

Semiannual Report to the Congress



**Office of Inspector General
Railroad Retirement Board**

April 1, 2007 to September 30, 2007



UNITED STATES RAILROAD RETIREMENT BOARD

OFFICE OF INSPECTOR GENERAL

October 31, 2007

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

Dear Mr. Schwartz:

I am pleased to submit our *Semiannual Report to the Congress*. This report covers activities and accomplishments of the Office of Inspector General for the period April 1, 2007 through September 30, 2007. It provides descriptions of our audits, evaluations and investigations performed during the past six months. The report is submitted in accordance with Section 5 of the Inspector General Act of 1978, as amended. The Act requires that you transmit this report, along with any comments you may wish to make, to the appropriate Congressional committees and subcommittees within 30 days.

During this reporting period, we completed audits/evaluations relating to the Federal Managers' Financial Integrity Act of 1982, the Railroad Retirement Board's privacy program, federal taxes withheld from railroad retirement annuities, agency information security and controls to safeguard sensitive personally identifiable information. We also began our audit of the Fiscal Year 2007 financial statement.

Our criminal investigators achieved 26 criminal convictions, 23 indictments and informations, 15 civil judgements, and more than \$4 million in monetary accomplishments.

The Office of Inspector General sincerely appreciates the ongoing assistance extended to its staff during the performance of their audits and investigations. We look forward to a continued cooperative relationship to ensure efficiency in agency operations.

Sincerely,

A handwritten signature in blue ink that reads "Martin J. Dickman". The signature is fluid and cursive, with a long horizontal flourish at the end.

Martin J. Dickman
Inspector General

Enclosure

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INTRODUCTION

Railroad Retirement Board

The Railroad Retirement Board (RRB) is an independent agency in the executive branch of the federal government. The Board consists of three members who are appointed by the President of the United States with the advice and consent of the Senate. One Board member is appointed upon the recommendation of railroad employers, another member is appointed upon the recommendation of railroad labor organizations and the third, who is the Chairman, is appointed to represent the public's interest. Board Members' terms are five years in length and expire in staggered years.

The agency administers comprehensive retirement-survivor and unemployment-sickness insurance benefit programs for the nation's railroad workers and their families. These programs are codified under the Railroad Retirement Act, 45 U.S.C. § 231, et. seq. and the Railroad Unemployment Insurance Act, 45 U.S.C. § 351 et. seq., respectively. The RRB also has administrative responsibilities for certain benefit payments under the Social Security Act and administers Medicare Part B, the physician services aspect of the Medicare program, for qualified railroad beneficiaries.

The agency's central mission is to pay accurate and timely benefits. During fiscal year (FY) 2007, RRB paid approximately \$9.7 billion in retirement and survivor benefits to 600,000 beneficiaries. RRB also paid \$73 million in net unemployment and sickness insurance benefits to almost 28,000 claimants during the benefit year ending July 30, 2007. The Railroad Medicare Part B carrier, Palmetto GBA, paid approximately \$897 million in medical insurance benefits for more than 496,000 beneficiaries.

The Railroad Retirement Board is an independent agency in the executive branch of the federal government.

Office of Inspector General

The Railroad Retirement Solvency Act of 1983 established the Office of Inspector General (OIG) at the RRB by naming the agency as “one of such establishments” identified under Section 2 of the Inspector General Act of 1978, as amended. The Inspector General Act Amendments of 1988, added the RRB to the list of covered agencies.

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

The OIG has three operational components: the immediate Office of the Inspector General, the Office of Audit and the Office of Investigations. The office conducts operations from several locations: the headquarters of the RRB in Chicago, Illinois, an investigative field office in Philadelphia, Pennsylvania and domicile investigative offices in Arlington, Virginia and San Diego, California.

The health and welfare of our nation’s railroad workers and their families rely on the economy, efficiency and effectiveness in the RRB’s programs. It is the mission of the OIG to ensure these qualities exist in RRB programs.

The OIG has three operational components.

EXECUTIVE SUMMARY

Audit/Evaluation Activities

During the reporting period of April 1, 2007 through September 30, 2007, the United States Railroad Retirement Board, Office of Inspector General - Office of Audit (OA) completed audits/evaluations relating to the Federal Managers' Financial Integrity Act of 1982 (FMFIA), the Railroad Retirement Board's privacy program, federal taxes withheld from railroad retirement annuities, fiscal year (FY) 2007 evaluation of agency information security and controls to safeguard sensitive personally identifiable information (PII).

OA also began their audit of the Railroad Retirement Board's Fiscal Year 2007 Financial Statement. OIG is required to perform their financial statement audit in-house. Financial statement audits are complex in nature and are extremely work intensive. OA devotes a large amount of resources to this audit.

FMFIA requires Executive branch agencies to establish and maintain internal controls to ensure that Federal programs operate efficiently, effectively and in compliance with relevant laws. The RRB created the Management Control Review Committee (MCRC) to establish and oversee a process to identify and eliminate management control weaknesses and financial non-conformance. The audit objectives were to determine whether management assurance statements were fully supported by management control documentation and to determine whether they comply with and satisfy the requirements of Office of Management and Budget (OMB) Circular A-123. OA concluded RRB needs to improve the effectiveness of the management control review process. Management accepted all eleven audit recommendations.

OA's audit of the agency's privacy program was conducted pursuant to the Federal Information Security Management Act of 2002 (FISMA). The audit's objective was to assess the adequacy of RRB's privacy policy. OA concluded RRB's privacy program was not fully effective in providing reasonable assurances that proper safeguards exist to ensure the security and confidentiality of records. Management concurred with 16 of the 17 recommendations.

Office of Audit began their work on the Fiscal Year 2007 Financial Statement Audit.

Pursuant to the Railroad Retirement Solvency Act of 1983 and effective beginning with the 1984 tax year, the RRB began withholding federal income tax from Railroad Retirement Act (RRA) annuity payments. The RRB sent more than 600,000 original tax statements to beneficiaries for tax year 2005. The objective of OA's audit was to assess the accuracy of federal taxes withheld from RRA annuity payments. OA was not able to completely assess tax withholding because RRB lacked adequate support for processing transactions. Management concurred with all six audit recommendations.

The RRB's information system environment consists of six major application systems and two general support systems, each of which has been designated as a moderate impact system in accordance with standards and guidance promulgated by the National Institute of Standards and Technology (NIST). The major application systems correspond to RRB's critical operational activities and the two general support systems comprise the mainframe computer and the end-user computing systems. OA's audit of *Fiscal Year 2007 Evaluation of Information Security at the Railroad Retirement Board* was pursuant to E-Government Act and FISMA. FISMA requires annual OIG and agency reviews including information security. Information security refers to protecting information and information systems from unauthorized access, use, disclosure, disruption, modification or destruction to provide confidentiality, integrity and availability of information. Management concurred with all eight of OA's recommendations.

During this reporting period, OA performed an *Audit of Controls to Safeguard Sensitive Personally Identifiable Information*. Due to the sensitive nature of this audit it had a limited distribution and was not publicly disclosed. Management concurred with all 22 audit recommendations.

Major audit findings and recommendations for corrective actions are discussed in detail on pages 8 to 19.

The objective of OA's audit was to assess the accuracy of federal taxes withheld from RRA annuity payments.

Investigative Accomplishments

The Office of Investigations (OI) focuses its efforts on identifying, investigating and presenting cases for prosecution throughout the United States concerning fraud in RRB benefit programs. OI conducts investigations relating to the fraudulent receipt of RRB sickness, unemployment, disability or retirement benefits. OI investigates railroad employers and unions when there is an indication that they have submitted false reports to the RRB. OI also investigates allegations of misconduct by RRB employees. Investigative efforts can result in criminal convictions, civil penalties, administrative sanctions and/or the recovery of program benefit funds.

During this reporting period, OI achieved 26 convictions, 23 indictments and/or informations, 15 civil judgements and over \$4 million in monetary accomplishments. OI also had five arrests and 69 referrals to the Department of Justice. RRB defendants were sentenced to 700 hours of community service.

During FY 2007, the agency collected over \$1.3 million as a result of criminal and civil judgements related to OI investigations. From April 1, 2007 through September 30, 2007, OI had \$1,415,300 in investigative recoveries from completed cases. Investigative recoveries are settled fraud amounts that can be recouped through administrative recovery action by the RRB.

Retirement benefit fraud investigations typically involve individuals' failure to report disqualifying information, such as continued employment, to the RRB. During this reporting period, RRB Special Agents have investigated diverse fraud schemes such as: (1) a State Representative/Former Mayor who failed to report his disqualifying position with the state legislature, (2) a retirement annuitant who hid his disqualifying wages through corporate structures; and (3) an annuitant's granddaughter who failed to notify the RRB of her grandmother's death in order to fraudulently cash the retirement checks for gambling purposes.

