authoritative guidance could impact the reliability of financial reporting at the RRB and at

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[22] OMB, *Management's Responsibility for Enterprise Risk Management and Internal Control*, M-16-17 (July 15, 2016).

governmentwide levels. In addition, RRB management does not always communicate matters of audit significance with RRB OIG auditors and RRB management had not responded to numerous requests to reconsider its determinations and to discuss most of the matters detailed in this finding. According to the AICPA's guidance, inadequate two-way communication could indicate an unsatisfactory control environment, thereby impacting the risk of material misstatements.[23]

One of the most significant concerns involves ownership of NRRIT net assets. The RRB indicated that it has no ownership interest in the NRRIT in its assertion that the NRRIT should be classified as a disclosure entity for financial statement reporting purposes under new Federal Accounting Standards Advisory Board's (FASAB) Statement of Federal Financial Accounting Standards 47 (SFFAS 47), *Reporting Entity*. The OIG disagrees with the RRB's assertion and believes that the NRRIT should be classified as a consolidating entity. The classification determination ultimately decides whether the NRRIT's net assets will continue to be included in the RRB and governmentwide financial statements beginning in fiscal year 2018 when SFFAS 47 becomes effective. Based on the RRB's classification of the NRRIT as a disclosure entity, the net assets would not be included, there would only be a footnote reference to the NRRIT. If classified as a consolidating entity, the net assets would still be included in the financial statements. The NRRIT's net assets represented $24.5 billion or approximately 79 percent of the total assets reported for fiscal year 2015 and approximately $1.2 billion is transferred annually from the NRRIT to RRB to pay RRB program expenditures. The OIG is concerned with the RRB's assertion that it does not maintain legal ownership to the net assets of the NRRIT.

Other OIG concerns, many of which are discussed in this document, are (1) lack of action or formal response for our audit recommendation associated with the NRRIT communication portion of the material weakness for financial reporting, (2) a change in the social insurance valuation date that will result in NRRIT savings of approximately $200,000 in contract services expenses, which is less than one half of one percent of NRRIT's annual total expenses but will increase the workload for the RRB's Bureau of Actuary, (3) lack of corrective action and acknowledgement for inaccurate Medicare cost reimbursements and nonadherence with applicable authoritative guidance, (4) a planned change to reclassify the RRB's financial interchange system that records approximately $12 billion in transactions from a major application to a minor one without documented rationale and would be in noncompliance with authoritative guidance, and (5) RRB management's inaccurate improper payment definitions, which continue to result in understated reported improper payments.

[23] AICPA, *AICPA Professional Standards AICPA Professional Standards, AU-C Section 260, The Auditor's Communication with Those Charged with Governance*, June 1, 2013.

Challenge 7 – Limited Transparency at the National Railroad Retirement Investment Trust

The NRRIT was established by the Railroad Retirement and Survivors' Improvement Act of 2001 (RRSIA). The NRRIT is a tax-exempt entity, independent of the Federal government, whose purpose is to manage and invest railroad retirement assets. The NRRIT is authorized to invest the assets entrusted to it in a diversified investment portfolio in the same manner as private sector retirement plans. The NRRIT is also responsible for transferring funds to the RRB to pay benefits that are not covered through current tax receipts from railroad employees or employers. Over $24.5 billion in assets were held by the NRRIT on behalf of railroad retirees and their families at the end of fiscal year 2015.[24]

The OIG is concerned that oversight of the NRRIT is inadequate. Improved transparency and oversight of the NRRIT could be accomplished through a combination of independent performance audits conducted in compliance with Generally Accepted Government Auditing Standards (GAGAS) and a transparent annual financial statement audit, along with independent investigations, evaluations, and assessments, as appropriate.[25]

The following outlines the specific challenges related to the NRRIT.

<u>Performance Audits</u>

The NRRIT has commissioned only four performance audits since its inception in 2002 and has not established a formal policy for such audits. There is no indication that the performance audits commissioned by the NRRIT were performed in accordance with GAGAS, which provides a framework for conducting high quality audits with competence, objectivity, and independence. Of additional concern is that the NRRIT self selects the audit areas. Comparable entities, such as the Thrift Savings Plan and private pensions, are subject to performance audits by one or more independent oversight organizations. In contrast, the NRRIT defines the subject and scope of its performance audits.

It is the OIG's opinion that selection by the NRRIT of the audits to be performed impairs independence and prevents thorough oversight of the NRRIT's assets and operations. The OIG strongly opposes any arrangement that allows the NRRIT to control performance audits. It is also the OIG's opinion that a statutory amendment to require performance audits would have greater permanence, since the NRRIT could not legally opt to discontinue any new oversight practices.

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[24] RRB, *Performance and Accountability Report, Fiscal Year 2015* (Chicago, IL: November 2015).
[25] GAO, *Government Auditing Standards, 2011 Revision*, GAO-12-331G
(Washington, D.C.: December 2011).

In order to address the OIG's and GAO's concerns, the NRRIT signed a Memorandum of Understanding (MOU) with the RRB in October 2014 to delineate responsibilities and procedures for (i) Financial Audits and (ii) Performance Assessment Evaluations with respect to assets held by the NRRIT. This MOU states that "performance reviews should be regularly scheduled every 3 years beginning in calendar year 2015, with the understanding that additional reviews could be scheduled, if warranted."[26] Although the MOU clearly states that the NRRIT has agreed to these performance reviews, there has been no indication that any NRRIT performance reviews have been initiated since the signing of the MOU in 2014, and the MOU does not require them to be performed.

In fiscal year 2014, GAO reported on performance audit policies and practices that exist for overseeing the NRRIT, performance audit policies in place at comparable organizations, and options that could be pursued to improve NRRIT performance audit policies.[27] While the report did not contain any formal recommendations, it did list options for expanded NRRIT oversight including:

- granting the OIG authority to conduct performance audits, which would ensure that these reviews are initiated and performed independent of the NRRIT;
- requiring periodic audits with external input on scope, which would ensure NRRIT performance audits continue; and/or
- establishing an office of internal audit, which could ensure performance audits are independently initiated and conducted.

These options could be adopted through either an agreement between the key parties or through legislation.

The OIG continues to strongly believe that performance audits would be most efficiently conducted by the OIG and encourages the RRB and NRRIT to develop a legislative proposal that would mandate this change.

[26] Memorandum of Understanding between National Railroad Retirement Investment Trust and the United States Railroad Retirement Board signed in October 2014.
[27] GAO, *Retirement Security: Oversight of the National Railroad Retirement Investment Trust*, GAO-14-312 (Washington, D.C.: May 15, 2014).

Disclaimer of Opinion on RRB Financial Statements

The OIG's lack of access to the NRRIT's auditor has resulted in the OIG issuing a disclaimer of opinion for fiscal years 2013 through 2016. The OIG is required by law to audit the financial statements of the RRB, and the NRRIT is a significant component of the RRB. In order to comply with the American Institute of Certified Public Accountants (AICPA) group financial statement auditing standard, the OIG contacted the NRRIT requesting direct communication with, and cooperation from their auditor.[28] To date, there has been no communication or cooperation from the NRRIT's auditor, directly or indirectly.

In view of the fact that the OIG cannot obtain sufficient appropriate audit evidence with respect to the NRRIT, we cannot issue an opinion on the RRB's financial statements. To prevent future disclaimers of opinion, it is imperative that RRB management counsel the NRRIT regarding its auditor's responsibilities to comply with the AICPA's group financial statement requirements.

The OIG plans to continue oversight in all areas highlighted in this letter through audits, investigations, and other follow-up activities. We encourage the RRB to take meaningful action on these challenges in order to prevent fraud and abuse in the programs and operations of the RRB, and to reduce improper payments in all of its programs.

Original signed by:

Martin J. Dickman
Inspector General

October 14, 2016

[28] AICPA, *AICPA Professional Standards, AU-C Section 600, Special Considerations - Audits of Group Financial Statements (Including the Work of Component Auditors)* June 1, 2013.

Management's Comments

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

Program Integrity to Strengthen Disability Programs

The RRB is committed to improving the quality of disability decisions. We have devoted a significant amount of time, effort and resources on quality and process improvements. In some instances the RRB did not agree with the specific recommendations of the OIG, but instead we have remained consistent in our approach to administering the program so as to protect the integrity of the Trust Fund.

In response to OIG recommendations and ad hoc communications, as well as the Government Accountability Office (GAO) audit findings, the agency has taken meaningful actions to improve the central critical functions of the RRB's disability program including the following:

2014

- Established Medical Provider Database to facilitate provider analysis.
- Established an Anti-Fraud Task Force that monitors implementation of the Disability Process Improvement Plan (DPIP).
- Initiated fraud awareness training for all agency employees as well as specific training for claims staff and managers.
- Ensured that all disability adjudications would be subject to a second review.
- Hired a Director of Audit Affairs whose duties include coordination of the DPIP implementation.

2015

- Implemented Independent Medical Examinations for most cases.
- Completed review of contracted sources by the Disability Advisory Committee for the purpose of making recommendations for improvement.
- Implemented concurrent processing of freeze determination with the disability rating under the Railroad Retirement Act (RRA).
- Provided enhanced training in disability adjudication and increased the frequency of visits by professional medical providers to support claims examiners.
- Established a multi-component team from the RRB with the responsibility for reviewing Social Security Administration's (SSA) disability program and identifying "best practices" that can be utilized by the RRB.
- Implemented continuing disability reviews for high risk cases.
- Established a quality control unit and related performance goals.
- Approved policy changes requiring applicants to submit all medical evidence related to disability claims.

2016

- Revised the job information process/forms to request pertinent information from employees and employers to insure that disability examiners have adequate and uniform vocational information available to them when adjudicating applications and to easily identify discrepancies for resolution.

- Revised the application forms to ensure that all relevant information is obtained.
- Expanded continuing disability reviews (CDR) by identifying disability annuitants meeting certain criteria (age, type of impairment) who may return to work or potentially recover from their claimed impairment(s).
- Revised the CDR form to obtain additional information, address OIG suggestions to improve program integrity.
- Created a new form to obtain medical information from employers within 18 months and having the employer certify as to having or not having medical evidence.
- Created a new form which requires field office staff to provide pertinent observations on disability applicants and annuitants to help identify fraud or areas of investigation,
- Created a new earnings booklet for employee disability applicants and annuitants concerning the impact of work and earnings on their disability annuity.
- Created a new certification form for disability annuitants to certify that they remain disabled.
- Signed a contract with The Work Number to obtain more timely earnings data to support stronger initial adjudication and post-entitlement program integrity, (pending implementation).
- Revised procedure in the Disability Claims Manual (DCM), Field Operations Manual, and provided training in RRB University concerning fraud.
- Revised procedure in DCM to correspond with SSA procedure requiring all medical evidence be requested and considered during disability adjudication.
- Developed a new application tracking system for employee disability (occupational and total disability) applications and posted the results on the RRB's website.
- Established the position of Chief Medical Officer (CMO) to provide assistance and expert medical guidance to the Office of Programs in the adjudication of disability annuity claims.
- Conducted monthly medical training in addition to programmatic training on Self-Employment and Total and Permanent adjudication to ensure eligibility regulations are consistently applied. Delivered specialized disability fraud training to disability adjudication staff.

