

Office of  
Inspector  
General

Semiannual  
Report to the  
Congress

*October 1, 2006 -  
March 31, 2007*

Railroad  
Retirement  
Board



UNITED STATES RAILROAD RETIREMENT BOARD

OFFICE OF INSPECTOR GENERAL

April 30, 2007

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

Dear Mr. Schwartz:

I am please to submit the Semiannual Report to the Congress on the activities and accomplishments of the Office of Inspector General for the period October 1, 2006 through March 31, 2007. This report 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 (Public Law 95-452), as amended). The Act requires that you transmit this report, along with any comments you may wish to make, to the appropriate Congressional committees and subcommittees within 30 days.

During this reporting period, we completed our audit for the RRB's Fiscal Year 2006 Financial Statements, issuing an unqualified opinion. We also issued results of audits on the occupational disability program, transmission controls over state wage match data, and application controls over the input of data to the DAISY/CHICO system.

Our criminal investigators achieved 20 criminal convictions, 9 indictments and informations, 10 civil judgements, and \$1.1 million in recoveries, restitutions, fines, civil damages and penalties.

The Office of Inspector General sincerely appreciates the ongoing assistance and cooperation extended to its staff during the performance of their audits and investigations.

Sincerely,

Martin J. Dickman  
Inspector General

Enclosure

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*All reports are available via the Internet at <http://www.rrb.gov>*

# **EXECUTIVE SUMMARY**

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## ***Audit Activities***

During the reporting period of October 1, 2006 through March 31, 2007, the Office of Audit completed its audit of the Railroad Retirement Board's Fiscal Year 2006 Financial Statements as published in the agency's Annual Performance and Accountability Report. Auditors issued an unqualified opinion on the financial statements reporting that the principal financial statements presented fairly, in all material respects, the financial position of the Railroad Retirement Board for the fiscal years ending September 30, 2006 and 2005, and the financial condition of the railroad retirement program as of January 1, 2006. The accompanying report on internal control advised management that previously cited material weaknesses in information system security, the actuarial projections process and performance measurement persist. Auditors also cited reportable conditions due to deficiencies in internal control over financial reporting and compliance with the Prompt Payment Act.

Included in the agency's Performance and Accountability report was the Office of Inspector General's summary of serious management challenges which included material weaknesses in internal controls over social insurance and performance reporting as well as the agency's information security program.

During the period, auditors also reported the results of reviews of the agency's occupational disability program, data transmission controls in its state wage match program, and information security in one of the component applications of the RRA benefit major application system.

## ***Investigative Accomplishments***

The Office of Investigations achieved 20 convictions, 9 indictments and informations, 10 civil judgements, and \$1.1 millions in recoveries, restitutions, fines, civil damages, and penalties. OI also submitted a number of recommendations to agency program management concerning program processes and records management operations. (Details of the recommendations are described on pages 14-15)

# **INTRODUCTION**

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## ***Railroad Retirement Board***

The Railroad Retirement Board (RRB) is an independent agency in the executive branch of the Federal government that is headed by a three member Board appointed by the President of the United States, with the advice and consent of the Senate. One member is appointed upon the recommendation of railroad employers, one is appointed upon the recommendation of railroad labor organizations, and the third, who is the Chairman, is appointed to represent the public interest.

The agency administers comprehensive retirement-survivor and unemployment-sickness insurance benefit programs for the nation's railroad workers and their families under the Railroad Retirement and Railroad Unemployment Insurance Acts. The RRB also has administrative responsibilities under the Social Security Act for certain benefit payments and Medicare coverage for railroad workers.

During FY 2006, the RRB paid approximately \$9.3 billion in retirement and survivor benefits to 619,000 beneficiaries, while net unemployment and sickness insurance benefits of \$73 million were paid to almost 28,000 claimants. The RRB also administers its own Medicare Part B program through a single carrier, Palmetto GBA. The carrier made payments totaling \$900 million to provide medical insurance benefits for 539,000 beneficiaries.

## **Office of Inspector General**

The Office of Inspector General (OIG) has the responsibility for promoting economy, efficiency and effectiveness in the programs of the Railroad Retirement Board. The office is also charged with the detection, prevention and elimination of fraud, waste and abuse in agency operations. To accomplish its mission, the OIG conducts audits, management reviews and investigations.

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

The OIG has 53 employees assigned to 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 Railroad Retirement Board in Chicago, Illinois, an investigative field office in Philadelphia, Pennsylvania, and a domicile investigative office in Arlington, VA staffed with a senior special agent.