OIG had over \$4 million in monetary accomplishments during this reporting period.

Disability benefit investigations often involve larger financial amounts and more sophisticated schemes. During this reporting period RRB Special Agents investigated a number of disability cases where the annuitant used complex corporate structures to hide their employment activities.

Unemployment Insurance (UI) and Sickness Insurance (SI) benefit fraud typically involves claimants applying for and receiving benefits while failing to report their wages from an employer. A majority of these cases are referred to the OIG from RRB's Disability, Sickness and Unemployment Benefits Division.

Automated matching programs with other agencies, such as the Social Security Mortality Matching Program, also reveal instances of fraudulent benefit payments. During this report period, RRB Special Agents completed a case where an annuitant's daughter concealed her mother's death by posing as her mother during telephone conversations with the agency.

RRB Special Agents also investigate allegations of misconduct by RRB employees. During this reporting period, a defendant from a previously reported case received 15 years in prison for violating Sexual Exploitation of Children and, in a separate case, an employee was charged with Threatening to Assault and/or Murder a Government Official.

A sample of OI fraud cases closed during this reporting period are discussed in more detail on pages 23 to 35.

In FY 2008, OI will continue to aggressively pursue individuals who engage in activities to fraudulently receive RRB funds. To further support the goals of the OIG, OI added a domicile investigative office in San Diego, California. This addition provides the OIG with a permanent investigative presence on the West Coast.

INVESTIGATIVE ACCOMPLISHMENTS

Action	April 1, 2007 - September 30, 2007	Fiscal Year 2007
Convictions	26	46
Civil Judgements	15	25
Indictments/Informations	23	32
Investigative Recoveries*	\$ 1,415,300	\$ 1,533,720
Restitutions and Fines	\$ 1,686,428	\$ 2,283,529
Civil Damages and Penalties	\$ 677,206	\$ 837,800
Potential Economic Loss Prevented (PELP)	\$ 299,703	\$ 524,466
Community Service Hours	700	1000
Disciplinary/Administrative Actions	0	1
Civil Complaints	7	15
Criminal Complaints	0	1
Arrests	5	5
Department of Justice Referrals	69	132

*Investigative recoveries are fraud amounts that can be recouped through administrative recovery action by the RRB.

APRIL 1, 2007 THROUGH SEPTEMBER 30, 2007 ACCOMPLISHMENTS

Office of Audit

OA conducts audits and reviews to promote economy, efficiency and effectiveness in the administration of RRB programs and to detect and prevent waste, fraud and abuse in such programs. Through the Inspector General, the office ensures that the Board Members and Congress are informed of any potential problems in the RRB's programs and operations. They are kept advised of recommended improvements, as well as the status of corrective actions. OA examines programmatic, financial and administrative aspects of RRB operations.

Audit /Evaluation Activities

OA conducts financial, performance and compliance audits as well as evaluations of agency actions in response to the requirements of new legislation and regulations. Their formal audit/evaluation reports recommend corrective actions to strengthen agency programs. During this semiannual reporting period, OA completed audits relating to Federal Managers' Financial Integrity Act of 1982 (FMFIA), the agency's privacy program, railroad retirement annuities' federal income tax withholdings, FY 2007 evaluation of agency information security and controls to safeguard sensitive personally identifiable information (PII). Discussion of the audits/evaluations, major findings and recommendations for corrective actions follow.

OA examines programmatic, financial and administrative aspects of RRB operations.

Assessment of the Federal Managers' Financial Integrity Act Process at the Railroad Retirement Board - April 30, 2007

The Federal Managers' Financial Integrity Act of 1982 (FMFIA) requires Executive branch agencies to establish and maintain internal controls to ensure that federal programs operate efficiently, effectively and in compliance with relevant laws. OMB Circular A-123, *Management's Responsibility for Internal Control*, was created to implement FMFIA.

RRB management is responsible for developing and maintaining effective internal controls which provide assurances that significant weaknesses, which could adversely affect the agency's ability to meet its objectives, would be prevented or detected in a timely manner. RRB management created the Management Control Review Committee (MCRC) to establish and oversee the process to identify and eliminate management control weaknesses and financial non-conformance. During December 2006, MCRC prepared a Management Control Guide to provide guidance for compliance with FMFIA. During this reporting period, OA conducted an audit of this process at the RRB. The audit objectives were to determine whether: (1) management assurance statements comply with the requirements of OMB Circular A-123 and are fully supported by management control documentation; and (2) management control guidance and documentation satisfy the requirements of the FMFIA and OMB Circular A-123.

OIG determined that the assurance statement regarding compliance with the Federal Financial Management Improvement Act (FFMIA) provided in the RRB's FY 2006 Performance & Accountability Report (P&AR) was not applicable for the RRB. FFMIA assurance statements are only applicable for agencies subject to the Chief Financial Officers (CFO) Act. The RRB is not a CFO Act agency. The current assurance statement implies that the RRB is subject to the CFO Act and should be revised.

The MCRC does not have sufficient support for the management assurance statement provided in the FY 2006 P&AR regarding reliability of performance information. The RRB is required to make assurance statements that satisfy the requirements of FMFIA § 2.

The agency agreed with all eleven of OA's audit recommendations related to FMFIA assurances and performance documentation.

Assurances have been made for which the MCRC does not have documented evidence. MCRC documentation and guidance also lacked the identification and testing of controls over performance measures. MCRC needs to improve the effectiveness of the management review process to identify control objectives and develop control techniques. Frequency of reviews should be increased and schedule of future management control reviews should be prioritized. Management concurred with all eleven recommendations.

Evaluation of the Railroad Retirement Board's Privacy Program - July 30, 2007

The mission of the RRB requires that it maintain detailed beneficiary records including personally identifiable information (PII). The Privacy Act of 1974 (Privacy Act) addresses the government's obligation concerning records maintained on individuals. Throughout the years, OMB has issued various directives regarding the implementation of privacy policies. In 2002 Congress enacted the E-Government Act which applies the Privacy Act to electronic environments. The Federal Information Security Management Act of 2002 (FISMA) requires agencies and OIGs to conduct annual evaluations of their information security program. OMB has requested that Inspectors General review their agency's efforts to protect sensitive information. During October 2006 through April 2007, OA performed an evaluation regarding the adequacy of the agency's privacy program. OA concluded that the agency's privacy policy is not fully effective in providing reasonable assurance that proper safeguards are in place to ensure the security and confidentiality of records. On July 30, 2007, OA published their audit report with 17 recommendations for agency improvement. Management concurred with 16 of the 17 recommendations. The RRB disagreed with one recommendation and OA agreed to close the recommendation without implementation.

OA found that many of the RRB's policies and procedures governing the privacy program are outdated and require revisions to explicitly support legal and/or OMB requirements. OA also found that the RRB needs to provide job specific privacy-related training to many of their employees who have increased responsibilities for handling PII. Finally, OA found that the RRB needs additional resources to effectively analyze the results of their periodic reviews and to develop and implement appropriate action plans to address the weaknesses identified.

During FY 2005, RRB appointed a new Chief Privacy Officer (CPO) to oversee the privacy of beneficiary information. In FY 2007, RRB established the Security and Privacy Committee and the Agency Core Response Group to aid in the handling of privacy related issues.

The object of OA's audit was to assess the adequacy of the agency's privacy program.

Membership in these groups is held by existing agency staff members. OA recommended and RRB agreed that the agency should acquire additional staffing resources to aid in the implementation of the privacy program.

OA determined that RRB is not preparing privacy impact assessments as required by the E-Government Act. A privacy impact assessment determines the risk and effects of collecting, maintaining and disseminating information in identifiable form while examining and evaluating protections and alternate processes that can mitigate those potential risks. When new technologies, business processes or major system modifications are planned, a lack of risk identification subjects the agency to potential exposure or compromise of PII. OA recommended and management agreed that the agency should implement procedures and guidelines for privacy impact assessments. In addition, management should conduct job specific training on privacy impact assessments.

OA found that adequate safeguards are not in place to ensure confidentiality of PII when it is remotely accessed or removed from RRB premises. Management concurred with all but one of these related recommendations and agreed to take action to implement them. Management asserted that their existing policy sufficiently met the requirements of the remaining recommendation. OA agreed and closed that recommendation.

The RRB is not consistently including privacy-related Federal Acquisition Regulation clauses and language in their solicitations and contracts. Poorly articulated privacy and security safeguards increase the risk of compromised information. Management will initiate a revision to their policies and contracts.

The CPO does not always identify and certify contractor staff handling PII. RRB will develop revised procedures and updated forms to ensure compliance.