In addition, the following program improvements will be implemented:

- Revise the electronic application process to include the disability application in order to store information into a database.
- Expand the application tracking system to include disabled survivors and children.
- Implement use of The Work Number.

The Office of Programs concurred with many of the recommendations in the OIG Report titled *Control Weaknesses Diminish the Value of Medical Opinions in the RRB Disability Determination.* While the Office of Programs may have disagreed with specific solutions put forward, we did agree with the intent of the other recommendations. For instance, the newly hired CMO is actively involved in reviewing the medical evidence provided. The CMO contacts physicians in order to resolve any conflicting medical opinions contained in the files and has already begun delivering training topics to examiners. The CMO also keeps regular office hours to allow examiners with questions to seek guidance with respect to the evidence in the file.

While the OIG acknowledges RRB Management's extensive revisions to, and intent to replace the current job verification forms (G-251a and G-251b) with a singular version, OIG contend that voluntary completion of the forms is "incongruent with RRB regulations…". In support of this contention, the OIG has noted that the regulations of the RRB state that the RRB "shall also consider the employer's description of the physical requirements and environmental factors relating to the employee's regular railroad occupation, as provided on the appropriate form." Notably omitted from the regulatory citation is the fact that the regulations provide that examiners must also consider the employee's own description, as well as other sources, such as the Dictionary of Occupational Titles. The intent of this regulation is to identify what information disability examiners should consider if available, not to mandate that employers must provide vocational information. This is not only apparent from the logical reading of the regulation, but was also emphasized when the policy was established. As noted at the time the procedure was introduced, it was to allow for employers to "offer the applicant's railroad employer the opportunity to voluntarily provide information on the applicant's job duties which may be utilized in determining the applicant's eligibility to an occupational disability." [Emphasis added.] Determining Disability, 62 Fed. Reg. 50056 (proposed Sept. 24, 1997) (to be codified at 20 C.F.R. pt. 220).

OIG also asserts that "another program improvement that has not been fully implemented is action to prevent occupational disability adjudications based on the simple task standard for railroad employees." RRB Management respectfully disagrees with this assertion. In response to OIG Alert No. 15-05, Disability Staff received refresher training on following the appropriate standard for occupational disability adjudication. This training included a review of how impairments are assessed to determine if an individual is disabled or not, as well as how to develop sufficient objective medical evidence to determine restrictions caused by impairments. These restrictions are then compared to essential job functions and a determination of whether the applicant can perform the job duties is made. The sequential evaluation process used in the training is found in 20 Code of Federal Regulations (CFR) 220.13(b)(2)(iv). These regulations are included in RRB's Disability Claims Manual Part 13, along with the Independent Case Evaluation process where medical information is reviewed to establish the functional limitations of the condition. As functional limitations are established and job demands determined, the two are compared and reviewed to determine if the claimant can perform the essential job duties to continue performing their regular railroad occupation.

In summary, contrary to the OIG's assertion, the procedure had been reviewed and is accurately documented. In addition, refresher training has been provided to DBD staff on the subject.

Finally, the OIG recommends that RRB should reopen annuity award determinations and recover disability annuity payments to former LIRR employees where the annuities were based in part upon medical evidence provided by two physicians convicted of fraud. Based on evidence developed by the RRB's OIG and the Department of Justice, the U.S. District Court convicted 33 individuals of fraud and ordered restitution be made to the RRB. Litigation presently continues in the District Court regarding restitution owed to the RRB. No other individuals were indicted. Forty-five individuals participated in a voluntary program, the terms of which, at the suggestion of the Department of Justice, did not require repayment of prior annuities paid.

In addition, the RRB terminated prospective annuity payments for over 700 disability annuitants in 2013 where the annuities were based, in part, upon medical evidence provided by the two physicians convicted of fraud. None of these individuals were indicted or participated in the voluntary program referenced above. Annuitants who were terminated were allowed to file a new disability application. However, those who opted to refile were required to submit new evidence supporting their disability claim and undergo independent examinations performed by medical specialists. The OIG has alleged "potential" overpayments, but has not presented evidence to the RRB establishing that the submission of the original applications filed by those individuals terminated in 2013 was based upon fraudulent information.

Information Technology Security and System Modernization

Information Technology (IT) initiatives require close attention and oversight to mitigate the risks of implementing change. The RRB systems modernization approach is to show success with small projects, communicate these successes across the agency to gain support and build confidence to accomplish the remaining larger critical tasks, in an iterative and incremental approach. The project will take place in two phases to minimize the risk from limited funding, as well as build confidence that the migration of 40 years of legacy code can be transformed without loss of functionality. This phased approach uses automation in the early stages, develops an understanding of the legacy environment, removes dead code, identifies duplicate code, and implements efficiencies in a short period of time. The success of the software development process depends on the ability to create reusable code. The RRB will continuously monitor, measure, and perform value driven services to ensure the predictable outcome of a successful migration. The development environment requires a flexible approach to testing that includes manual and automated test execution. The goal of using tools in the development effort is to automate the efficient creation of software products. These tools will be employed in varying degrees of automation to coincide with the depth and breadth of testing, and the complexity of the application or component being tested.

- The project management required to achieve this successful migration is based on agile principles such as: Focusing the team on the rapid realization of specific business value.
- Breaking up yearlong projects into a series of short releases focused on the most critical or Key Performance Indicators to increase the opportunity for success.
- Ensuring frequent standup meetings, or daily scrums, as an effective means to convey information, and to facilitate quick resolution of identified risks and issues.
- Co-locating teams to result in a better understanding of activities and deliverables.
- Enforcing team accountability and stakeholder responsibility by keeping everyone informed using dynamic dashboards.
- Delivering high customer satisfaction by following a repeatable, consistent, proven implementation methodology.
- Measuring and communicating captured value to our customers.

The iterative software development model delivers value and provides confidence from early repeated success, early risk mitigation and discovery, complexity management through simplification, relevant progress tracking leading to better predictability, higher quality and fewer defects, early and regular process improvement, prototyping, and feedback communication loops. The IT Enterprise Roadmap outlines the plan to enable a future ready RRB workforce equipped with modern tools and technologies to do their jobs in the most efficient, effective, and secure manner that leads to sustained customer satisfaction in the railroad community we serve. The IT Enterprise Roadmap introduces the concept of Office in the Cloud. This robust and secure concept provides sustained operations for the future. Applications are modernized to run on virtual servers and do real-time processing in a secure Private Cloud. This initiative enables self-service solutions for the railroad community, mobile applications, and a virtual office that allows our workforce to accomplish tasks securely without physical constraints of the four-walled office. IT security risks in the virtual office are much smaller and better managed than the agency's current environment. All data at rest will be encrypted to FIPS 140-2 standard. All RRB Office in the Cloud initiatives will require Federal Risk and Authorization Management Program (FedRAMP) certification. The FedRAMP is a U.S. government-wide program with the goal to accelerate adoption of secure cloud solutions and provide a standardized approach to security assessment, authorization, and continuous monitoring for cloud products and services. The FedRAMP is based on the stringent security requirements defined by NIST 800-53 standard and provides a uniform approach to risk based management. At a minimum, the virtual office is enabled using Secure Socket Layer Virtual Private Network (SSL VPN). Each employee will use the HSPD-12 PIV card to logon for multi-factor authentication. Furthermore, security monitoring at the Security Operations Center (SOC) gives the agency advanced capabilities to proactively block and remediate any security threats we come across. The agency continues to make strides in improving our information security program as mandated by the Federal Information Security Management Act of 2014 (FISMA). We implemented EINSTEIN III (E3A) to enhance our cybersecurity awareness and help detect and prevent malicious traffic that may target the RRB information systems. We are implementing a continuous monitoring strategy by enrolling in the Department of Homeland Security (DHS) Continuous Diagnostics and Mitigation (CDM) program. The CDM tools are scheduled to be applied at the RRB in the Calendar Year 2017. In addition, we continue to work diligently to address FISMA open audit recommendations and related Plan of Action and Milestones (POAM) recommendations as we strive towards implementing a fully effective information security program.

Management of Railroad Medicare

In the OIG's 2016 document, "Management and Performance Challenges Facing the Railroad Retirement Board" (p. 7), the OIG states: "The Social Security Administration delegated authority to the RRB to administer certain provisions of the Medicare program for Qualified Railroad Retirement Beneficiaries and active Railroad employees. These provisions included enrollment, premium collection, and selection of a carrier to process Medicare Part B claims nationwide". In actuality, Congress gave the RRB this authority.

The issue of Medicare beneficiaries paying an incorrect reduced variable rate arose as a result of an administrative error in calculating cost of living adjustments (COLA). Public Law 100-360 amended Section 1839(f) of the Social Security Act to extend the Hold Harmless provision to railroad beneficiaries who have Part B premiums deducted from their railroad annuity. The law was enacted into legislation as the Medicare Catastrophic Coverage Act of 1988. Prior to this law, for the years 1986, 1987, and 1988, the Hold Harmless provision was applied to Social Security benefits only. The computer programs that calculate the RRB cost of living adjustments (COLA) failed to accurately make the Hold Harmless determinations since the inception of the provision in 1988.

This error was not detected until December 2015. The RRB contacted the Centers for Medicare and Medicaid Services (CMS) to determine if we could waive the arrearages. CMS informed us that they did not have legal authority to waive the arrearages. As a result, RRB reimbursed CMS for the sum total of $6,043,841.20, the arrearage calculated for over 1,300 beneficiaries still alive and 893 deceased beneficiaries. The beneficiaries impacted by this error would have been required to repay thousands of dollars to the RRB, due to the Agency's Administrative error, which was no fault of their own. The RRB is considering using the authority granted to adjust Medicare premiums due to agency error to set the beneficiaries' premiums at the amount collected. This protects the beneficiaries from loss of Medicare coverage for failure to pay the higher premiums.

Going forward, the computer program has been corrected to prevent this problem from occurring in the future.

The Fraud Preventative Service (FPS) is a CMS program. Initially, FPS was implemented more as a CMS internal program. As the program progressed, CMS began sharing findings primarily with Zone Program Integrity Contractors and to a lesser degree with the Medicare Administrative Contractors. Today, findings are shared through edits in the Multi-Carrier System (MCS). Initially, CMS decided not to include the Railroad Retirement Board's (RRB) Specialty Medicare Administrative Contractor (SMAC).