# **OFFICE OF AUDIT**

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The 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 current and potential problems in the RRB's programs and operations, and advised of recommended improvements, as well as the status of corrective actions. OA examines programmatic, financial, and administrative aspects of RRB operations.

During this semiannual reporting period, OA performed the audit of the FY 2006 financial statements, related internal controls and compliance with laws and regulations. Auditors also identified three serious management challenges facing the agency: the statement of social insurance, performance measures, and information technology security.

Auditors also completed three additional reviews: an audit of the DAISY/CHICO component application of the RRA benefit payment system, a review of the occupational disability program, and an audit of the state wage match data transmission controls.

Discussion of the reviews, major findings and recommendations for corrective actions follow.

## ***Fiscal Year 2006 Financial Statements***

During this semiannual reporting period, the RRB issued the FY 2006 Performance and Accountability Report that detailed the goals and accomplishments of the agency. The report included the results of the OIG audit of the agency's FY 2006 financial statements and a description of the serious management challenges facing the agency that were identified by OIG auditors.

The OIG conducted its audit of the FY 2006 financial statements, and offered an unqualified opinion of the RRB's financial statements. The auditors reported material weaknesses in the RRB's system of internal control in three key areas of agency responsibility: information security, performance measurement, and the actuarial projection process. We also cited two reportable conditions due to identified control deficiencies in the financial reporting process and compliance with the Prompt Payment Act. Other matters involving internal control were communicated to agency management in a separate letter with recommendations for corrective action.

### **MATERIAL WEAKNESSES**

#### ***Information System Security***

For the sixth consecutive year, auditors identified the agency's information security program as a source of material weakness in internal control.

The RRB has undertaken the job of strengthening information security and has implemented many corrective actions recommended by the OIG and other technical specialists. During FY 2006, the agency completed corrective action to eliminate the previously reported significant deficiency in training. However, previously identified deficiencies in access controls, risk assessments, and periodic testing and evaluation



continue to exist, as well as other observed weaknesses in the agency's implementation of requirements for risk based policies and procedures, a remedial action process, continuity of operations, and inventory of systems.

### ***Performance Measures***

During FY 2005, the OIG identified a material weakness in internal control over the preparation and reporting of performance information due to inadequacies in the review and validation of data.

In response to the OIG's finding, the RRB established agencywide standards for collecting, documenting, validating, certifying, reporting and retaining performance information. Although procedural changes have been formally approved, those changes had not been fully implemented during FY 2006 and agency management had not yet operated under these procedures during a period sufficient to evaluate their effectiveness.

### ***Actuarial Projection Process***

The RRB needs to strengthen control over the actuarial projection process that supports the projections and estimates presented in the statement of social insurance, related notes, and as required supplementary information.

During FY 2005, the OIG performed a detailed evaluation of controls over the actuarial projection process that disclosed inadequacies in internal control over the projection process and related reports. During FY 2006, management responded to the OIG's findings by documenting the internal control structure that supports the actuarial projection and reporting process, developing an updated chart of controls, and performing a control self-assessment.

Corrective action taken during FY 2006 represented significant progress but management had not yet addressed all of the significant deficiencies cited by the OIG in its original finding.

## **REPORTABLE CONDITIONS**

### ***Controls Over Financial Reporting***

During FY 2006, the OIG observed that existing procedures and controls needed to be updated to fully ensure that quality of the RRB's response to its expanding financial reporting responsibilities and the short timeframes that have become inherent to the process. We also observed that the existing control framework is over-reliant on the OIG's annual audit of the financial statements to ensure the completeness and accuracy of the performance and accountability report.

### ***Controls Over Compliance with the Prompt Payment Act***

The OIG's report again cited the RRB with a reportable condition due to deficiencies in the design and operation of internal control over compliance with the Prompt Payment Act. During FY 2006, the RRB made substantial progress in correcting previously reported deficiencies. However, most changes were implemented more than six months into the fiscal year and had not been tested by the full range of payment experience. In addition, management had not yet ensured a level of uniform processing accuracy that would permit the OIG to conclude that corrective action has been fully effective.

## **OTHER MATTERS INVOLVING INTERNAL CONTROL**

In a separate letter, auditors provided agency management with the details of the various individual conditions that let the OIG to assess a reportable condition in controls over financial reporting. The OIG also advised management about other control deficiencies in the processes used to prepare the financial statements and required supplementary information.

## **SERIOUS MANAGEMENT CHALLENGES**

As part of the financial statement audit, the OIG is required to identify and report the serious challenges faced by the agency management.