OA recommended that RRB revise many existing policies and procedures to explicitly include privacy related issues and safeguards for PII. Management agreed with OA's recommendations.

***Audit of Federal Income Taxes Withheld
From Railroad Retirement Annuities -
July 30, 2007***

The RRB's strategic plan provides that they are to "provide excellent customer service" and "to serve as responsible stewards for our customer's trust funds and agency resources." OA supports the agency's strategic plan through their audit work.

Pursuant to the Railroad Retirement Solvency Act of 1983 and effective beginning with the 1984 tax year, the RRB started withholding federal income tax from Railroad Retirement Act (RRA) annuities. The Taxation Accounting System (TAS) database and associated programs were developed to meet the tax reporting and withholding requirements imposed on the agency. The TAS calculates tax withholding and accounts for all taxable payments to, and recoveries from, individual beneficiaries. The TAS provides the data used to prepare the annual tax statements that are sent to beneficiaries. This information is also reported to the Internal Revenue Service (IRS). The agency uses an outside contractor to produce and mail tax statements to annuitants.

A railroad retirement annuity has several components. The RRB must withhold federal income taxes from those components that are not equivalent to social security benefits unless the beneficiary specifically directs otherwise. Generally, citizens or residents of the United States may decline tax withholding or elect customized tax withholding by filing the proper forms with the RRB. If the beneficiary does not decline withholding or does not specify a certain withholding amount, the RRB withholds taxes at the rate prescribed by the IRS. Nonresident aliens may not decline withholding and are subject to mandatory tax withholding at a prescribed rate unless they claim exemption under an effective tax treaty.

After the end of each calendar year, the agency releases an annual tax statement, Form RRB-1099-R, to each RRB annuitant. RRB's Office of Programs is responsible for computing withholding amounts, issuing annual tax statements and maintaining the electronic record of transactions in the TAS. The Office of Administration is responsible for maintaining, transferring and storing the tax records.

OA conducted an audit analyzing the accuracy of RRB's federal tax withholdings from annuity payments for calendar years 2005 and 2006. The lack of adequate agency documentation to support certain transactions created a limitation on the scope of OA's audit. This prevented OA from completing all steps necessary to fully achieve all audit objectives and OA was not able to express an opinion regarding the accuracy of federal taxes withheld from RRA annuity payments. OA was able, however, to verify that the RRB does withhold taxes from RRA benefits when required and the tax statements correctly reported the amount withheld. RRB management concurred with all six audit recommendations.

The requested tax withholding forms were not all readily available for inspection by OIG auditors. In fact, none of the forms filed in 2002 were found. OA reviewed historical data because once a tax withholding amount is elected, it remains in place until it is revoked or amended. Subsequent to OA's audit, agency management reported the missing boxes of 2002 Form W-4Ps to the U.S. Computer Emergency Readiness Team within the U.S. Department of Homeland Security as a loss with PII. After further investigation, management determined that six boxes with approximately 35,000 forms had been unintentionally destroyed. OA has recommended that management implement controls to ensure proper filing, storage and destruction of tax withholding documents. Management has concurred with OA's recommendations and has already begun implementation.

The TAS that supports tax computation and withholding is not programmed to retain any history of tax withholding election data. Whenever a new election form is filed, the old information is overwritten and permanently lost. Annuitants are allowed to change withholding status; however, the U.S. Government Accountability Office Standards for Internal Control in Federal Government require transactions to be fully supported. Due to lack of historical data, RRB was not able to fully support the history of tax withholding transactions for some annuitants. OA recommended that RRB maintain a complete automated transaction history. Management concurred with the recommendation but has made an alternate suggestion on how to remedy the situation.

OA conducted an audit analyzing the accuracy of RRB's federal tax withholdings from annuity payments for calendar years 2005 and 2006.

The agency does not always require annuitants to file the proper forms to specify tax withholdings. Based upon OA's recommendation that management implement additional controls to ensure that only the proper forms are accepted to effect withholding changes, RRB issued an agency-wide reminder to the appropriate employees. Additionally, management will conduct a periodic quality assurance review.

RRB's written procedures for computing tax withholding amounts have not been updated to reflect changes in computational methodology. Management concurred with OA's recommendation and they have already revised the tax withholding worksheet procedures to be consistent with TAS's rounding of amounts and calculation of tax withholding amounts.

Fiscal Year 2007 Evaluation of Information Security at the Railroad Retirement Board - September 27, 2007

The objective of OA's evaluation was: (1) to test the effectiveness of information security policies, procedures and practices of a representative subset of the agency's information system; and (2) assess RRB's compliance with the Federal Information Security Management Act of 2002 (FISMA) requirements and related information security policies, procedures, standards and guidelines.

FISMA requires an annual OIG evaluation of the agency's information security program and practices that includes all agency general support and major application system. The RRB has not yet achieved an effective FISMA compliant security program and continues to address its significant deficiencies in the previously reported areas of access controls, risk assessment and periodic testing/evaluation. Agency management has agreed to take all current recommended corrective actions except for one. Subsequently, OA has offered an alternative recommendation based upon management's response.

OA's FY 2001 evaluation of information security cited the agency with a significant deficiency in access control. The weaknesses included: (1) inadequate management of user accounts and passwords, (2) the inability to support detailed security evaluations of LAN user accounts and privileges using existing facilities; and (3) a process of reviewing and re-authorizing access to some mainframe component applications that was not full effective. During FYs 2004 and 2005 OIG and contracted technical specialists performed detailed tests in this area. Out of the 31 OA recommendations, management has fully implemented 9 resulting in 22 requiring further corrective action. In FY 2007, OA made an additional recommendation to remove global groups that allow excessive access and review the privileges defined in the group policy object. Management concurred.

OA's FY 2005 FISMA report cited the agency with a significant deficiency in RRB's risk assessment process. RRB's drafted FY 2006 risk assessment methodology has not yet been approved, adopted or implemented.

RRB has not implemented a consistent FISMA compliant, testing and evaluation process. OA's FY 2005 FISMA report cited the agency with a significant deficiency in this area. During FY 2007, RRB contracted with technical specialists to assist in the certification and accreditation of the RRB's end-user computing general support system, including the completion of security tests and evaluations. The contract, however, only requires contractors "to perform their necessary services at the RRB headquarters facility, located in Chicago, Illinois." It appears that these tests will not include RRB's regional or field offices. OA recommended that RRB extend this testing and evaluation to include regional and field offices. Management concurred.

The RRB has met the FISMA requirement for information security training for employees, but needs improvement in identifying contractors. Management concurred with OA's recommendations that all new contractor employees receive security awareness training and that the agency maintain a comprehensive listing of all contractors for future annual refresher training.

The agency's disaster recovery plan provides assurances that most of the agency's major information technology functions would be operational in the event of a disaster, but the plan does not provide reasonable assurance that the agency will be able to recover from a disaster and perform its critical business functions in a timely manner. Additionally, procedures do not ensure the protection of sensitive information. OA recommended that RRB maintain control of sensitive information by allowing enough time to properly complete all testing and that all applications be tested on a rotating basis during a reasonable period of time. Management agreed that it is appropriate for all major application systems to be involved in off-site recovery testing; however, they noted that they cannot force system owners to participate in these exercises. Management agreed to develop a procedure to document the solicitations to participate in off-site testing and the system's owners responses to the solicitations. OA offered additional suggestions and will consider a continued inability to obtain a change of behavior among system owners as a significant deficiency in future FISMA evaluations.

OA recommended that RRB extend FISMA compliant, testing and evaluation to include regional and field offices.

Management will schedule additional time following off-site testing to ensure control of sensitive information.

Complete, accurate and reliable inventories of information systems, including applications and hardware, strengthen the information security program. RRB concurred and will perform a physical inventory of information technology hardware and update the agency's official fixed asset inventory system.

The RRB's incident handling and reporting program is generally effective in ensuring the confidentiality, integrity and availability of the agency's information and information technology. In FY 2006, OA performed a detailed review of this area and RRB continues to work on their corrective actions to implement recommendations made as a result of this review.

RRB has developed and maintained subordinate plans for providing adequate information security for networks, facilities and systems or group of information. Management continues to work on implementing previous recommendations regarding their certification, accreditation and risk assessment program. They are also working on identifying and prioritizing all weaknesses in the agency's information security and privacy programs.

OA's FY 2007 FISMA audit indicates that the RRB has not completed corrective actions on previously reported deficiencies.

Audit of Controls to Safeguard Sensitive Personally Identifiable Information - September 27, 2007

During this reporting period, OA performed an *Audit of Controls to Safeguard Sensitive Personally Identifiable Information*. Due to the sensitive nature of this audit, the OIG limited the distribution of the report and it was not publicly disclosed. Management concurred with all 22 audit recommendations reported in the report.