In 2016 CMS recompeted the FPS contract. CMS advised the RRB's Specialty Medicare Administrative Contractor (SMAC) that the RRB's SMAC would be incorporated into FPS once the new contract was awarded. The new contract was awarded in April 2016. CMS approved incorporating the RRB's SMAC in FPS during phase 3 of implementation of the new FPS contract. Phase 3 begins around December 2016 or January 2017.

1. During option year (OP) 3 of the Specialty Medicare Administrative Contract (SMAC) which began on October 1, 2015, the Medicare Contracting Officer Representative (MCOR) and Medicare Contract Operations Specialist (MCOS) conducted the following reviews as required by the Federal Acquisition Regulations (FAR) to ensure that our Medicare contractor (Palmetto GBA) was in complete compliance with the Statement of Work (SOW):Quality Assurance Surveillance Plan (QASP) reviews - QASP reviews provide oversight on the quality, quantity and timeliness of contractor performance. For OP 3, a total of 10 business functions were reviewed, which covered 47 performance standards.

2. A Continuity of Operations Plan (COOP) was conducted in option year 3 to ensure that the RRB SMAC follows its own COOP plan and that it is appropriately tested by the contractor.

3. Quality Control Plan Review Report – we reviewed the quality control program for the SMAC in the Appeals, Beneficiary Services and Benefit Integrity (BI) areas.

All recommendations that were made as a result of these reviews were accepted by Palmetto GBA and implemented timely. OP 3 was completed on September 30, 2016, and we are in the process of assessing our contractor's performance (as required under the FAR). Also, overall responsibility and handling of the management and operations of the Medicare program is assigned by law to CMS which means that Palmetto, GBA must adhere to the guidelines and procedures established by CMS.

In addition to conducting numerous audits/reviews, the MCOR and MCOS attended training to:

- Gain a better understanding of new legislation and CMS initiatives;
- Ensure that the contractor is performing its responsibilities as required by the FAR; and
- Look for additional ways to protect the Medicare Trust Fund.

The following initiatives were implemented during OP 3:

1. The SMAC worked closely with their JM MAC counterpart to develop processes for a smooth implementation of the Comprehensive Error Rate Testing (CERT) program that was implemented in OP 2. The CERT contractor continues pulling claim samples and conducting their review of claims processed by the RRB SMAC. The CERT program measures improper payments in the Medicare Fee-for-Service program. The final report with CERT findings is scheduled to be published in November 2017.

2. In accordance with the Improper Payment Information Act (IPIA) Reporting Details as amended by the Improper Payments Elimination and Recovery Improvement Act of 2012 (IPERIA), the Medicare program was evaluated and information was prepared and included in the FY 2016 Performance and Accountability Report (P&AR). The P&AR was sent to OMB for approval on October 31, 2016.

3. We continued the timesheet reviews at the RRB SMAC conducted by the MCOR and MCOS in OP 3 to ensure appropriate time is being reported to the work being performed. In OP 3, we conducted four quarterly reviews. All recommendations that were made, as a result of these reviews, were accepted and implemented by the RRB SMAC.

4. In OP 3, the Board began submitting a report of beneficiaries 90 years old or older to Palmetto for review. The analysis conducted by Palmetto identifies claims history activity and date of death information of those beneficiaries. The Board is currently reviewing the results of the report submitted by Palmetto.

5. The MCOR and MCOS worked closely with Palmetto to development a document destruction schedule (DDS) for claims and correspondence. The DDS was developed and implemented in accordance with CMS guidelines. The process was fully implemented in OP 3 and will reduce sending documents to storage and ultimately reduce contract costs.

6. We worked with Palmetto GBA and developed a more robust a Medical Review Strategy and Medical Review Strategy Analysis Report and system changes to protect the Medicare trust fund and prevent improper payments. These initiatives were implemented in OP 3:

   a) Developed and implemented new review screens for chiropractic services on a widespread service-specific-basis to validate medical necessity.

   b) Performed statistical analysis of the top providers by number of allowed services to determine if there are any outlier providers in the billing data.

   c) Developed and implemented an edit to reject any chiropractic services billed with a dual modifier combination.

   d) The SMAC is now part of and participating in the California Ambulance Task force meetings held by CMS. The meeting centered on discussing ambulance suppliers identified in the State of California with high charge denial rates, licensing issues or any other fraud/compliance related issues that would warrant a closer look by law enforcement agencies and the Medicare contractors.

   e) The Medical Review (MR), BI, Claims Processing and Provider Outreach and Education (POE) departments formed the RRB SMAC Fraud Taskforce, Members of this task force attend the various collaboration meetings that take place with the other MACs or CMS. The task force assists BI and MR with being more proactive in their efforts to identify fraudulent providers within their program.

   f) In OP 3, the SMAC implemented the automation of Medical Review Audits in the Multi-Carrier System (MCS). By automating specific audits, it eliminates the manual time associated with reviewing the claim history on each claim that fails the audit criteria. Now each claim is expedited and quality is increased as the human element is removed from the decision and adjudicating process.

We are in discussion with CMS on the following initiatives:

1. Establishing a tentative timeframe for implementing the Health Integrated General Ledger Accounting System (HIGLAS) for the RRB SMAC.

2. We continue to work with CMS on signing additional Joint Operating Agreements with the remaining Zoned Program Integrity Contractors to ensure that all Railroad Medicare referrals and potential overpayments are pursued by the SMAC Benefit Integrity Unit.

3. We are working with CMS to provide the RRB SMAC with a yearly listing of aberrant chiropractor providers. This is in conjunction with the Chiropractic Prior Authorization Medical Review program outlined in MACRA.

4. The RRB SMAC requested access to the CMS FPS database which identifies the highest risk claims for fraud, waste and abuse. The CMS has approved this request and Palmetto is scheduled for onboarding in December 2016 or January 2017.

5. As OP 4 begins, we will continue to conduct reviews of our SMAC contractor, Palmetto, GBA to ensure its compliance with the SOW and work with it, wherever possible, to reduce waste, fraud and abuse in an effort to protect the Medicare Trust Fund.

Regarding the RRB's Medicare Reimbursement: The RRB believes that the OIG's Cost Allocation Plan audit was fundamentally flawed because the guidance used as the basis for review addressed grant relationships between the federal government and state, local, and Indian tribal governments. The guidance cited does not pertain to federal entities, nor does it adequately address a reimbursement relationship between two federal agencies. Additionally, the guidance used for the review was superseded by 2 CFR 200 a full year before the audit start date. Further, 2 CFR 200 does not contain the same programmatic requirements as the guidance cited. While the RRB believes the audit was fundamentally flawed, the RRB is committed to improving controls over the reimbursement process between the RRB and CMS. Therefore, the RRB concurred with 10 of 26 recommendations. During fiscal year 2017 the RRB will work to enhance the reimbursement process with CMS.

RRB's Continued Noncompliance with Improper Payments Elimination and Recovery Act

The OIG *Audit of the Railroad Retirement Board's Compliance with IPERA of 2010 in the Fiscal Year 2015 Performance and Accountability Report* (P&AR) indicated the RRB's risk assessment documentation did not meet the minimum requirements specified in OMB guidance and the OIG made 6 specific audit recommendations. The RRB concurred with four recommendations and has already completed corrective actions on three.

As part of our recent FY 2016 IPERA analysis and reporting, we have updated our risk assessment documents for the RRA, RUIA and Medicare programs to include the nine specific risk factors developed by OMB which are likely to contribute to improper payments. The responses to these nine risk factors for the RRA, RUIA, and Medicare programs are now included in the IPERA section of the RRB's FY 2016 Performance and Accountability Report.

The RRB is now in compliance with OMB's guidelines. In response to the audit recommendations, the Medicare program is now reflected in all appropriate tables and charts in the P&AR. We have also strengthened controls to ensure the accuracy of supporting data by improving our validation processes and updated our procedures to reflect these enhancements.

The RRB has received approval of our established methodologies from OMB for identifying improper payments in the RRA and RUIA benefit payment programs. In August 2016, OMB granted the RRB approval to continue conducting the RRA Improper Payment analysis according to our established methodology. OMB's Controller stated that the ". . . methodology was reviewed by OMB staff from the Office of Federal Financial Management, the Resource Management Office, and staff from the Office of Economic Policy." In February 2014, OMB approved our sampling methodology to analyze improper payments for the RUIA program. In FY 2016, we further improved our estimation of RUIA underpayments by changing from a judgmental sample review of 20 cases to a statistically valid sample review of 100 cases in response to the OIG recommendation.

Using the definition of an "Improper Payment" per the Improper Payment Act of 2002, we determined that RUIA underpayments made for accurately adjudicated redetermined claims and reconsidered applications or claims are proper because the initial payment had been correct based on accurate information in the Board's possession at the time. We secured a legal opinion from our Office of General Counsel in FY 2016 and they agree with our classification of these payments as proper. Therefore, we disagree with the OIG's assertion that the RUIA program understated the estimated amount of improper underpayments by $904,000. In addition, we are unable to confirm or refute the OIG's assertion that the RRA program understated the estimated amount of improper payments by $12 million since the OIG provided no specifics or computations to substantiate this statement.

Agency Succession Planning

In response to our aging workforce and high attrition rates, coupled with static budget levels, the Executive Committee has focused their efforts on succession management, specifically, developing the agency's current human capital and fulfilling mission critical hiring goals to meet the agency's needs. Focusing on these two strategies, the agency has succeeded at dealing with periods of high retirement eligibility of its workforce. At the end of fiscal year 2015, 23.8% of our agency was eligible for retirement. That percentage only increases by 4% by the end of fiscal year 2016. Prior to 2013, our ability to replace staff was limited due to budget constraints. In the past two years, however, we have brought on 165 new employees.

We are proud to report that in fiscal year 2015, 38.8% of new hires were Veterans, which supports the Administration's commitment to utilize the talents of Veterans to help the Government meet today's dynamic challenges.

While it is important to bring in new personnel with fresh perspectives, we still believe that an important contributor to our success in meeting our mission is the quality and experience of our current workforce. In fiscal year 2015, we purchased and implemented the Learning Management System (LMS) and developed and published several training sessions. We also re-established the Training Section within the Bureau of Human Resources in order to develop processes, training and systems that can maximize the growth potential for current employees and new hires. We also continue to take advantage of the rehired retiree program to support the knowledge transfer to our newer employees.

Although our Human Capital and Succession Plans were not fully funded, we have implemented key aspects of these plans, ensuring continuing and uninterrupted operations of the agency in spite of staff attrition concerns.

Weaknesses Related to Financial Statement Reporting

The OIG continues to report a material weakness, which consists of ineffective controls and the lack of communication with the National Railroad Retirement Investment Trust's (NRRIT) auditor. We understand that the material weakness consists of ineffective controls and lack of communication with the NRRIT auditor. The lack of communication with the NRRIT auditor is the basis for the disclaimer opinion rendered for the RRB's financial statements and it will be addressed further in the response to Challenge 7.