In its FY 2006 statement, the OIG observed that the RRB faces the greatest challenges from changes in the environment in which it operates arising from legislative and regulatory mandates as well as advances in technology and the economic environment. The OIG cited three areas in which the RRB's control structure needs to be strengthened in order to respond to such external challenges: financial reporting of social insurance liabilities, performance reporting and information security.

## **Audit of the DAISY/CHICO Component Application of the RRB Benefit Payment Major Application System**

The Federal Information Security Management Act of 2002 (FISMA) mandates that the National Institute of Standards develop standards and guidance for the security of information systems including minimum information security requirements. FISMA also establishes program management and evaluation requirements, as well as minimum information security requirements or controls to be implemented by Federal agencies. These requirements include system and information integrity controls such as input accuracy, completeness and validity, error handling, and output handling retention.

The U.S. Department of the Treasury (Treasury) issues payments on behalf of the RRB. DAISY/CHICO is a component of the RRA benefit payment major application system that processes payments initiated in other RRB automated systems, and produces the electronic data file that transmits detailed payment instruction to Treasury.

Review results indicated that application controls over data input to DAISY/CHICO and processing by DAISY/CHICO are operating as designed and meet the requirements established by FISMA, but output controls do not and require improvement. Auditors identified weaknesses in output controls over rejected transactions including discrepant or inconsistent output records, and rejected transactions that are not subsequently processed to completion. Auditors also found a class of transactions for which the output records do not create adequate transaction history, and out of date procedures.

**Recommendation Action:**

Auditors issued recommendations to address the cited weaknesses through programming changes, implementation of controls, and development of procedures. Management agreed to implement all corrective actions with one proposed alternate solution, and provided a timetable for completion.

## **Review of the Occupational Disability Program**

The RRB administers a disability program that provides income protection for railroad workers and their families in the event of either total disability or occupational disability. A total disability annuity is based on disability for all employment. An employee is considered disabled if the physical or mental condition is such that the employee is permanently disabled for work in his or her regular railroad occupation, even though the employee may be able to perform other kinds of work. An occupational disability annuity is payable to employees with a current connection with the rail industry at age 60 if the employee has 10 years of service, or at any age if the employee has **at least**

20 years of service.

Many employees who are disabled for all employment, but are otherwise qualified for an occupational disability annuity, are initially awarded occupational disability annuities in order to expedite payment.

The Office of Programs is responsible for administering the RRB's disability program. This office is responsible for developing, analyzing, and evaluating records of physical examinations, medical treatment, employment, vocational experience, etc., in connection with claims for disability benefits and prepares decisions on the basis of findings of fact and law. This office requests additional evidence and orders examinations through a contractor. It also reviews completed reports and adequacy.

Auditors evaluated internal controls and determined that controls provide a reasonable assurance that disability applications are processed in compliance with applicable laws and regulations. There are sufficient edits and checks in RRB computer systems to provide assurance that the information on the disability application is correct and, therefore, the occupational disability decisions are based on corrected information. The RRB provides initial training for new disability examiners, as well as, ongoing training for existing examiners. An outside contractor conducts quarterly quality reviews of occupational disability decisions and visits the RRB on a monthly basis to answer various disability questions posed by disability examiners. The RRB developed an interactive personal computer program for disability examiners to use in the completion of initial disability decisions. This program addresses all of the sequential evaluation questions involved in an initial disability annuity decision.

Auditors determined that internal controls could be improved. Disability examiners with access to the disability computer program could authorize any occupational disability decision. Examiners even had the ability to authorize decisions they

prepared themselves (a self-authorization). Responsible program officials stated that it is the RRB's practice that occupational decisions be authorized by higher grade disability examiners or supervisory claims examiners. Between October 1, 2005 and August 31, 2006, four RRB disability examiners authorized five occupational disability decisions that they had prepared.

### **Recommended Action:**

Auditors issued recommendations to address the cited weaknesses through the establishment of controls and clarification of policies for authorizing occupational disability decisions. Management agreed to implement all corrective actions and provided a timetable for completion.

## **Audit of the State Wage Match Data Transmission Controls**

The RRB provides unemployment and sickness benefits to qualified railroad workers. It has developed integrity programs to ensure that the RRB pays benefits in the correct amount to eligible and entitled beneficiaries and to detect fraud and abuse. One of these programs, referred to as the "State Wage Matches," involves matching data with the states and other matching participants. The RRB has computer matching agreements with 49 states and the District of Columbia. The Office of Programs conducts the majority of these matches by exchanging cassette tapes containing the Social Security Number (SSNs) of railroad employees who received unemployment and sickness benefits.