Personally identifiable information (PII) is any information that is linked to an individual such as name, birth date, address, or social security number. Certain PII or combined elements of PII may be used to commit identity theft and as a result is considered sensitive information. The objective of the audit was to assess the effectiveness of the agency's policies, procedures and practices to adequately safeguard sensitive PII. Generally, RRB needs to improve their PII security program to more adequately safeguard sensitive information. Management has already begun to address these issues.

The objective of OA's audit was to assess the effectiveness of the agency's policies, procedures and practices to adequately safeguard sensitive PII.

MANAGEMENT DECISIONS AND IMPLEMENTATION

The OIG tracks the status of corrective actions for all audit/evaluation recommendations. Office of Management and Budget Circular No. A-50 (Revised) and the Inspector General Act Amendments of 1988 require the reporting of management decisions and corrective actions for all audit/evaluation recommendations.

Management Decisions for Recommendations	
Requiring Management Decision on April 1, 2007	0
Pending Management Decision for New Recommendations	0
Management Decision for Previous Recommendations	0
Recommendations Pending Management Decision on September 30, 2007	0

Corrective Actions	
Recommendations Requiring Action on April 1, 2007	149
Recommendations Issued During This Period	64
Corrective Actions Completed During This Period	24
Final Actions Pending on September 30, 2007	189

OFFICE OF INVESTIGATIONS

INVESTIGATIVE CASELOAD DATA

During this semiannual reporting period, OI opened 122 investigations and closed 148 cases. The major referral sources of the cases opened between April 1, 2007 and September 30, 2007 are listed below.

Source of Referral	Percentage
RRB Headquarters	40%
Hotline	21%
RRB Field Offices	20%
OIG Developed	11%
Other	4%
RRB Employees	3%
Federal Agencies	1%



To gather evidence and further investigations, RRB Special Agents have a wide range of investigative tools including the Federal Grand Jury procedure, Inspector General Subpoenas and trial subpoenas. The following table summarizes OI's use of these investigative tools from April 1, 2007 through September 30, 2007 and for FY 2007.

Type of Subpoena Served	April 1, 2007 - September 30, 2007	Fiscal Year 2007
Inspector General	39	99
Federal Grand Jury	63	118
Trial Subpoena	1	18

OI's current caseload totals 456 criminal matters, representing approximately \$10.8 million in fraud against the RRB. The potential fraud losses by case type is listed below.

Type of Case	Number of Cases	Potential Fraud Losses	Percentage
Disability	232	\$6,314,611	50%
Retirement	89	\$2,662,082	20%
Unemployment/ Sickness	73	\$411,960	16%
Spouse/ Dependant	19	\$574,684	4%
Other	14	\$305,047	3%
Representative Payee	13	\$221,844	3%
Railroad Employer	10	\$252,207	2%
Employee	3	\$35,907	1%
Threats	3	\$0	1%

RRB-OIG has a current caseload of 456 criminal matters.

REPRESENTATIVE INVESTIGATIONS APRIL 1, 2007 THROUGH SEPTEMBER 30, 2007

RETIREMENT BENEFIT INVESTIGATIONS

The Railroad Retirement Act provides retirement benefits for qualified railroad workers and their families. RRB retirement fraud typically involves the theft and/or fraudulent cashing of retirement benefit checks by someone other than the authorized RRB annuitant. A second common scenario involves an individual failing to report information to the RRB that may disqualify the annuitant from receiving benefits. During this reporting period, OI obtained six convictions for retirement fraud. The defendants in these cases received sentences totaling five years in prison, 19 years probation and 500 hours of community service. They were also ordered to pay \$1,140,346 in restitution and \$15,125 in fines. OI had four civil judgments worth \$249,355 in civil damages and penalties.

Examples of cases completed during this reporting period follow.

State Representative/Former Mayor Settles Retirement Fraud Case

Based upon an agency referral, OI initiated an investigation against an annuitant who is a current Vermont State Representative and who had previously served as Mayor of a small Vermont town. OI's investigation revealed the annuitant applied for RRB retirement benefits but failed to report his continued employment with the State of Vermont. Failure to report this income caused the theft of almost \$19,000 worth of RRB retirement benefits. This case was referred to the U.S. Attorney's Office (USAO) for the District of Vermont. The annuitant entered into a settlement agreement with the USAO to repay \$30,000 in damages and penalties. Due to the annuitant's public position as an elected Vermont State Representative, the case received local press coverage. Press coverage works as a substantial deterrence and supports the fraud prevention mission of the OIG.

The defendants in RRB retirement fraud cases received sentences totaling five years in prison, 19 years probation and 500 hours of community service.

Annuitant Forms Corporations to Defraud RRB

This case was referred to OI through an RRB District Office. OI's investigation revealed the annuitant returned to work as a railroad president. Annuitants cannot return to work in the railroad industry without forfeiting their RRB pension. The annuitant failed to report his employment and paid himself in stock and stock options to avoid having his earnings reported. The annuitant also set up several corporations to act as conduits for compensation. He assigned several of his railroad workers' salaries to the corporations to avoid having the service and compensation for these employees reported to the RRB. It was determined that the annuitant fraudulently received \$108,024 in retirement benefits. Additionally, his wife received \$41,650 in fraudulent RRB payments. This case was referred to the USAO for the Eastern District of Michigan. The annuitant entered into pretrial diversion and was ordered to complete a term of 12 months supervision and to make \$108,024 in restitution. The new management of the railroad agreed to re-file amended railroad compensation reports for the misreported employees and will pay approximately \$73,622 in additional Railroad Retirement Taxes. The spouse's overpayment will be collected administratively.

Fraud Discovered Through Failed Centenarian Congratulatory Celebration

This case was discovered when a District Office employee attempted to deliver a congratulatory centenarian letter to an RRB beneficiary. The Representative Payee, which was the beneficiary's granddaughter, failed to keep the appointment. After subsequent inquiries it was discovered that the beneficiary had passed away in 1993. Special Agents interviewed the granddaughter who admitted that she continued to receive and use her grandmother's RRB annuity check. She further admitted to using the benefit checks for gambling. This case was referred to the USAO for the Western District of Pennsylvania. The granddaughter was charged in a federal indictment with violations of a Frauds and Swindles statute. She pleaded guilty and was sentenced to five years probation, six months of electronically monitored home confinement, 500 hours of community service, a \$100 special assessment and ordered to pay \$97,668 in restitution.

DISABILITY BENEFIT INVESTIGATIONS

OI also conducts fraud investigations relating to the RRB's disability program. These cases typically involve larger financial amounts and more sophisticated schemes. Railroad workers who are awarded a disability annuity by the RRB are subject to work restrictions and earnings limitations.

During this reporting period, OI obtained 11 convictions and six civil judgments in disability fraud cases. The defendants received sentences totaling one year imprisonment and 25.5 years probation. They were also ordered to pay \$472,686 in restitution, \$302,126 in civil damages and \$8,475 in fines.

Descriptions of several cases follow.

Disability Annuitant Ordered to Repay \$111,266

This case was a result of an OI initiated special project. Further OI investigation revealed the annuitant falsified RRB documentation and failed to report his ownership and operation of a pawn shop that earned him \$900,000 in wages from 1998 through 2001. As a direct cause of his action, the annuitant fraudulently received \$111,266 in RRB disability annuity benefits. During an interview with Special Agents, the defendant admitted owning a construction company in addition to the pawn shop. This case was referred to the USAO for the Western District of Louisiana for both criminal and civil prosecution. An information was filed for Failure to Report Information to the U.S. RRB. The defendant pleaded guilty to the charge and was sentenced to one year supervised probation, ordered to pay a special \$25 assessment, fined \$5,000 and ordered to pay \$65,963 in restitution. The USAO also initiated a civil procedure against the defendant where he entered into a settlement agreement consenting to pay \$45,303 for violating the False Claims Act.

RRB disability fraud defendants received sentences totaling one year imprisonment and 25.5 years probation.

Disability Annuitant Used Rent Payments to Avoid RRB Earning Limitations

Special Agents investigated an RRB disability annuitant who served as the president and director of a Massachusetts corporation which operated a bowling alley. Further analysis determined that he materially participated in the day-to-day operations of the bowling alley. He also controlled and operated a restaurant. The annuitant failed to report his corporate business activities to the RRB. In fact, the annuitant tried to avoid RRB earning restrictions by having the corporation pay him rent for the property and building occupied by the bowling alley in lieu of wages. The annuitant and his wife owned these properties personally. The annuitant also tried to avoid detection by operating the restaurant as a sole proprietorship under his wife's name. His failure to report these wages caused him to receive RRB disability benefits to which he was not entitled. In an interview with RRB Special Agents, the annuitant admitted to falsifying documentation and stated that he was willing to make restitution. This case was referred to the USAO for the District of Massachusetts. The annuitant was named in an one count indictment. He entered into a plea agreement for violation of Failure to Report Information to the RRB. The annuitant was sentenced to twelve months probation, a \$2,000 fine, a special assessment of \$25 and restitution in the amount of \$30,000.