Regarding the ineffective controls, corrective actions have taken place in fiscal year 2016. In fiscal year 2016, the financial statement note *Reconciliation of Net Cost of Operations to Budget* was substantially automated in the agency's Financial Management Integrated System (FMIS). In addition, portions of our Accounting Procedures Guide were rewritten with detailed instructions for operating within a new cloud shared service capability. Finally, quarterly internal quality assurance meetings were held during fiscal year 2016 to discuss voucher exceptions in an effort to address the OIG recommendations for this portion of the material weakness. These actions have improved accuracy and consistency of recorded amounts and effectiveness of controls.

The RRB disagrees with the control environment material weakness cited by the OIG in fiscal year 2016. Moreover, the RRB believes that due to insufficient evidence to support the assertion, the cited material weakness is unfounded. Specifically, the OIG asserts that the RRB's control environment may have a detrimental effect on the RRB's financial statements and cites *Office of Management and Budget (OMB) Circular A-123, Management's Responsibility for Enterprise Risk Management and Internal Control* as the basis for this assertion. The OIG elaborates that the new material weakness is based on a singular ineffective control principle, specifically, the enforce accountability principle. This principle states management should hold individuals accountable for their internal control responsibilities. Per the GAO's *Standards for Internal Control in the Federal Government*, management holds personnel accountable through mechanisms such as performance appraisals and disciplinary actions. Additionally, management takes corrective action as necessary to enforce accountability for internal control. These actions can range from informal feedback provided to the direct supervisor to disciplinary action, depending on the significance of the deficiency to the internal control system. None of the examples cited by the OIG provide evidence that the OIG evaluated management's accountability enforcement mechanisms. Provided below are examples the OIG cited as support of the asserted material weakness based on the "enforce accountability" principle.

According to the OIG, the most significant concern is NRRIT net asset ownership. The RRB OIG auditors disagreed with the Bureau of Fiscal Operations' assertion that the RRB has no ownership interest in the NRRIT and that the NRRIT should be classified as a disclosure entity for financial statement reporting purposes under new Federal Accounting Standards Advisory Board's (FASAB) Statement of Federal Financial Accounting Standards 47, *Reporting Entity* (SFFAS 47). The classification determination will ultimately determine whether the NRRIT's net assets will continue to be included in the RRB and government-wide financial statements beginning in fiscal year 2018 when this guidance becomes effective. The RRB's General Counsel rendered a legal opinion addressing NRRIT asset ownership and the implications of guidance provided by the newly issued FASAB SFFAS 47, finding that, under the accounting standards outlined in SFFAS 47, the Trust, on balance meets the characteristics of a disclosure entity more than a consolidation entity. Additionally, characterizing the Trust as a disclosure entity would more accurately reflect the text and the intent of section 15 of the RRA. The RRB is coordinating this managerial decision with the SFFAS 47 working group. Members of the working group include U.S. Treasury, Office of Management and Budget and other authoritative/oversight agencies. The RRB is committed to implementing the necessary change as supported by the working group.

Additional concerns conveyed by the OIG intended to support the asserted "control environment" material weakness are enumerated below:

1) Lack of action or formal response for OIG audit recommendation associated with the NRRIT communication portion of the material weakness for financial reporting.

    - The OIG stated in their memo dated July 27, 2016, entitled *Material Weakness in Control Environment Identified* that the RRB's Chief Financial Officer (CFO) "provided a verbal nonconcurrence to our audit recommendation." GAO's propagated *Government Auditing Standards* allow for oral submission of comments. Consequently, the RRB did, in fact, provide a formal response consistent with GAO standards.

2) Change in social insurance valuation date that will result in NRRIT savings of approximately $200,000 in contract services is less than one half of one percent of NRRIT's annual total expenses but will increase the workload for RRB's Bureau of Actuary.

    - As executive agent for the agency concerning financial reporting, the RRB's CFO concurred with NRRIT's request to adjust the social insurance valuation date from calendar year to fiscal year for financial and administrative purposes. The CFO reviewed applicable accounting standards and found no cause to deny the request. In addition, the CFO coordinated the request with the Office of Management and Budget's policy office and received concurrence. Therefore, the RRB requested the valuation date change from calendar year to fiscal year, effective for fiscal year 2016 financial reporting period.

3) Lack of corrective action and acknowledgement for inaccurate Medicare cost reimbursements and adherence with applicable authoritative guidance.

    - Relative to adherence with applicable authoritative guidance, the RRB believes that the OIG's Cost Allocation Plan audit was fundamentally flawed because the guidance used as the basis for review addressed grant relationships between the federal government and state, local, and Indian tribal governments. The guidance cited does not pertain to federal entities, nor does it adequately address a reimbursement relationship between two federal agencies. Additionally, the guidance used for the review was superseded by 2 CFR 200 a full year before the audit start date. Further, 2 CFR 200 does not contain the same programmatic requirements as the guidance cited. While the RRB believes the audit was fundamentally flawed, the RRB is committed to improving controls over the reimbursement process between the RRB and CMS. Therefore, the RRB concurred with 10 of 26 recommendations. During fiscal year 2017 the RRB will work to enhance the reimbursement process with CMS.

- Relative to corrective action, the RRB OIG's audit report was published August 22, 2016, allowing, as of the drafting date of this publication the RRB limited opportunity to implement corrective action. However, on September 26-27, 2016 the Director of Audit Affairs and Compliance and the Bureau of Fiscal Operation's Cost Accountant, attended Indirect Cost Allocation Plan training provided by the Federal Highway Administration. It's worth noting that the Federal Highway Administration is a grant making agency within the U.S. Department of Transportation that supports State and local governments in the design, construction, and maintenance of the Nation's highway system (Federal Aid Highway Program) and various federal and tribal owned lands (Federal Lands Highway Program). Additionally, some of the agreed to corrective action is based on system changes/upgrades that will facilitate time accounting, but are projected to take place next fiscal year.

4) Planned change to reclassify the RRB's financial interchange system that records approximately $12b in transactions from a major application to a minor application without documented rationale and would be in noncompliance with authoritative guidance.

    - The OIG was advised that this plan will not be implemented. Originally, the Chief Actuary, Chief Information Officer (CIO), and the Senior Executive Officer (SEO) forwarded guidance via email to the OIG that informed the OIG the RRB had re-designated the Financial Interchange (FI) information system from a major application to a minor application. However, after discussing the recommended designation change with the Chief Security Officer, the CIO notified the OIG on November 10, 2016 that the he reassessed the categorization of the FI information system and based on the guidance provided in Appendix III to OMB Circular No. A-130 considers the FI information system as a Major Application Information System. As such, The CIO determined that the FI information system is required to be categorized as a RRB Major Information System.

5) RRB management's inaccurate improper payment definitions, which continue to result in understated reported improper payments.

    - RRB Management rejects OIG's allegation that inaccurate improper payment definitions continue to result in understated reported improper payments. We secured a legal opinion from our Office of General Counsel in FY 2016 and they agree with our classification of RUIA and RRA payments as proper. The RRB also received approval of our established methodologies from OMB for identifying improper payments in the RRA and RUIA benefit payment programs. In August 2016, OMB granted the RRB approval to continue conducting the RRA Improper Payment analysis according to our established methodology. Please reference Management's more detailed response under "Management Challenge #4 (above).

Several of the examples presented above represent managerial decisions that the OIG simply disagrees with or were already addressed by the existing material weakness related to NRRIT and provide no evidence addressing management's efforts to "enforce accountability." Finally, lack of certainty in their assertion, or correlation to the current financial statement audit, undermines the credibility of the assertion and audit's independence. Therefore, the RRB disagrees with the cited material weakness.

Limited Transparency at the National Railroad Retirement Investment Trust

The National Railroad Retirement Investment Trust (NRRIT) is established by section 15(j) of the Railroad Retirement Act to invest funds from the Railroad Retirement Account which are not needed to pay current benefits. The Inspector General believes that the Railroad Retirement Board conducts insufficient oversight of the Trust operations and investments, and consequently recommends amendments to the Act to require independent performance audits by the Inspector General. The Inspector General further recommends RRB management counsel NRRIT to allow the IG access to the NRRIT auditor. RRB management continues to believe the oversight of the NRRIT is sufficient under current law.

Initially, RRB management believes the language of section 15(j) and the legislative history leading to its enactment clearly establish the intent of Congress to protect the assets of the Trust and the NRRIT itself from political influence. Moreover, in a May 2014 Report by GAO concerning oversight of the NRRIT (GAO -14-312), the GAO in concluding remarks noted this purpose and further, that the NRRIT is not without oversight beyond mandatory financial audits. In particular, GAO noted the Trust's condition is monitored by the RRB through regular reports and other communications. GAO also noted that the NRRIT on its own initiative commissioned four performance audits since 2002 which were comparable to and in some cases more comprehensive than those of comparable state pension plans. Moreover, in Fiscal Year 2015, the RRB and NRRIT concluded a Memorandum of Understanding requiring performance reviews over three year cycles beginning with calendar 2015. The priority for the audit topics under the agreement is determined from a selection of fourteen listed topics after consultation between the NRRIT and the RRB. In December 2015, the NRRIT engaged the independent firm of KPMG to conduct the first audit under the agreement, on the topic of Corporate Governance Framework. In September 2016, NRRIT provided the RRB with a copy of the report and advised that the audit had identified no significant gaps in the corporate governance framework of the NRRIT. The NRRIT notes that it agreed with several auditor recommendations to strengthen existing governance policies and procedures. The NRRIT appointed a Chief Compliance Officer to be responsible for a more formalized compliance program; expanded the Trust's Code of Conduct to Trustees; expanded the Conflict of Interest Policy; and formalized policies and procedures to define the risk assessment process and corresponding level of review which needs to be performed. In RRB's view, the history of continuing cooperation between NRRIT and RRB on this and other matters renders any amendment recommended by the Inspector General unnecessary.

The RRB management also believes the Inspector General is not required to issue a disclaimer of opinion on the RRB financial statements. Although the Inspector General is required by law to audit the RRB financial statement, the standards of the American Institute of Certified Public Accountants (AICPA) allow auditors to express a qualified opinion, rather than a disclaimer of opinion, where possible effects of undetected misstatements do not have pervasive effect on the financial statement. The RRB does not believe the Inspector General has established that any undetected misstatements in the context of the NRRIT audit are pervasive within the meaning of the AICPA standards. Accordingly, RRB does not believe the situation warrants a disclaimer of opinion on the RRB financial statements. RRB will continue to work with the Inspector General to identify solutions for preventing future audit disclaimers.