The RRB sends the IBM cassette tapes to the matching participants to detect instances in which railroad employees received unemployment or sickness benefits for days on which they also worked in non-railroad employment, or for which state unemployment benefits were paid. The RRB occasionally matches data with the State of Hawaii and the Commonwealth of Puerto Rico by mailing paper documents to them. The matching participants provide the RRB with the results of their

matches. The results generally include names, SSNs, earnings, state benefits, and employer information. Information which can be linked to an individual is referred to as Personally Identifiable Information

Auditors assessed internal controls and procedures and determined that, as a result of recent improvements, controls for transmitting state wage match data provide a reasonable assurance that such data is secure. The RRB can, however, take additional actions to encrypt data and improve security over data shipped by public carrier.

**Recommended Action:**

Management concurred with the auditors' findings and will develop an action plan for electronic data exchanges with state agencies. The plan will include both short and long-term goals for implementation. Management will also develop, establish, and publish procedures for state wage matches and update state wage match agreements to address electronic transfer of data and shipping methods.

## **MANAGEMENT DECISIONS AND IMPLEMENTATION**

The Office of Inspector General maintains the open audit follow-up system to track the status of corrective actions for all audit 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 recommendations.

### **Management Decisions for Recommendations**

Requiring a management decision on October 1, 2006	0
Pending management decisions for new recommendations	0
Management decisions for previous recommendations	0
Recommendations pending a management decision on March 31, 2007	0

### **Corrective Actions**

Recommendations requiring action on October 1, 2006	136
Recommendations issued during this period	41
Corrective actions completed during the period	<u>- 22</u>
Final actions pending on March 31, 2007	155



# **OFFICE OF INVESTIGATIONS**

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The Office of Investigations (OI) focuses on RRB benefit program fraud. OI's primary objective is to identify and investigate cases of waste, fraud and abuse in RRB programs and refer them for prosecution and monetary recovery action. Through its investigations, OI also seeks to prevent and/or deter program fraud. In order to maximize the effect of its resources, OI continues to pursue cooperative investigative activities and coordination with other Inspectors General and law enforcement agencies, which include the Social Security Administration-Office of Inspector General, the Office of Personnel Management-Office of Inspector General, the Federal Bureau of Investigation, the U.S. Secret Service, the Internal Revenue Service, and the Postal Inspection Service.

## ***Systemic Issue Results***

During this semi-annual period the OI recommended that the RRB modify language on application forms and information documents which will require individuals receiving disability benefits to report certain self employment information in more detail. Based on its investigative work related to the RRB's disability program, the OI has found that some annuitants are establishing business enterprises under the Subchapter S provisions of the Internal Revenue Code and using this type of business organization as a means to hide earnings that would disqualify them for receiving an annuity from the RRB. The OI proposed including certain language concerning corporate involvement or ownership in the reporting requirements and certification section of application forms and annual reminder notices sent to annuitants. The proposed changes included a requirement that annuitants report certain business entity affiliations even if they are not being compensated by the

corporation. This additional information will provide the RRB with a basis to conduct follow-up work to determine if the annuitant is failing to accurately report their earnings to the agency.

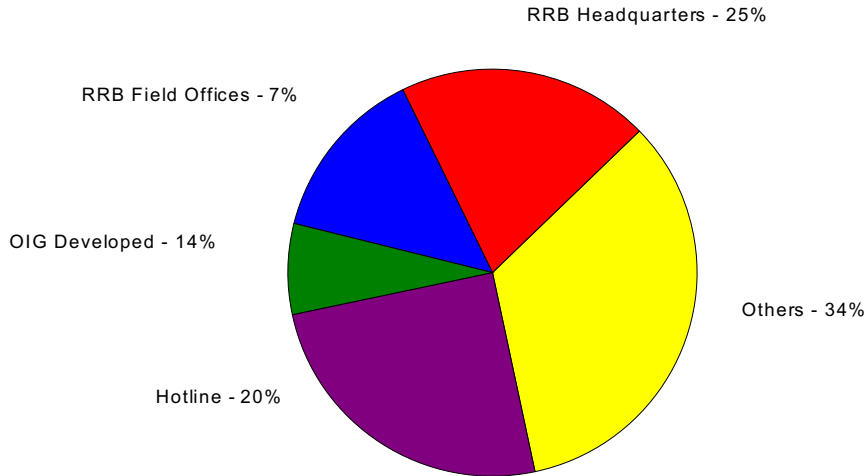
The RRB agreed with this recommendation and has obtained OMB approval to modify the application forms. The agency has amended the annual reminder documents that are sent to approximately 50,000 disability annuitants.