***Disability Annuitant/Corporate Owner
Ordered to Repay \$62,773***

OI's investigation revealed that the annuitant owned and operated a Louisiana bar. Financial analysis revealed earnings above RRB's disability limitation. The annuitant failed to report his earnings and falsified RRB documentation. As a direct cause of his actions, the annuitant fraudulently received \$62,773 in RRB disability annuity payments. This case was referred to the USAO for the Western District of Louisiana for criminal and civil prosecution. The USAO filed an one count information and the annuitant pleaded guilty. He was sentenced to one year supervised probation, ordered to pay a special \$25 assessment, fined \$1,200 and ordered to pay \$24,862 in restitution. The USAO also initiated a civil procedure against the annuitant. He entered into a settlement agreement to pay \$37,911 for violating the False Claims Act.

UNEMPLOYMENT AND SICKNESS INSURANCE INVESTIGATIONS

Unemployment Insurance (UI) and Sickness Insurance (SI) benefit fraud involves individuals claiming and receiving UI or SI benefits while working and receiving wages from an employer, in violation of federal law. OI receives the majority of these cases from the RRB's Disability, Sickness and Unemployment Benefits Division as a result of information developed from state wage matching programs. These programs match RRB annuitants with individuals who also have wages reported to the state during the same period of time when they are receiving UI or SI benefits from the RRB.

During this reporting period, OI obtained six convictions and five civil judgments for UI and SI fraud. Defendants in these cases received, in the aggregate, 15 years probation and were directed to perform 150 hours of community service. They were ordered to pay \$31,144 in restitution and \$125,727 in civil damages and penalties.

Examples of cases completed during this reporting period follow.

Judgement in the Amount of \$22,680 Entered on Behalf of the RRB

OI initiated an investigation of an RRB unemployment insurance claimant based upon a referral from the agency. The RRB had conducted a computer wage match with the State of Illinois that identified claimants who may have collected RRB administered unemployment insurance benefits on the same days they received wages from a private employer.

OI determined that during the period of May 2005 through November 2005 the claimant applied for RRB unemployment benefits on the same days he was working and being paid by an employer. It was also determined that during the period of December 2005 through March 2006 he claimed Illinois Unemployment Insurance on the same days he claimed RRB Unemployment Insurance. During an interview with RRB Special Agents, the claimant admitted that he fraudulently claimed RRB UI benefits. This case was referred to the USAO for the

During this reporting period, OI obtained six convictions and five civil judgments for completed UI and SI fraud cases.

Northern District of Illinois. The USAO filed a civil complaint alleging violations of the False Claims Act. The defendant failed to respond and a default judgment was entered against him for treble damages plus interest in the amount of \$22,680.

Claimant Receives Two Years Probation for Unemployment Insurance Fraud

OIG initiated this investigation of an UI claimant based upon a wage match with the State of Tennessee. It indicated that the claimant had been employed while at the same time claiming and collecting RRB administered unemployment insurance benefits.

OI determined that the claimant applied for unemployment benefits on the same days he was working and being paid by an employer. During the period of July 2005 through December 2005 he submitted a total of 11 false claims when applying for benefits and intentionally did not report his employment to the RRB. His actions resulted in the theft of \$5,880 in benefits.

The case was referred to the District Attorney's Office for Shelby County, Tennessee. The annuitant was charged under Tennessee Code, Theft of Property. The claimant pleaded guilty and was sentenced to a term of two years probation and restitution in the amount of \$5,880.

Sickness Insurance Annuitant Ordered to Pay \$20,295

The OIG initiated an investigation of an RRB SI claimant based upon a referral from the RRB Sickness and Unemployment Benefits Division. Subsequent investigation revealed that during the period of September 2003 through March 2004, the claimant submitted 13 false claims for RRB sickness benefits on the same days he was working and being paid by an employer. During an interview with RRB Special Agents, the claimant admitted that he fraudulently claimed RRB sickness benefits.

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This case was referred to the USAO for the District of New Jersey, Newark. The USAO filed a civil complaint alleging violations of the False Claims Act. He failed to respond and a default judgment was entered against him for treble damages in the amount \$20,295.

SOCIAL SECURITY MORTALITY MATCHING PROGRAM

On a monthly basis, the RRB and the Social Security Administration (SSA) conducts a computer match of deaths reported to the SSA in the previous month with annuitant records on the RRB's database. The monthly mortality report file from SSA usually contains approximately 200,000 to 250,000 death records. A record match or hit from the monthly RRB/SSA mortality match prompts an investigation by the RRB, usually in the form of a release of death verification letters (Form RI-75) and a subsequent FAST-S/T action if the death report is confirmed.

Mortality reporting practices by local and state governments and private entities have improved since the inception of the RRB/SSA mortality matching process. As a result, the RRB Office of Policy and Systems initiated a match of the SSA's entire mortality file with the RRB's annuitant database. The match identified approximately 47 annuitants in pay status but who were reported as deceased by the SSA. All of these cases were referred for investigation to OI. The following tables summarize the results of the RRB/SSA Mortality Matching Program for FY 2007.

Activity	Number
Investigation Initiated	47
Investigation Closed - Not Deceased	26
Remaining Current Investigations	21

Results as of 09/30/07	Number	Fraud Amount
Conviction	1	Identified Fraud Loss \$186,000
Indictment	2	Potential Fraud Losses \$250,000
Open Investigations	18	Potential Fraud Losses \$1.1 million

The following case was opened based on the mortality matching project conducted by the Policy and Systems Division.

Annuitant's Daughter Receives 37 Months Imprisonment

An Ohio woman failed to report her mother's death to the RRB and fraudulently received more than \$186,300 in benefits. To further her scheme, the defendant posed as her deceased mother and telephoned the RRB on several occasions to update her mailing address. Additionally, the defendant posed as her deceased mother when an OI Special Agent contacted her by telephone regarding the investigation. Shortly after this contact, the daughter fraudulently notified the RRB of her mother's recent passing when in fact her mother had died more than 12 years prior. This case was referred to the USAO for the Northern District of Ohio for criminal prosecution. The defendant pleaded guilty to Theft of Government Funds and received a 37-month sentence followed by three years of supervised release. She was also ordered to pay restitution totaling \$186,356. This case was a joint investigation between OIG and the U.S. Department of Treasury, OIG.

CIVIL ENFORCEMENT RESULTS

OI also pursues civil actions to obtain a judicial order for recovery of funds fraudulently obtained by annuitants or claimants. These civil actions are typically brought under the provisions of the False Claims Act. This statute allows the government to recover up to treble damages as well as \$5,500 to \$11,000 for each false claim submitted. Some of these civil actions are pursued under the DOJ's Affirmative Civil Enforcement (ACE) program which provides a fast track prosecution mechanism.

During this reporting period, a total of 15 civil judgements were entered by federal district courts that will result in \$677,206 being repaid to the government.

DOJ frequently obtains double damages through these civil false claims prosecutions. The ACE program continues to provide an efficient means to address fraud against RRB programs, particularly where the fraud losses are below the financial guidelines for criminal prosecution. It is also an effective way to return fraud losses to the RRB's trust funds and create a deterrent against future fraud.

The following is an example of an ACE case.

Annuitant's Daughter Agrees to Pay Double Damages

An Illinois woman failed to report her father's death to the RRB and continued to receive and withdraw his annuity in the amount of \$19,864. After thorough investigation by OI, the case was referred to the USAO - Northern District of Illinois Affirmative Civil Enforcement Unit. The USAO filed a civil complaint against the defendant for violations of the False Claims Act. The defendant signed a consent judgment and agreed to pay back \$37,709 which represents double damages minus previous payments credited. The USAO also recorded a post judgment lien against the defendant's property to secure payment.

U.S. Department of Justice's Affirmative Civil Enforcement program provides a fast track civil prosecution for some of OI's fraud cases.

EMPLOYEE MISCONDUCT

OI also investigate allegations of Railroad Retirement Board employee misconduct.

Former RRB Employee Sentenced to 15 Years for Sexual Exploitation of Children

As reported during our *October 1, 2006 - March 31, 2007 Semiannual Report to the Congress* (page 27), RRB-OIG initiated an investigation based upon a referral from the U.S. Department of Homeland Security, Immigration and Customs Enforcement (ICE). It was alleged that the employee was soliciting a minor child to have a sexual relationship via the Internet.