Improper Payments Information Act (IPIA) Reporting Details

(as amended by IPERA)

Introduction

The Improper Payments Information Act of 2002 (IPIA; Pub. L. 107-300), as amended by the Improper Payments Elimination and Recovery Act of 2010 (IPERA; Pub. L. 111-204), requires agencies to annually report information on improper payments to the President and Congress through their annual Performance and Accountability Reports. A more recent law, the Improper Payments Elimination and Recovery Improvement Act of 2012 (IPERIA; Pub. L. 112-248), amended IPIA.

The enactment of the Improper Payments Elimination and Recovery Improvement Act (IPERIA) of 2012 provided an opportunity for the Office of Management and Budget (OMB) to re-examine existing guidance to ensure agencies are able to more efficiently reduce their improper payment rates, while also complying with multiple legislative and administrative requirements. The goal of the October 20, 2014, overhauled version of Appendix C to Circular No. A-123, OMB M-15-02, is to transform the improper payment compliance framework to create a more unified, comprehensive, and less burdensome set of requirements.

The Railroad Retirement Board (RRB) has benefit paying and non-benefit paying programs. The benefit paying programs are: railroad retirement and survivor benefit payments, railroad unemployment and sickness insurance benefit payments, and the RRB's Specialty Medicare Administrator Contractor paid Part B Medicare benefits. The non-benefit paying programs include vendor payments and employee payments (payroll, travel, and other reimbursable expenses).

The RRB's Risk Assessment Plan was developed in response to IPERA and OMB guidance to evaluate all of our payment outlays susceptible to improper payments. We conduct evaluations in order to maintain Improper Payment Governance aligned to our strategic goal to serve as responsible stewards for our customers' trust funds and agency resources.

I. Risk Assessment

The goal of the RRB's Risk Assessment Plan is for the agency to fully comply with the IPERA requirements by assessing risk for all of the benefit and non-benefit programs that the RRB administers. The RRB Risk Assessment Plan objectives are:

- establish well defined goals and objectives for each payment program to eliminate improper payments and execution of corrective actions.
- determine where payment program risks exist, what those risks are and the potential or actual impact of those risks on program goals, objectives and operations.

The RRB administers two benefit payment programs: Railroad Retirement Act (RRA) retirement and survivor benefits, and Railroad Unemployment Insurance Act (RUIA) unemployment and sickness benefits. Both were designated as "high risk" under the former Section 57 of Circular A-11.

The RRB also has oversight of the Part B Medicare Specialty Medicare Administrative Contract (SMAC). Improper payment analysis is currently not conducted on the Medicare Part B claims payments. The payment process is directly linked to the Medicare Trust Fund. CMS is responsible for ensuring proper payments. With the passage of IPIA, CMS took responsibility for the error rate program. To comply with the IPIA, IPERA and IPERIA, CMS established the CERT program to estimate improper payment error rates in the Medicare FFS program.

Beginning July 1, 2015, CMS has included the RRB SMAC in the CERT. The CERT program calculates the Medicare FFS payment accuracy rate by reviewing claims and the supporting medical records. *The review process for the fiscal year 2015 reported period concluded on June 30, 2016. The final report is scheduled to be published in late 2017*.

The agency used the process described below to calculate the amount of RRA and RUIA improper payments made in fiscal year 2015.

Results of Fiscal Year 2015 Improper Payment Review

Program	Improper Payment Amt. >$10 million	Improper Payment Rate >1.5%	Action Plan or Targets Needed?
RRA	**Yes**	**No**	**No**
RUIA	**No**	**Yes**	**No**
MEDICARE	*	*	*

* The Risk Assessment prepared in 2014 and RRB OIG Audit 14-07 identified the Medicare program as being susceptible for improper payments. CMS's assistance has been requested, and they agreed to include the RRB SMAC in the CERT program. CMS established the CERT program to estimate improper payment error rates and uses data from the CERT program to reduce or eliminate improper payments through various corrective actions. CERT recently concluded their review of the RRB SMAC claims for the fiscal year 2015 reporting period. The results of that review will be published in November 2017. While the Medicare error rate is not available at the time this report is being published, the RRB is in compliance, as a process is in place to identify and reduce the improper payment rate.

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.

RRA Risk Assessment

Federal agencies are required to conduct a program specific risk assessment for each program or activity that conforms to Section 3321 of Title 31 U.S.C.

Below are the risk factors OMB developed which are likely to contribute to improper payments, followed by RRA specific responses.

1. Whether the program or activity is new to the agency
The Railroad Retirement Insurance Act was passed in 1935. It is not a new program.

2. The complexity of the program or activity reviewed, particularly with respect to determining correct payment amounts.
The RRB has been following an established methodology for identifying improper payments in the RRA benefit payment program. In August 2016, OMB granted the RRB approval to continue conducting our RRA Improper Payment analysis according to our established methodology. To estimate our RRA improper payments, we identify:

- *Known overpayments from the accounts receivable system and underpayments from the Payment, Rate and Entitlement History database*
- *Estimated overpayments and underpayments - cases we are not currently handling that may not be paid correctly*
- *Unquantified overpayments and underpayments – from our quality assurance studies which provide projections for dollars paid incorrectly, without distinguishing between overpayments and underpayments, but are reported in absolute dollars*

The chart below shows RRA dollar amounts of the specific categories included in our analysis.

Total Payments (in millions)	$ 12,188.27
Total Known and Estimated Overpayments	$52.02
Total Known and Estimated Underpayments	$16.92
Both Underpayments and Overpayments	$2.27
Total Improper Payments	$71.21
Total Improper Payment Rate	0.58%

Known RRA Improper Payments – Resolved Overpayments

We used all debts from the Accounts Receivable system less SSA recovery from the LAF-E accruals (Social Security benefits certified to the RRB for payment). This reflects the amount of overpayments actually recognized and established during the year. The debts included in this category include but are not limited to those resulting from:

- *The check reclamation process*
- *Entitlement to other government benefits*
- *Customer-driven events, such as working after retirement, change in eligibility (death, marriage, divorce, child or student status, felon or alien provision, etc.) and duplicate annuity payments*
- *Railroad employer adjustments*
- *RRB system or examiner error*

Known RRA Improper Payments – Resolved Underpayments

We have no system tracking underpayments like the one that records overpayments. Therefore, we use the following approach for identifying them.

The RRA underpayment amount is the accrual payments minus certain categories of proper payment accruals (e. g. mass adjustment payments, initial award accruals and survivor lump sum benefits). This dollar amount still includes some accruals which are proper, or not erroneous, but since our totals are under the threshold anyway, devoting additional resources and effort to further refine our review would not be productive. Examples of those payments included that would be considered improper are over-withheld temporary work deductions, erroneous report of death reinstatements and mass adjustment rejects.

In 2005, we discussed a new approach to determining the amount of improper payments in this category with the Office of the General Counsel (OGC). For the FY 2005 report we refined our estimates in this category by profiling the accruals reviewed in the quality assurance post adjudication study to develop a percentage that we applied to the total out-of-period payments made and provided a more precise dollar estimate of improper underpayments.

In the Audit of the FY 2013 IPERA Report, the Office of the Inspector General (OIG) recommended that we include the accruals reviewed in the quality assurance initial adjudication study. Beginning with the 2014 Improper Payments Report, we include the initial quality assurance cases. All material errors are considered improper payments.

In the Audit of the FY 2014 IPERA Report, the OIG stated that we were not properly adhering to the definition of improper payments as established by IPERA. As a result, we submitted our position to the Office of the General Counsel. Per the OGC's legal opinion, we have changed the proper/improper determination in two categories of cases.

Estimated RRA Improper Payments – Unresolved Overpayments and Underpayments

This category includes Office of Inspector General audits and other special studies made by both the Program Evaluation Section and others throughout the Railroad Retirement Board. This category is adjusted each year to include any new reviews, updated information from on-going reviews, and any studies in which the recommendations have now been implemented.

Estimated RRA Improper Payments – RESCUE

These are estimates for workloads that we have not yet worked.

Recalculate for Service and Compensation Updated to EDM (RESCUE) – In FY 2009, a program was established to recalculate and update records for reported service and compensation on a timelier basis. Previously, a mass adjustment was run once a year, creating thousands of cases with potential thousands of dollars of underpayments. Processing is now *accomplished three times per year and is included as an extension of regular, daily payment processing, instead of a special program that needed to be updated each year.*

At the time the first regular run was made, not all cases could be processed by the computer program. Two backlog categories were created: one for current annuitants and one for deceased annuitants. The total of these backlogs was originally established at more than 14,000 cases. We track the remaining cases each year to determine the number worked and the number still outstanding to evaluate the existing potential improper payments.

With each of the three regular processing runs, there are cases that cannot be processed by the computer program. These cases are identified and referrals are issued and stored on USTAR. The workload of these cases is such that the examiners have not been able to process them timely. Therefore, a backlog exists here as well, constituting a third backlog of RESCUE cases.

For each of the 3 categories, we calculate a percentage of overpayment and underpayment cases from the cases that were processed during the fiscal year. We apply that percentage against each of the corresponding backlogs to estimate the number of cases in each backlog that are improper payments. We then multiply those estimated numbers by $495, the average amount of each payment in the initial RESCUE run. These are the estimated amounts that we use in our Improper Payment Report for the RESCUE backlogs.

Estimated RRA Improper Payments – EDP Policing

In the Audit of the 2013 IPERA Report, the OIG recommended that we consider whether or not there were backlogs in addition to the RESCUE backlogs that should be included in the Improper Payments Report.

Due to the shortage of adjudication examiners, an EDP Policing backlog exists. We calculate the amounts processed from the two past years and apply those averages to the cases that remain to be processed. We have included an estimate of these backlog cases in the RRA Improper Payment Report for FY 2015.

Estimated RRA Improper Payments – Unquantified Underpayments and Overpayments

The initial and post adjudication quality assurance reports include a section on recurring payment accuracy which is a projection of incorrect payments to the universe based on the sample recurring payment accuracy experience. It includes both underpayments and overpayments and the dollar amounts are not netted.

There are circumstances in which the agency does not know if an improper payment has occurred and cannot be detected by backend controls or program integrity efforts. Examples include:

- *Child entitlement termination: Child leaves spouse or young mother's care*
- *Change in marital status but the RRB is not notified: separated spouse divorces; widow remarries; child included in annuity computation marries*
- *Fraud such as Disability annuitants reporting their self-employment earnings under their spouse's SSN, or unreported deaths*

3. The volume of payments made annually.
In fiscal year 2015, $12,188,267,393 was paid to approximately 660,000 annuitants.

4. Whether payments or payment eligibility decisions are made outside of the agency, for example, by a State or local government, or a regional Federal office.
No, all claims paid under the RRA are adjudicated within the agency.

5. Recent major changes in program funding, authorities, practices, or procedures.
The RRA has not experienced any major changes in program funding, authorities, practices, or procedures.