## **INVESTIGATIVE ACCOMPLISHMENTS**

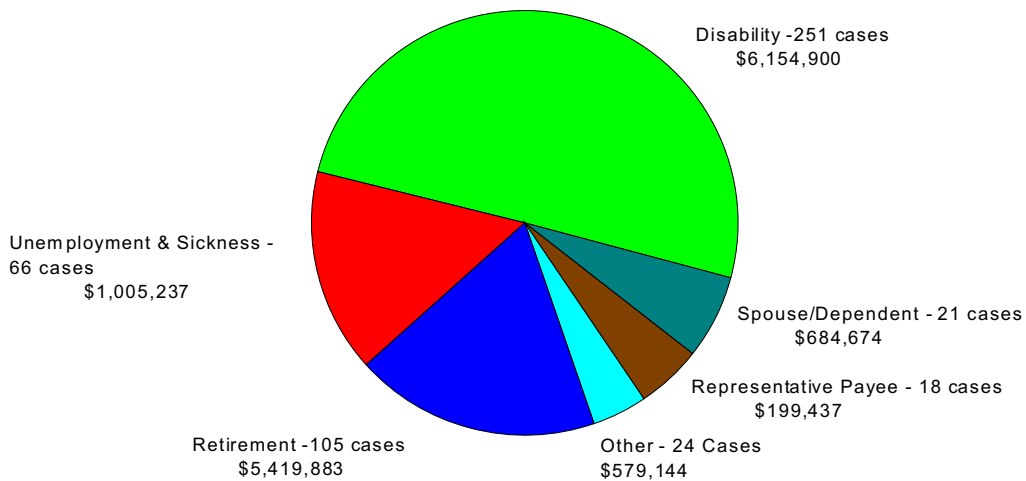
	<b>10/01/06 - 03/31/07</b>
Convictions	20
Civil Judgements	10
Indictments/Informations	9
Investigative Recoveries	\$118,420
Restitutions and Fines	\$597,101
Civil Damages and Penalties	\$160,594
Potential Economic Loss Prevented (PELP)	\$224,763
Community Service Hours	300
Disciplinary/Administrative Actions	1
Civil Complaints	8
Criminal Complaints	1
Arrests	0
Subpoena Service:	
Inspector General	60
Federal Grand Jury	55
Trial	17
U.S. Attorney Referrals	63

## INVESTIGATIVE CASELOAD DATA

During this semiannual period, OI opened 175 investigations and closed 147 cases. The major sources of case referrals are illustrated below.



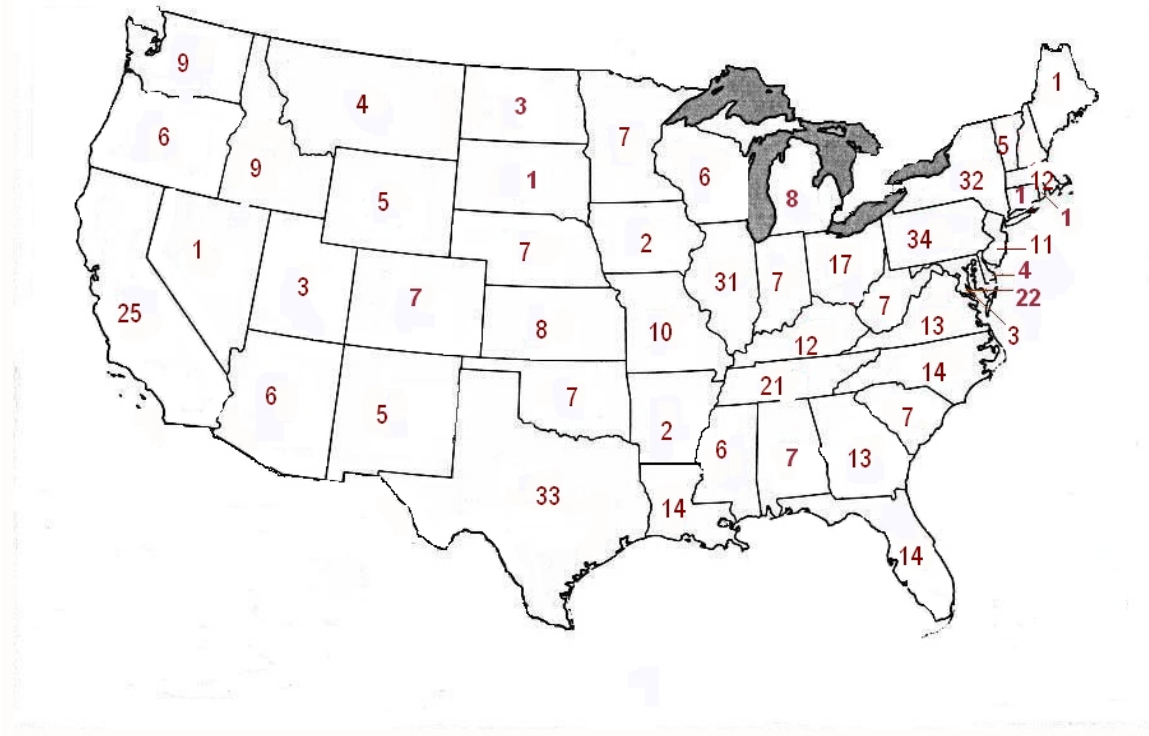
OI's current caseload totals 485 criminal matters, representing approximately \$14 million in fraud against the RRB.