Subsequent investigation by OI and ICE revealed that the employee was involved in an inappropriate Internet relationship with an out-of-state minor. Evidence analysis showed the employee utilized both his home computer as well as his work computer to communicate with the minor child.

In November 2006, the employee was arrested and taken into custody at the RRB Headquarters in Chicago, Illinois. During an interview, he admitted to having an improper relationship with a minor child and using both his work and home computers to communicate with the child.

RRB-OIG and ICE Special Agents also executed a search warrant at the employee's RRB work area and his residence. During the search of his residence, Agents discovered a large volume of intact and shredded official RRB documentation. Based upon his theft of official RRB documentation, the employee was terminated from government service in December 2006. In April 2007, the former employee was convicted of violating Sexual Exploitation of Children and was sentenced to 15 years in prison, ordered to pay a \$100 fine and received life supervision.

OI also investigates allegations of Railroad Retirement Board employee misconduct.

RRB Employee Enters Into Pretrial Diversion for Threatening Supervisor

OI received an allegation that an RRB employee threatened to kill his supervisor because, among other things, he believed his supervisor had unjustly passed him over for a promotion and not included him in certain work meetings. When interviewed, the employee admitted to Special Agents that he had threatened to physically assault his supervisor but denied that he made a death threat. He was taken into custody and charged with Threatening to Assault and/or Murder a Government Official. The case was referred to the USAO for the Northern District of Illinois. He entered into a pretrial diversion agreeing to permanently discontinue his employment with the RRB.

HOTLINE CALLS

The OIG established its Hotline to receive complaints concerning suspected fraud, waste and abuse in RRB programs and operations. The Hotline provides an open line of communication for individuals to report suspected criminal activity, conflicts of interest, mismanagement and waste of RRB funds. During this reporting period, OIG updated their Hotline web page to include additional reporting guidance making it more user-friendly. OI also added detailed information regarding identity theft including a hyper-link to the Federal Trade Commission's Identity Theft website.

OIG received 901 Hotline contacts during FY 2007 and 437 during this reporting period. The following table summarizes the subsequent hotline referrals for the period April 1, 2007 through September 30, 2007 and for FY 2007.

Referral Activity	04/01/07 - 09/30/07	Fiscal Year 2007
OIG-Office of Investigations	49	99
OIG-Office of Audit	2	2
RRB Bureaus	186	345
Other Federal Agencies	11	19
Local or State Agencies	0	0
RRB Medicare Carrier/ Durable Medical Equipment Regional Carrier	2	6
Other (misdirected calls, follow-up calls to agents, etc.)	151	352
Calls With Insufficient Information to Make Appropriate Referrals	30	66

The OIG established its Hotline to receive complaints concerning suspected fraud, waste and abuse in RRB programs and operations.

LEGISLATIVE & REGULATORY REVIEW

The Inspector General Act requires the Inspector General to review existing and proposed legislation and regulations relating to the programs and operations of the agency. It also requires the Inspector General to make recommendations in the semiannual report concerning the impact of its activities on the economy and efficiency of the agency's administration of its programs and in particular on the prevention of fraud and abuse. The OIG has no comments for this reporting period.

Medicare Restriction

Since FY 1997 the RRB-OIG has been prohibited from using its appropriated funds to conduct any investigation, audit or review of the RRB Medicare program. This prohibition has produced an unforeseen consequence concerning certain oversight activities which the RRB-OIG is mandated to carry out on an annual basis. As reported earlier, FISMA requires Inspectors General to conduct an annual evaluation of the department or agency's information security program and practices. Again during the current reporting period, OA was not able to fulfill FISMA's oversight mandate because the current Medicare prohibition prevents OA from reviewing information systems related to the RRB's Medicare program.

Under the Inspector General Act of 1978, as amended, the RRB-OIG is authorized to conduct oversight activities for all programs and operations conducted by this agency. The current prohibition not only prevents the RRB-OIG from fulfilling its responsibilities under its authorizing statute, but it also prevents it from conducting a complete review of the agency's information security program and practices as mandated by FISMA.

Additionally, Medicare fraud, waste and abuse undermine all Medicare recipients' ability to receive the high quality health care which they deserve, including railroad retirees and qualifying disabled workers. The removal of the Medicare prohibition is consistent with the statutory responsibilities assigned to this office under the Inspector General Act, as amended, and the statutory mandates of FISMA.

RRB-OIG is currently prohibited from performing their statutory obligation to audit/investigate the RRB Medicare program.

Systemic Issue Reporting

Previously, RRB-OIG uncovered a common scheme where RRB disability and retirement annuitants used certain corporate structures to hide their employment activities and earnings. Based upon OI's recommendation, RRB updated five agency forms and two annuitant informational booklets requiring annuitants to report corporate affiliation information.

Outreach

During June 2007, the Assistant Inspector General for Investigations and the Counsel to the Retirement Board Management Member delivered a joint presentation at a liability conference sponsored by the American Short Line and Regional Railroad Association. This seminar was attended by 120 participants associated with regional and short line railroads, as well as legal and insurance company representatives. Their presentation addressed issues relating to the agency's administration of the disability program and fraud matters identified through the OIG's case work.

In July 2007, an RRB Special Agent assisted at Chicago's third citywide gun turn-in event. This event was hosted by the Chicago Police Department in conjunction with various local community and business leaders. During this event, weapons could be turned in for \$100 prepaid credit cards, with no questions asked. Approximately 5,960 rifles, shotguns and pistols were collected. All weapons collected during the event were destroyed. Assistance at this event was important to foster a close working relationship with local law enforcement officers.

On a monthly basis, an OA staff member attends the agency's Information Technology Steering Committee meetings. This committee provides ongoing assessment of all new and existing IT projects, identifies critical issues and frames them from management and technical perspectives. The functions of the committee include

An RRB Special Agent assisted at Chicago's third citywide gun turn-in event.

strategic information resource management plan review, capital planning and investment control and enterprise architecture review. The OA staff member is not a member of the committee but acts as an OIG representative. As such, she compiles and maintains a file of committee activities and decisions which are used by OIG staff when assessing agency programs.

An OA staff member attends the agency's Information Security and Privacy Committee meetings as an OIG representative. This committee facilitates the implementation and compliance of FISMA and the E-Government Act. They are also involved in privacy management compliance for the agency. As the OIG representative, she compiles and maintains a file of committee activities and decisions which are used by OIG staff when assessing agency programs. Additionally, she is responsible for ensuring that the OIG's interests are not overlooked when major IT decisions are made by the agency.

APPENDIX A

REPORTS ISSUED

- Assessment of the Federal Managers' Financial Integrity Act Process at the Railroad Retirement Board - April 30, 2007
- Evaluation of the Railroad Retirement Board's Privacy Program - July 30, 2007
- Audit of Federal Income Taxes Withheld From Railroad Retirement Annuities - July 30, 2007
- Fiscal Year 2007 Evaluation of Information Security at the Railroad Retirement Board - September 27, 2007
- Audit of Controls to Safeguard Sensitive Personally Identifiable Information - September 27, 2007
(Not Disseminated to the Public)

APPENDIX B

INSPECTOR GENERAL ISSUED REPORTS WITH QUESTIONED COSTS

	Number	Questioned Costs	Unsupported Costs
<i>A. For which no management decision had been made by April 1, 2007</i>	0	0	0
<i>B. Which were issued from April 1 through September 30, 2007</i>	0	0	0
<i>Subtotal (A + B)</i>	0	0	0
<i>C. For which a management decision was made from April 1 through September 30, 2007</i>	0	0	0
<i>(i) dollar value of disallowed costs</i>		0	0
<i>(ii) dollar value of costs not disallowed</i>		0	0
<i>D. For which no management decision had been made by September 30, 2007</i>	0	0	0
<i>E. Report for which no management decision was made within six months of issuance</i>	0	0	0

**INSPECTOR GENERAL ISSUED REPORTS WITH
RECOMMENDATIONS THAT FUNDS BE PUT TO BETTER USE**

	Number	Dollar Value
<i>A. For which no management decision had been made by April 1, 2007</i>	<i>0</i>	<i>0</i>
<i>B. Which were issued from April 1 through September 30, 2007</i>	<i>0</i>	<i>0</i>
<i>Subtotal (A + B)</i>	<i>0</i>	<i>0</i>
<i>C. For which a management decision was made from April 1 through September 30, 2007</i>	<i>0</i>	<i>0</i>
<i>(i) dollar value of disallowed costs</i>		<i>0</i>
<i>(ii) dollar value of costs not disallowed</i>		<i>0</i>
<i>D. For which no management decision had been made by September 30, 2007</i>	<i>0</i>	<i>0</i>
<i>E. Report for which no management decision was made within six months of issuance</i>	<i>0</i>	<i>0</i>

APPENDIX C

REPORT ON RECEIVABLES, WAIVERS and RECOVERIES

The FY1999 appropriations language for this office requires the reporting of additional information concerning actual collections, offsets and funds put to better use achieved as a result of Inspector General activities.