6. The level, experience, and quality of training for personnel responsible for making program eligibility determinations or certifying that payments are accurate.
Periodically, new training classes are conducted to replace retiring and promoted examiners. The training is extensive, lasting nine months.

Current claims examiners are provided with procedures and guidance for making correct determinations in processing railroad retirement applications. Guidance is available in the various manuals housed on the internal electronic library – PRISM. Reviews of the accessibility of reference manuals and adjudicative guidance given to claims examiners are conducted periodically. Ongoing refresher training is provided to claims examiners to ensure they are up to date with the procedures and the work process. Refresher training also helps to reduce payment errors and improve improper payment rates.

7. Inherent risks of improper payments due to the nature of agency programs or operations.
There are risks of improper payments due to the nature of the RRA program or operations. For example, the agency is dependent on the annuitants to advise us of changes in marital status and family composition. Another example is report of death. Often, the report of the death of an annuitant occurs too late to preclude the payment being issued.

8. Significant deficiencies in the audit reports of the agency including, but not limited to, the agency of the Inspector General or the Government Accountability Office (GAO) audit report findings, or other relevant management findings that might hinder accurate payment certification.
There are currently no reported issues or problems regarding the RRA program.

9. Results from prior improper payment work.
The improper payments ratio has remained stable over the last five years; although the amount of improper payments for the RRA program has increased. We need to continue our efforts to reduce the ratio as the amount of Outlays increases each year.

<u>Railroad Unemployment Insurance Act</u>

Under the Railroad Unemployment Insurance Act (RUIA), unemployment insurance benefits are paid to railroad workers who are unemployed but ready, willing, and able to work; and sickness benefits are paid to railroad workers who are unable to work because of illness or injury.

The RUIA improper payment analysis is conducted at Headquarters. The RUIA Improper Payment report goes through a rigorous validation process with well documented procedures of that process.

RUIA Risk Assessment

Federal agencies are required to conduct a program specific risk assessment for each program or activity that conforms to Section 3321 of Title 31 U.S.C.

Below are the risk factors OMB developed which are likely to contribute to improper payments, followed by RUIA specific responses.

1. Whether the program or activity is new to the agency.
The Railroad Unemployment Insurance Act was approved in 1938. It is not a new program.

2. The complexity of the program or activity reviewed, particularly with respect to determining correct payment amounts.
The RRB has been following an established methodology for identifying improper payments in the RUIA benefit payment program. In February 2014, OMB granted the RRB approval to continue conducting our RUIA Improper Payment analysis according to our established methodology. To estimate our RUIA improper payments, we identify:

- ***Known Total Overpayments***
  Known total overpayments are located within the Annual RUIA Fiscal Year Debt Report. This report includes all debts for the fiscal year from the Program Accounts Receivable (PAR) system. Overpayments found in categories 2 and 4 are considered improper. These are customer driven debts and debts created by the RRB.

  ***Category 2** - Customer driven debts include:*
    - *State Wage Matches*
    - *Prepayment Claim Verification*
    - *Annual Wage Record Audit*
    - *RR Payroll Match*
    - *Employer Wage Check*
    - *RR Payroll Check Field Office Initiated*
    - *RUIA Employer Protest*
    - *Claimant Information*
    - *Previously Uncollectible Debt*

  ***Category 4** - Debts created by the RRB include:*
    - *Internal Adjustment*
    - *Returned Check*
    - *Over recovery Adjustment*
    - *Information from Anonymous Source/Other*

  Category 1 [RRA Annuity-RASI] and 3 [12(o) and 2(f)] debts are considered proper.

- ***Known and Estimated Total Underpayments***
  We perform an OLQ to extract all claims processed in the fiscal year that have been redetermined to pay additional money. Beginning in FY 2016, we conduct a statistically valid sample review of these claims and determine whether the cause for each underpayment is proper or improper.

  Using the definition of an "Improper Payment" provided by OMB in the Improper Payment Act of 2002, we have determined that a proper payment is a payment made in the correct amount in accordance with statutory, contractual, administrative or other *legally applicable requirement (i.e. The Railroad Unemployment Insurance Act). Examples of proper underpayments include redetermined claims and reconsidered applications or claims, which resulted in additional money paid out when the initial payment was correct based on original information. We secured a legal opinion from our Office of General Counsel in FY 2016 and they agree with our classification of these payments as proper.*

Examples of improper underpayments include redetermined claims and reconsidered applications or claims, which resulted in additional money paid out due to computer error and/or the adjudicating Claims Examiner mishandling the record.

The dollar amount of improper payments found in the review is then projected to the universe of all UI and SI claims redetermined during the fiscal year.

- ***Estimated Overpayments***
  All payment errors found in the UI/SI Claim Quality Assurance Review are used to determine the estimated overpayments for RUIA. The dollar amount of errors found in the review is then projected to the universe of all UI and SI claims paid in the fiscal year.

3. The volume of payments made annually.
In fiscal year 2015, the combined amount of unemployment and sickness benefits paid was $104,124,962.55 ($36,679,070.27 in unemployment benefits paid and $67,445,892.28 in sickness benefits paid).

4. Whether payments or payment eligibility decisions are made outside of the agency, for example, by a State or local government, or a regional Federal office.
No, all sickness and unemployment claims paid under the RUIA are adjudicated within the agency.

5. Recent major changes in program funding, authorities, practices, or procedures.
The RUIA has not experienced any major changes in program funding, authorities, practices, or procedures.

6. The level, experience, and quality of training for personnel responsible for making program eligibility determinations or certifying that payments are accurate.
Trainees in the Sickness and Unemployment Benefits Section undergo an extensive nine month training program. The last two training classes (in FY 2012 and FY 2016) resulted with 100% of the trainees successfully completing the program. In addition, there is another training class currently taking place with an expected completion date of April 2017.

Claims examiners are provided with procedures and guidance for making correct determinations in processing sickness and unemployment applications and benefit claim payments. Guidance is available in the Adjudication Instruction Manual (AIM), Division of Program Operations Manual (DPOM), and Field Operating Manual (FOM). These three manuals and all other procedures are available on PRISM. Reviews of the accessibility of reference manuals and adjudicative guidance given to claims examiners are conducted periodically. Ongoing refresher training is provided to claims examiners to ensure they are up to date with the procedures and the work process. Refresher training also helps to reduce payment errors and improve improper payment rates.

7. Inherent risks of improper payments due to the nature of agency programs or operations.
There are no inherent risks of improper payments due to the nature of the RUIA program or operations.

8. Significant deficiencies in the audit reports of the agency including, but not limited to, the agency of the Inspector General or the Government Accountability Office (GAO) audit report findings, or other relevant management findings that might hinder accurate payment certification.
There are currently no reported issues or problems regarding the RUIA program.

9. Results from prior improper payment work.
The improper payment amount for the RUIA program has been consistent for the previous three fiscal years. In FY 2012, the dollar amount of improper payments was $4.67M, which declined to $4.26M in FY 2013, and then experienced a slight increase to $4.29M. Since last fiscal year, our improper payment rate has dropped to $3.47M for FY 2015, which equates a decrease of 19.04%.

Medicare

Medicare covers qualified railroad retirement annuitants and select disability annuitants just as it covers Social Security annuitants. However, in connection with the retirement and disability programs, the RRB maintains the administrative responsibilities under the Social Security Act for railroad retirement and disability annuitants' Medicare Part B eligibility and benefit payments.

By statute, the RRB has separate authority to contract for handling of physician and other Medicare Part B claims through a contractor that services railroad retirement annuitants only, as stated in the Social Security Act Section 1842(g).

However, while the RRB has oversight of the Part B Medicare Specialty Medicare Administrative Contract (SMAC), the payment process is directly linked to the Medicare Trust Fund. The Centers for Medicare and Medicaid Services (CMS) is responsible for ensuring proper payments. With the passage of Improper Payment Information Act (IPIA), CMS took responsibility for the error rate program. To comply with the IPIA, Improper Payments Elimination and Recovery Act (IPERA) and Improper Payments Elimination and Recovery Act of 2012 (IPERIA), CMS established the Comprehensive Error Rate Testing (CERT) program to estimate improper payment error rates in the Medicare Fee-for-Service (FFS) program.

Medicare SMAC Risk Assessment

Federal agencies are required to conduct a program specific risk assessment for each program or activity that conforms to Section 3321 of Title 31 U.S.C.

Below are the risk factors OMB developed which are likely to contribute to improper payments, followed by Medicare specific responses.

1. Whether the program or activity is new to the agency.
The Health Insurance for the Aged (under Tittle XVIII) of the Social Security Act was approved in 1965. It is not a new program.

2. The complexity of the program or activity reviewed, particularly with respect to determining correct payment amounts.

To comply with the IPIA, Improper Payments Elimination and Recovery Act (IPERA) and Improper Payments Elimination and Recovery Act of 2012 (IPERIA), CMS established the Comprehensive Error Rate Testing (CERT) program to estimate improper payment error rates in the Medicare Fee-for-Service (FFS) program. The RRB began participating in this program in July 2015.

The CERT program works as follows:

- ***Claims selection of a stratified random sample of Medicare Part B RRB claims***
  Stratification ensures that the sample is representative of the population of claims submitted for Medicare payment. The CERT sample is comprised of claims paid or denied by the SMAC. This sampling methodology complies with all statutory requirements and Office of Management and Budget (OMB) guidance.

- ***Medicare record requests***
  After the CERT program identifies a claim as part of the sample, it requests, via letter, the associated medical records and the pertinent documentation from the provider who submitted the claims. The CERT program makes phone calls to validate the provider's contact information and to address their questions or concerns about the request. The CERT program sends at least three subsequent letters if the provider fails to respond to the initial request. For some claim types e.g., laboratory services, the referring provider who ordered the service may also receive a request for documentation in addition to the initial request sent to the billing provider. If the CERT program receives no documentation within 75 days of the initial request, the claim is scored as an improper payment due to a "no documentation error." However, the CERT program reviews late documentation that is received after the 75 days and this review is counted in the final improper payment rate calculation, if it is received within time for the final calculation to be made. The CERT program tracks improper payment determination reversals based upon the receipt of late documentation, even if they occur after the cutoff date for the official improper payment rate calculation.

- ***Review of claims and assignment of error categories***
  CERT Medical professionals review the claim and submitted documentation to make a determination of whether the claim was paid or denied appropriately. The review professionals include nurses, medical doctors, and certified coders. Before reviewing documentation, the CERT professionals examine the CMS claims systems to check for Medicare beneficiary eligibility, duplicate claims, and Medicare as the primary insurer. When performing claim reviews, the CERT program checks for compliance with Medicare statutes and regulations, billing instructions, national coverage determination, local coverage determination, and provisions in CMS instructional manuals. The reason for the improper payment determines the error category for the claim. The five major categories are:

    - *<u>No Documentation</u> – Claims are placed into this category when the provider fails to respond to repeated requests for the medical records or when the provider responds that they do not have the requested documentation.*

    - *<u>Insufficient Documentation</u> – Claims are placed into this category when the medical documentation submitted is inadequate to support payment for the services billed. For instance, the CERT contractor reviewers could not conclude* *that the billed services were actually provided, were provided at the level billed, and/or were medically necessary. Claims are also placed into this category when a specific documentation element that is required as a condition of payment is missing, such as a physician signature or a form that is required to be completed in its entirety.*

- o *<u>Medical Necessity</u> – Claims are placed into this category when the CERT contractor reviewers receive adequate documentation from the medical records submitted to make an informed decision that the services billed were not medically necessary based upon Medicare coverage and payment policies.*

- o *<u>Incorrect Coding</u> – Claims are placed into this category when the provider submits medical documentation supporting:*
  - *A different code than that billed*
  - *That the service was performed by someone other than the billing providers*
  - *That the billed service was unbundled*
- *A beneficiary was discharged to a site other than the one coded on a claim*

- o *<u>Other</u> – Claims are placed into this category if they do not fit into any of the other categories (e.g., duplicate payment error, non-covered, or unallowable service).*

- ***Tracking appeals***
  Providers have the right to appeal any improper payment determination made by the CERT program. There are five levels of appeals for the Medicare FFS claims, starting at the SMAC level through Federal court. CERT program claims generally include appeals at the first three levels, (1) redeterminations at the SMAC level, (2) reconsiderations at the Qualified Independent Contractor level, and (3) administrative hearings by Federal Administrative Law Judges. Final appeal decisions figure into the calculation of the Medicare FFS improper payment rate. The CERT program tracks appeals through all levels.

- ***Determining the improper payment rate***
  The SMAC's contribution to the overall improper payment rate is proportional to its share of total Medicare payments. The CERT program projects the sample to the universe statistically. These calculations achieve a 3% point precision and 95% confidence rate.

- ***Reporting the results***
  The claims universe includes all claims that have undergone final adjudication by the SMAC, regardless of the final decision. Therefore, the improper payment rate includes both overpayments (improper claims approvals) and underpayments (improper claims denials).

  Net improper payments equal the overpayments less the absolute value of underpayments. The net improper payment rate equals the net improper payments in the CERT sample divided by the total dollars paid in the CERT sample. The rates show the net impact of overpayments on the Medicare Trust Fund.

  Gross improper payments equal overpayments plus the absolute value of underpayments. The gross improper payment rate equals the gross improper payments in the CERT sample divided by the total dollars paid in the CERT sample.

This rate shows the impact of both overpayments and underpayments on the Medicare Trust Fund. The official improper payment rate is the gross improper payment rate.

- ***Reconciliation of improper payments***
  The CERT program notifies the SMAC of improper payments identified through the CERT process. The SMAC then reimburses underpayments and recoups overpayments. The SMAC can recover the overpayments identified in the CERT sample but cannot recoup projections made to the claims universe. The SMAC also does not collect overpayments when a claim decision is overturned on appeal. When active Medicare providers fail to respond to requests for repayment and do not appeal, the SMAC may recoup overpayments by offsetting future payments.

- ***Corrective Action***
  The implementation of the CERT was recently completed for the SMAC. The review process ended June 30, 2016, and approximately 145 claims were selected for review. The final report will be published in late 2017. There are no corrective actions at this time.

3. The volume of payments made annually.
In fiscal year 2015, the Part B Medicare benefits paid out totaled $828,924,115 and the volume of claims processed for the same year was 8,796,970.

4. Whether payments or payment eligibility decisions are made outside of the agency, for example, by a State or local government, or a regional Federal office.
All Medicare provider payment decisions are made by the SMAC vendor (Palmetto GBA).

5. Recent major changes in program funding, authorities, practices, or procedures.
The SMAC has not experienced any major changes in program funding, authorities, practices, or procedures.

6. The level, experience, and quality of training for personnel responsible for making program eligibility determinations or certifying that payments are accurate.
The RRB staff responsible for oversight of the SMAC is the Contracting Officer's Representative (COR) and Medicare Contract Operations Specialist (MCOS). The SMAC COR must be a COR level III and meet HHS requirements. HHS requires two years of Federal contracting experience and 96 hours of COR training. The MCOS is a COR level II. Both staff members are experienced, meet the needed qualifications required and participate in regular training to refresh their knowledge and skills.

7. Inherent risks of improper payments due to the nature of agency programs or operations.
There are inherent risks of improper payments due to the nature of the SMAC. The root cause of improper payments consists of five major categories:

a. *No documentation*
b. *Insufficient documentation*
c. *Unnecessary medical procedure (medical necessity)*
d. *Incorrect coding*
e. *Other*

8. Significant deficiencies in the audit reports of the agency including, but not limited to, the agency of the Inspector General or the Government Accountability Office (GAO) audit report findings, or other relevant management findings that might hinder accurate payment certification.
There are currently 14 open Office of Inspector General audit recommendations for the SMAC. The earliest open audit recommendation is from 2011 and the most current recommendation is from 2015.

9. Results from prior improper payment work.
The SMAC is actively involved in the CERT. The first year of involvement began on July 1, 2015 and ended on June 30, 2016. The final report will be published in late 2017 and we will begin the process of implementing corrective actions at that time.

II. Sampling and Estimation.

The agency has an established methodology for identifying improper payments in the RRA and RUIA benefit payment programs. 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 in the estimated amounts are projections of improper payments from audits, special studies, and estimates of manual work based on pending workload referrals.

In August 2016, OMB granted the RRB approval for our RRA improper payment sampling methodology, as discussed in the RRA Risk Assessment.

In February 2014, OMB approved the sampling methodology we developed to analyze improper payments for the RUIA program. In FY 2016, we improved our estimation of underpayments by changing from a judgmental sample review of 20 cases to a statistically valid sample review of 100 cases.

III. Improper Payment Reporting.

Table 1
Improper Payment Reduction Outlook FY 2014 – FY 2018
($ in millions)

Program	FY 14 $ Outlays (actual)	FY 14 IP %	FY 14 IP $	FY 15 $ Outlays (actual)	FY 15 IP %	FY 15 IP $	FY 15 Overpayment $	FY 15 Underpayment $
RRA	$11,909.62	0.59%	$70.60	**$12,188.27**	**0.58%**	**$71.21**	**$52.96**	**$18.25**
RUIA	$106.20	4.04%	$4.29	**$104.12**	**3.34%**	**$3.47**	**$2.40**	**$1.07**
MEDICARE	*	*	*	*	*	*	*	*

Program	FY 16 $ Outlays (estimated)	FY 16 IP %	FY 16 IP $	FY 17 $ Outlays (estimated)	FY 17 IP %	FY 17 IP $	FY 18 $ Outlays (estimated)	FY 18 IP %	FY 18 IP $
RRA	$12,388.60	0.56%	$69.38	$12,581.00	0.54%	$67.94	$12,854.50	0.52%	$66.84
RUIA	$137.60	3.20%	$4.40	$146.40	3.00%	$4.39	$140.10	2.80%	$3.92
MEDICARE	*	*	*	*	*	*	*	*	*

Note: The absolute value of the overpaid and underpaid dollars and the rates is shown—the figures are not netted.

* The Risk Assessment prepared in 2014 and RRB OIG Audit 14-07 identified the Medicare program as being susceptible for improper payments. CMS's assistance has been requested, and they agreed to include the RRB SMAC in the CERT program. CMS established the CERT program to estimate improper payment error rates and uses data from the CERT program to reduce or eliminate improper payments through various corrective actions. CERT recently concluded their review of the RRB SMAC claims for the fiscal year 2015 reporting period. The results of that review will be published in November 2017. While the Medicare error rate is not available at the time this report is being published, the RRB is in compliance, as a process is in place to identify and reduce the improper payment rate.

The fiscal year 2016 Improper Payments Report includes our analysis of fiscal year 2015 data because at the time the report was prepared, the actual data available was for fiscal year 2015 (shown in bold in the chart).

For fiscal year 2015, RRA actual overpayments were $52,964,037 and actual underpayments were $18,248,681.

RUIA actual overpayments were $2,401,015 and actual underpayments were $1,077,037.

The estimates for fiscal year 2016 through 2018 are based on the December 2015 OMB budget review estimates.

IV. Improper Payment Root Cause Categories.

The root causes of error in the ***RRA, RUIA, and Medicare programs*** are summarized according to OMB's root causes in the following table.

Table 2
Improper Payment Root Cause Category Matrix
($ in millions)

Reason for Improper Payment		RRA Program		RUIA Program		Medicare Program	
		Overpayments	Underpayments	Overpayments	Underpayments	Overpayments	Underpayments
Program Design or Structural Issue						*	*
Inability to Authenticate Eligibility		1.929		1.5814		*	*
Failure to Verify:	Death Data	34.347				*	*
	Financial Data					*	*
	Excluded Party Data					*	*
	Prisoner Data					*	*
	Other Eligibility Data (explain)	12.036	12.858			*	*
Administrative or Process Error Made by:	Federal Agency	1.855	5.391	A) 0.0331B) 0.7865	C) 1.0770	*	*
	State or Local Agency					*	*
	Other Party (e.g., participating lender, health care provider, or any other organization administering Federal dollars)					*	*
Medical Necessity		2.796				*	*
Insufficient Documentation to Determine						*	
Other Reason (a) (explain)						*	*
Other Reason (b) (explain)						*	*
Total		52.963	18.249	2.4010	1.0770	*	*
TOTAL @ 2 Decimals		**52.96****	**18.25****	**2.40*****	**1.07*****	*	*

* See chart on previous page. The Risk Assessment prepared in 2014 and RRB OIG

Audit 14-07 identified the Medicare program as being susceptible for improper payments. CMS's assistance has been requested, and they agreed to include the RRB SMAC in the CERT program. CMS established the CERT program to estimate improper payment error rates and uses data from the CERT program to reduce or eliminate improper payments through various corrective actions. CERT recently concluded their review of the RRB SMAC claims for the fiscal year 2015 reporting period. The results of that review will be published in November 2017. While the Medicare error rate is not available at the time this report is being published, the RRB is in compliance, as a process is in place to identify and reduce the improper payment rate.

**The RRA Final Improper Payment amounts for overpayments and underpayments are rounded.

***The RUIA Final Improper Payment amounts for overpayments and underpayments are truncated.

Sources of RUIA Administrative or Process Errors Made by Federal Agency:

The source data for this root cause includes the following:

A) Category 4 of the Annual RUIA Debt Report
B) Annual UI/SI Claim Quality Assurance Review
C) OLQ of claims redetermined to pay additional money

V. Improper Payment Corrective Actions.

Not Applicable. RRA and RUIA programs, as determined under OMB Circular A-123 Appendix C Part I.A.9.Step 2, do not have improper payments exceeding the statutory thresholds listed in OMB Circular A-123 Appendix C Part I.A.9.Step 1.