OFFICE OF AUDIT

<u>Report</u>	<u>Funds to be put to better use</u>	<u>Funds Agreed by Management</u>	<u>Receivables Established</u>	<u>Waivers</u>	<u>Recoveries to date</u>
99-03	\$ 50,850	\$ 50,850	\$ 50,580	\$ 50,490	\$ 360
99-14	83,000	83,000*	34,423		30,584
99-16	48,000,000	48,000,000			10,276,000
99-17	11,000,000	11,000,000			1,604,545**
00-16	235,000	235,000			253,846***
04-06	821,000	821,000	629,688		629,688
04-10	400,000	400,000			761,151
05-03	1,800,000	1,800,000			3,302,926
05-06	10,000	10,000			
05-07	1,070,000	1,070,000			
05-10	2,600,000	2,600,000			
06-04	257,000	257,000			
06-06	200,000	200,000			

* This figure includes monies owed to the agency and overpayments which must be refunded.

** This figure represents case corrections that resulted in receivables, annuitant payments, employer tax credits and liabilities.

***This figure represents returned payments credited to debtor accounts.

OFFICE OF INVESTIGATIONS

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

Fiscal Year	Amount Recovered
1999	\$ 855,655
2000	\$1,038,134
2001	\$ 990,356
2002	\$ 785,843
2003	\$ 947,876
2004	\$ 646,273
2005	\$ 844,183
2006	\$1,281,680
2007	\$1,347,049

APPENDIX D

RRB MANAGEMENT REPORTS

The information contained in this section has been provided by RRB management.

MANAGEMENT REPORT ON FINAL ACTION ON AUDITS WITH DISALLOWED COSTS FOR THE SIX MONTH PERIOD ENDING SEPTEMBER 30, 2007

	<u>Number</u>	<u>Disallowed Costs</u>
A. Audit reports, with management decisions, on which final action had not been taken at the beginning of the period.	1	\$2,835
B. Audit reports on which management decisions were made during the period.	0	0
C. Total audit reports pending final action during the period.	1	\$2,835 *
D. Audit reports on which final action was taken during the period.	0	0
1. Recoveries		
(a) Collections		
(b) Property		
(c) Other		
2. Write-offs	0	0
3. Total of 1 and 2	0	0
E. Audit reports needing final action at the end of the period.	1	\$ 2,835

* Identified in Audit Report 05-09, "Review of Internal Control Over Budget Execution."

**MANAGEMENT REPORT ON FINAL ACTION ON AUDITS WITH
RECOMMENDATIONS TO PUT FUNDS TO BETTER USE FOR THE SIX
MONTH PERIOD ENDING SEPTEMBER 30, 2007**

	<u>Number</u>	<u>Funds to be put to better use</u>
A. Audit reports, with management decisions, on which final action had not been taken at the beginning of the period.	7	\$ 3,843,250 *
B. Audit reports on which management decisions were made during the period.	0	0
C. Total audit reports pending final action during the period.	7	\$ 3,843,250
D. Audit reports on which final action was taken during the period.	0	0
1. Value of recommendations implemented.	1	\$ 761,150**
2. Value of recommendations that management concluded should not or could not be implemented.	0	0
3. Total of 1 and 2.	1	\$ 761,150
E. Audit reports needing final action at the end of the period. (C - D.3)	6	\$ 3,082,100

* Compromised of the following amounts: \$761,150 from Audit Report 04-10, "Review of Spouse Annuity Work Deductions at the Railroad Retirement Board," \$1,800,00 from Audit Report 05-03, "Evaluation of the RRB's Processing of Disability Earnings Cases," \$10,000 from Audit Report 05-06, "Review of Compliance with the Prompt Payment Act," \$1,070,000 from Audit Report 05-07, "Evaluation of Survivor Annuity Work Deductions at the Railroad Retirement Board," \$257,000 from Audit Report 06-04, "Annuity Deductions for Retired Employees Working After Full Retirement Age," \$2,100 from Audit Report 06-05, "Review of Compliance with Provisions of the Railroad Retirement Act Governing the Initial Award of Benefits," and \$200,000 from Audit Report 06-06, "Review of the Termination and Suspension of Benefits Paid Under the Railroad Retirement Act."

** Audit Report 04-10 contained an estimate of funds put to better use in the amount \$400,000, and this figure was contained in previous reports. After reviewing and adjusting cases, the actual amount was \$760,138, and the number on this page associated with that report are adjusted accordingly to reflect the larger amount.

**MANAGEMENT STATEMENT ON RESOLVED AUDIT REPORTS
OVER TWELVE MONTHS OLD WITH FINAL ACTION PENDING
AS OF SEPTEMBER 30, 2007**

<u>Report</u>	<u>Date</u>	<u>Disallowed Costs</u>	<u>Funds to be put to better use</u>	<u>Reason action has not been completed</u>
Review of Quality Assurance Activities (97-06)	1/22/97	None	None	The remaining recommendation will be addressed in conjunction with efforts to improve calculation and reporting of performance measures.
Review of Non-Priority Correspondence Handling (97-09)	3/13/97	None	None	The Office of Programs plans to review and reevaluate its approach to tracking correspondence at the end of FY07.
Information Systems Security (INFOSEC) Assessment Report	6/28/00	None	None	The agency hired a security officer and hopes to close the only remaining recommendation early in FY08.
Fiscal Year 2000 Financial Statement Audit (01-03)	2/23/01	None	None	The Bureau of Information Services has upgraded help-desk procedures and is developing reports needed to close the last open recommendation.
Site Security Assessment for the Office of Inspector General (Blackbird #1)	7/20/01	None	None	The Bureau of Information Services will close the last open recommendation by completing migration of all applications to new servers in FY08.
Security Controls Analysis for the Office of Inspector General (Blackbird #2)	8/17/01	None	None	The Bureau of Information Services closed 35 recommendations and sent documentation to the OIG on the last 3.
Review of Information Security at the Railroad Retirement Board (02-04)	2/5/02	None	None	The Bureau of Information Services has closed 20 recommendations and hopes to close the remaining 8 in FY08.

**MANAGEMENT STATEMENT ON RESOLVED AUDIT REPORTS
OVER TWELVE MONTHS OLD WITH FINAL ACTION PENDING
AS OF SEPTEMBER 30, 2007**

<u>Report</u>	<u>Date</u>	<u>Disallowed Costs</u>	<u>Funds to be put to better use</u>	<u>Reason action has not been completed</u>
Evaluation of the Self-Assessment Process for Information System Security (03-02)	12/27/02	None	None	The Bureau of Information Services obtained contractor support for one assessment in FY07, and hopes to complete comprehensive assessments of other major systems in FY08.
Inspection of Unverified Records in the RRB's Employment Data Maintenance System (03-06)	3/20/03	None	None	The Office of Programs has reviewed all 20,000 records, with corrective actions and systems changes targeted for completion by the end FY08.
Review of the RRB's PIN/Password System for On-Line Authentication (03-09)	9/8/03	None	None	The Bureau of Information Services will establish procedures for the last open recommendation in conjunction with action taken to close 03-10.
Review of the Systems Development Life Cycle for End-User Computing (03-10)	9/8/03	None	None	The Bureau of Information Services is using new project management software which should help close the four remaining recommendations in FY08.
RRB's Railroad Retirement Act Document Imaging Process: Reliability of Images from Scanned Paper Documents (04-02)	5/12/04	None	None	The Office of Programs plans to finish a review of sampled items and close the last recommendation early in FY08.

**MANAGEMENT STATEMENT ON RESOLVED AUDIT REPORTS
OVER TWELVE MONTHS OLD WITH FINAL ACTION PENDING
AS OF SEPTEMBER 30, 2007**

<u>Report</u>	<u>Date</u>	<u>Disallowed Costs</u>	<u>Funds to be put to better use</u>	<u>Reason action has not been completed</u>
Review of Accounts Receivable Established Under the Railroad Unemployment Insurance Act (04-06)	7/29/04	None	None	Policies and procedures developed by Programs are being reviewed in order to close the last two recommendations in FY08.
Review of Mainframe Access Controls at the Application Level - Federal Financial System (04-07)	9/7/04	None	None	The Bureau of Information Services and Fiscal Operations hope to close the remaining recommendation in FY08.
Review of Mainframe Access Controls at the Application Level - RRB Developed Applications Controlled by ACF2 and IDMS (04-08)	9/7/04	None	None	The Bureau of Information Services hopes to close the final recommendation during FY08.
Review of Mainframe Access Controls at the Application Level - Program Accounts Receivable System (04-09)	9/9/04	None	None	The Bureau of Information Services and Fiscal Operations hope to close the last two recommendation in FY08.
FY2004 Evaluation of Information Security at the RRB (04-11)	9/30/04	None	None	The Bureau of Information Services has closed eight of nine recommendations, and plans to close the last one in FY08.
FY2004 Financial Statement Audit, Letter to Management (05-01)	10/25/04	None	None	Agency units have closed 12 of the 14 recommendations, and the Office of Administration submitted documentation to the OIG to close the remaining two.
Review of RRB Compliance with Federal Laws & Regulations on Competitive Sourcing (05-02)	12/6/04	None	None	The Bureau of Information Services completed an initial feasibility study related to competitive sourcing of some information technology activities, and hopes to finalize an approach to this issue in FY08.