VI. Internal Control Over Payments.

Not Applicable. RRA and RUIA programs, as determined under OMB Circular A-123 Appendix C Part I.A.9.Step 2, do not have improper payments exceeding the statutory thresholds listed in OMB Circular A-123 Appendix C Part I.A.9.Step 1.

VII. Accountability.

Not Applicable. RRA and RUIA programs, as determined under OMB Circular A-123 Appendix C Part I.A.9.Step 2, do not have improper payments exceeding the statutory thresholds listed in OMB Circular A-123 Appendix C Part I.A.9.Step 1.

VIII. Agency Information Systems and Other Infrastructure.

Not Applicable. RRA and RUIA programs, as determined under OMB Circular A-123 Appendix C Part I.A.9.Step 2, do not have improper payments exceeding the statutory thresholds listed in OMB Circular A-123 Appendix C Part I.A.9.Step 1.

IX. Barriers.

Not Applicable. RRA and RUIA programs, as determined under OMB Circular A-123 Appendix C Part I.A.9.Step 2, do not have improper payments exceeding the statutory thresholds listed in OMB Circular A-123 Appendix C Part I.A.9.Step 1.

X. Recapture of Improper Payments Reporting.

We have a robust, multi-faceted review process in place that is an effective approach for evaluating payment accuracy in the RRA and RUIA programs and identifying and preventing improper payments. The RRB notified OMB of our approach in August 2011. Taken as a whole, our full range of current activities constitutes *an effective alternative to* a formal payment recapture program. However, 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 2015 was $56,720,494. This balance includes debts classified as currently not collectible. We estimate that approximately 73.3 percent of the RRA receivable balance will be collected and that the remaining 26.7 percent of the RRA debt will eventually be closed as uncollectible. For the period of fiscal years 2006 through 2015, the RRB recovered $409,026,430 in RRA program receivables.

The RRB's account receivable balance for the RUIA program at the end of fiscal year 2015 was $14,282,771. This balance includes debts classified as currently not collectible. We estimate that approximately 84.7 percent of the RUIA receivable balance will be collected and 15.3 percent will eventually be closed as uncollectible. It should be noted that uncollectible RUIA debts may be reinstated for recovery by offset when a debtor files an application for retirement benefits. For the period of fiscal years 2006 through 2015, the RRB recovered $287,103,234 in RUIA program receivables.

The RRB's collection program is in full compliance with the Debt Collection Improvement Act of 1996. Recoveries are made through offset of benefits, reclamation and return of erroneous benefit payments, and direct payment from debtors. Fraudulent payments are referred to the OIG for prosecution through the Department of Justice. Delinquent accounts are referred to Treasury for cross-servicing and offset of Federal payments

d. Table 4

Overpayments Recaptured outside of Payment Recapture Audits($ in millions)

Agency Source		Amount Identified FY 15*	Amount Recaptured FY 15**	Amount Identified FY 14*	Amount Recaptured FY 14*	Cumulative Amount Identified FY 06 - FY 15*	Cumulative Amount Recaptured FY 06 – FY 15**
Various, including post payment quality reviews, special evaluations, OIG reviews/audits, reports from the public, monitoring programs, and agency-identified errors. No breakdown between these sources is available.	**RRA**	**$50.14**	**$45.90**	**$52.87**	**$43.07**	**$478.38**	**$409.03**
	RUIA	**$20.56**	**$21.97**	**$31.97**	**$22.03**	**$301.27**	**$287.10**
	Medicare	***	***	***	***	***	***

Please see footnotes on following page.

* Amounts limited to established overpayments for fiscal year(s) identified.

** Recoveries include debts established prior to fiscal year(s) identified.

*** The Risk Assessment prepared in 2014 and RRB OIG Audit 14-07 identified the Medicare program as being susceptible for improper payments. CMS's assistance has been requested, and they agreed to include the RRB SMAC in the CERT program. CMS established the CERT program to estimate improper payment error rates and uses data from the CERT program to reduce or eliminate improper payments through various corrective actions. CERT recently concluded their review of the RRB SMAC claims for the fiscal year 2015 reporting period. The results of that review will be published in November 2017. While the Medicare error rate is not available at the time this report is being published, the RRB is in compliance, as a process is in place to identify and reduce the improper payment rate.

XI. Additional Comments.

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, system limitations, the continued loss of experienced staff and long lead time to hire and train staff to handle complicated manual work present 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.

XII. Agency reduction of improper payments with the Do Not Pay Initiative.

The RRB's core business processes are related to the issuance of benefit payments under the RRA and RUIA. The RRB receives pre-payment information regarding benefit entitlement at other agencies and wage information. We have ongoing data sources established and in use for this information, which includes benefit entitlement and wages from SSA, employers, and our application process. In addition, we receive post-payment wage information through established sources such as wage match programs with the fifty states and death data from SSA and CMS.

In evaluating whether the Do Not Pay (DNP) Initiative has reduced improper payments or improper awards, we have determined that our current business processes and data sources are effective in detecting and preventing benefit overpayments. Of the data sources currently available from Treasury's DNP System, the only one that is applicable to RRB's benefit payments is the SSA Death Master File (DMF). However, as a benefit paying agency, we already receive death data directly from SSA and CMS. This information, which is part of the Do Not Pay Initiative, is more detailed than the death information contained in the publicly available DMF in the Do Not Pay Portal. We also found that at the time Treasury Do Not Pay matching reports were received, these matched records were either suspended or terminated as they had already been identified through our existing program integrity and death match processing activities.

As a result of our conversion to the Financial Management Service's Standard Payment Automation Manager Request Format, beginning with payments issued October 1, 2014, the quality of the DNP matches we receive has been improved. Since the payee's social security number/employee identification number is utilized, the matches are conclusive. We continue to look forward to utilizing SSA's Prisoner Update System that will soon be available in the DNP portal. We are also interested in receiving data from the National New Hire Directory should it become available through the Do Not Pay Initiative.

The data shown in Table 7 represents death reports received from the Treasury Do Not Pay System during the period October 2015 through May 2016. Of the $1,088,337.30 improper payment dollar amounts, $563,153.78 was recovered at the time the monthly Do Not Pay report was adjudicated. Since that time an additional $437,834.77 was recovered, for a total recovery of $1,000,988.55.

Table 7

Results of the Do Not Pay Initiative in Preventing Improper Payments
(in millions)

	Number (#) of payments reviewed for possible improper payments	Dollars ($) of payments reviewed for possible improper payments	Number (#) of payments stopped	Dollars ($) of payments stopped	Number (#) of potential improper payments reviewed and determined accurate	Dollars ($) of potential improper payments reviewed and determined accurate
Reviews with the Do Not Pay databases	4,668,744	$8,676,952,711.26	0	$0.00	678	$1,088,337.30
Reviews with databases not listed in IPERIA as Do Not Pay databases	2,209*	Data Not Available	765**	$0.00	75***	Data Not Available

Data below is from USTAR Reports 10-1-14 through 9-30-15.

* CMS Death Match Referrals

**CMS Death Match Referrals terminated by the Death Match Investigator

*** Erroneous Reports of CMS Death Match Referrals

Summaries of Financial Statement Audit and Management Assurances

Summary of Financial Statement Audit

Audit Opinion	Disclaimer
Reinstatement	No

Material/Weaknesses	Beginning Balance	New	Resolved	Consolidated	Ending Balance
Financial Reporting	1				1
Control Environment		1			1
Total Material Weaknesses	*1*	*1*			*2*

Summary of Management Assurances

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

Material/Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Financial Reporting	1					1
Control Environment		1				1
Total Material Weaknesses	*1*	*1*				*2*

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

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APPENDICES

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Appendices

Glossary of Acronyms and Abbreviations

A

AABR	Average Account Benefits Ratio
ABR	Account Benefits Ratio
ACSI	American Customer Satisfaction Index
ARRA	American Recovery and Reinvestment Act of 2009

B

BPD	Bureau of the Public Debt

C

CGI	Consultants to Government and Industry
CMS	Centers for Medicare & Medicaid Services
CNC	Currently Not Collectible

D

DBP Account	Dual Benefits Payments Account
DOL	Department of Labor

E

EDMA	Employment Data Maintenance
ERP	Economic Recovery Payments
ERS	Employer Reporting System

F

FACTS II	Federal Agencies' Centralized Trial-Balance System
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
FISMA	Federal Information Security Management Act
FMFIA	Federal Managers' Financial Integrity Act
FY	Fiscal Year
FOASI/DI	Federal Old-Age and Survivors Insurance/Disability Insurance

G

GPRA	Government Performance and Results Act
GTAS	Governmentwide Treasury Account Symbol Adjusted Trial Balance System

I

IPERA	Improper Payments Elimination and Recovery Act
IPIA	Improper Payments Information Act
IRMAA	Income-Related Monthly Adjustment Amount
IRS	Internal Revenue Service
IT	Information Technology
IVR	Interactive Voice Response

L

LAN	Local Area Network
LPE	Last Pre-retirement Non-Railroad Employer

M

MCRC	Management Control Review Committee
MMA	Medicare Prescription Drug, Improvement and Modernization Act of 2003

N

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
PII	Personally Identifiable Information
POA&M	Plan of Action and Milestones

R

RESCUE	Recalculate for Service and Compensation Updated to EDMA
RR	Railroad Retirement
RRA	Railroad Retirement Act
RR Account	Railroad Retirement Account
RRB	Railroad Retirement Board
RRSIA	Railroad Retirement and Survivors' Improvement Act of 2001
RUI	Railroad Unemployment Insurance
RUIA	Railroad Unemployment Insurance Act
RUI Account	Railroad Unemployment Insurance Account

S

SFFAS	Statement of Federal Financial Accounting Standards
SI	Sickness Insurance
SPEED	System Processing Excess Earnings Data
SSA	Social Security Administration
SSEB	Social Security Equivalent Benefit
SSP	Shared Service Provider

T

Treasury	Department of the Treasury
Trust	National Railroad Retirement Investment Trust

U

UI	Unemployment Insurance
USC	United States Code
USPS	United States Postal Service

V

VoIP	Voice over Internet Protocol

W

WHBAA	Worker, Homeownership, and Business Assistance Act of 2009

Railroad Retirement Board
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Labor Member	Walter A. Barrows
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For additional copies of this report, please contact:

Railroad Retirement Board
Bureau of Fiscal Operations
844 North Rush Street, 5th Floor
Chicago, Illinois 60611-2092
Telephone: (312) 751-4591
Fax: (312) 751-7171
Available online at: www.rrb.gov