**MANAGEMENT STATEMENT ON RESOLVED AUDIT REPORTS OVER
TWELVE MONTHS OLD WITH FINAL ACTION PENDING
AS OF SEPTEMBER 30, 2007**

<u>Report</u>	<u>Date</u>	<u>Disallowed Costs</u>	<u>Funds to be put to better use</u>	<u>Reason action has not been completed</u>
Evaluation of the RRB's Processing of Disability Cases (05-03)	2/11/05	None	\$1,800,000	A review of almost 17,000 cases from 2001 indicated the vast majority did not require any adjustments. The remaining cases should be completed in FY08.
Review of Internal Control Over the Actuarial Projection Process (05-04)	5/5/05	None	None	The Chief Actuary is in the process of developing a workforce development plan, with other documentation under review by OIG.
Review of Customer Service Performance Measures for Timeliness of Initial Railroad Retirement Annuity Payments (05-05)	5/17/05	None	None	Implementation of some items was delayed by a major database conversion project, while others related to improve performance reporting will be verified as part of financial statement audits.
Review of LAN, LAN Security Scan and Web-based Applications (DSD)	6/7/05	None	None	This contractor-prepared confidential report contained 45 recommendations, with over half addressed to date.
Review of Compliance with the Prompt Payment Act (05-06)	6/15/05	None	\$10,000	The Bureau of Fiscal Operations closed eight recommendations, with the last one to be closed in FY08.
Evaluation of Survivor Annuity Work Deductions at the RRB (05-07)	7/14/05	None	\$1,070,000	Work on closing the last open item was delayed by a major database conversion project, but it should be completed in FY08.
Review of Access Controls in the End-User Computing General Support System (05-08)	7/18/05	None	None	The Bureau of Information Services has close 9 of 15 recommendations in this confidential report. Documentation has been submitted to OIG on 2 others, with the rest to be closed in FY08.
Review of Internal Control Over Budget Execution (05-09)	9/6/05	\$2,835	None	The Bureau of Fiscal Operations has submitted documentation on one of the two remaining recommendations, and has requested programming changes that should close the last one.
Review of Employee Work Deductions Prior to Full Retirement Age (05-10)	9/19/05	None	None	The Office of Programs plans to address the remaining open recommendation during the first half of FY08.

**MANAGEMENT STATEMENT ON RESOLVED AUDIT REPORTS OVER
TWELVE MONTHS OLD WITH FINAL ACTION PENDING
AS OF SEPTEMBER 30, 2007**

<u>Report</u>	<u>Date</u>	<u>Disallowed Costs</u>	<u>Funds to be put to better use</u>	<u>Reason action has not been completed</u>
Fiscal Year 2005 Evaluation of Information Security at the RRB (05-11)	9/28/05	None	None	Information Services is developing policies and procedures needed to close the remaining two recommendations.
Accuracy and Reliability of GPRA Performance Measures: Timeliness of Non-Disability Survivor Annuity Payments (06-03)	1/30/06	None	None	The Office of Programs has closed three of the seven recommendations, with the remainder delayed by work on a major database conversion project in FY07.
Review of Compliance with the Provisions of the Railroad Retirement Act Governing the Initial Award of Benefits (06-05)	4/12/06	None	\$2,100	Programs staff closed four of the five recommendations, with work on the last one delayed by a major database conversion project in FY07.
Review of the Termination and Suspension of Benefits Paid Under the Railroad Retirement Act (06-06)	5/24/06	None	\$200,000	Development of a referral system to identify relevant cases and additional training should be completed in FY08.
Evaluation of the Railroad Retirement Board's Disaster Recover Plan (06-08)	8/14/06	None	None	The agency updated plans/procedures to close out three recommendations, with documentation on the remaining three under review by the OIG.
Review of Incident Handling and Reporting at the Railroad Retirement Board (06-09)	8/24/06	None	None	Information Services implemented two recommendations, with the remaining eight slated for completion in FY08.
Audit of the Solicitation and Award of the DB2 Conversion Contract (06-10)	9/26/06	None	None	The Office of Administration took steps to close out two recommendations, and submitted documentation to the OIG on the remaining two.

APPENDIX E

REPORTING REQUIREMENTS

Inspector General Requirements	<u>Page</u>
Section 4(a)(2) - Review of Legislation and Regulations	37
Section 5(a)(1) - Significant Problems, Abuses and Deficiencies	8-20
Section 5(a)(2) - Recommendations With Respect to Significant Problems, Abuses and Deficiencies	8-20
Section 5(a)(3) - Prior Significant Recommendations Not Yet Implemented	16-18
Section 5(a)(4) - Matters Referred to Prosecutive Authorities	7
Section 5(a)(5) - Summary of Report Made to Agency Head	None
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Section 5(a)(7) - Summary of Each Significant Report	3-4, 8-20
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Section 5(a)(9) - Statistical Tables on Management Decisions on Recommendations That Funds Be Put to Better Use	42

REPORTING REQUIREMENTS

Inspector General Requirements Continued

Section 5(a)(10) - Summary of Each Audit Report Over 6 Months Old or Which No Management Decision Has Been Made	None
Section 5(a)(11) - Description and Explanation for Any Significant Revised Management Decision	None
Section 5(a)(12) - Information on Any Significant Management Decisions With Which the Inspector General Disagrees	None

Management Requirements

Section 5(b)(1) - Comments Deemed Appropriate	Transmittal Letter
Section 5(b)(2) - Statistical Table on Final Action on Disallowed Costs	45
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Section 5(b)(4) - Statement on Audit Reports With Final Action Pending	47 - 51

APPENDIX F

ACRONYMS

ACE - Affirmative Civil Enforcement

CFO - Chief Financial Officer

CPO - Chief Privacy Officer

DOJ - Department of Justice

E-Government Act - Title III of the E-Government Act

FFMIA - Federal Financial Management Improvement Act

FISMA - Federal Information Security Management Act of 2002

FMFIA - Federal Managers' Financial Integrity Act of 1982

FY - Fiscal Year

ICE - U.S. Department of Homeland Security, Immigration and Customs Enforcement

IRS - Internal Revenue Service

MCRC - Management Control Review Committee

NIST - National Institute of Standards and Technology

ACRONYMS CONTINUED

OA - United States Railroad Retirement Board, Office of Inspector General - Office of Audit

OI - United States Railroad Retirement Board, Office of Inspector General - Office of Investigations

OIG - United States Railroad Retirement Board, Office of Inspector General

OMB - Office of Management and Budget

P&AR - Performance & Accountability Report

PII - Personally Identifiable Information

RRA - Railroad Retirement Act

RRB - Railroad Retirement Board

SI - Sickness Insurance

SSA - Social Security Administration

TAS - Taxation Accounting System

UI - Unemployment Insurance

USAO - United States Attorney's Office

APPENDIX G

LEGAL CITATIONS

Federal:

Chief Financial Officers Act - 31 U.S.C. § 901, et seq.

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

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

Federal Managers' Financial Integrity Act of 1982 - 31 U.S.C. § 3512,
Public Law 97-255

Frauds and Swindles - 18 U.S.C. § 1341

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

Inspector General Act Amendments of 1988 - 5 U.S.C. App. 3

Privacy Act of 1974 - 5 U.S.C. § 552a

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

Railroad Retirement Act, Penalties - 45 U.S.C. § 231(l)

Railroad Retirement Solvency Act of 1983 - P.L. 98-76

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

LEGAL CITATIONS CONTINUED

Sexual Exploitation of Children - 18 U.S.C. § 2251(a)

Theft of Public Money - 18 U.S.C. § 641

Threatening to Assault and/or Murder a Government Official - 18 U.S.C. § 115(a)(1)(B)

Title III of the E-Government Act - 44 U.S.C. § 3541, et seq.

State Law:

Theft of Property - Tennessee Code 39-14-103

REPORT

FRAUD, WASTE AND ABUSE



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