## **DISTRIBUTION OF CASES**

The Office of Investigations (OI) conducts its investigations throughout the United States in response to complaints or allegations regarding violations of Federal law.

The map below indicates the number of open investigations that OI currently has in each state; there are no open cases in Alaska or Hawaii. One additional investigation is underway in Canada.



## **REPRESENTATIVE INVESTIGATIONS**

### **Retirement Benefit Investigations**

RRB retirement fraud typically involves the theft and fraudulent cashing of U.S. Treasury checks, or the illicit conversion of U.S. Treasury electronic fund transfers, by someone other than the authorized RRB annuitant or the payment of benefits to an individual who is not eligible to receive them. During this reporting period, OI obtained 5 convictions for retirement fraud. The defendants in these cases received sentences totaling 16 years probation. They were also ordered to pay \$174,682 in restitution and \$713 in fines. The RRB will also recover \$60,435 through its administrative processes based on OI investigative work.

Examples of recent retirement cases follow.

#### ***Retired Railroad Worker Ordered to Repay \$40,000***

The OIG opened an investigation of a retired railroad worker based upon a referral from the RRB indicating that annuitant may have returned to work in the railroad industry after being awarded a retirement annuity from the RRB. The OIG's investigation revealed the annuitant had returned to work for a covered railroad employer in Missouri after being awarded an annuity based upon his service to another railroad employer. Annuitants cannot return to railroad employment without forfeiting their current pension. The annuitant did not report his return to work as he is required. He formed a corporation to receive his railroad employer compensation and to avoid detection by the RRB. From July 1, 2002 through August 31, 2003 the annuitant fraudulently received \$40,512 in benefits. The retiree was charged with failure to report his railroad employment to the RRB. He was sentenced to 4 years probation and ordered to make restitution for the full amount of the annuities that he fraudulently received.

***Couple Convicted of Defrauding RRB and Veterans Administration***

The OIG initiated an investigation of an individual receiving RRB administered survivor benefits based on a referral from the Department of Veteran Affairs, Office of Inspector General (VA/OIG) indicating possible fraud. The VA/OIG developed information indicating that an annuitant may have defrauded both the VA and RRB to illegally receive a VA pension and RRB spousal benefits.

The subsequent investigation revealed that an individual was receiving VA survivor's benefits as the widow of a veteran even though she had remarried, which would make her ineligible for these benefits. The widow also applied to the RRB for a widowed spouse annuity based on the earnings record of a railroad worker and submitted false marriage certificate in support of her application. When Special Agents interviewed the widow, she admitted that she was never married to the railroad worker and she supplied a false certificate in order to fraudulently receive benefits. The widow's current husband was also interviewed and admitted his involvement. From the period of September 2002 through March 2005 the fraudulent actions by these two individuals resulted in their theft of \$70,263 in combined VA and RRB benefits.

Both individuals were subsequently convicted for failure to report and for making false statements to the government. The widow was ordered to make restitution of \$47,637 to VA and RRB, serve six months home detention, five years probation and pay \$25 special assessment fee. The husband was also ordered to serve five months probation, pay a \$25 special assessment fee and make restitution of \$47,637.

***Daughter Ordered to Repay Over \$11,000 in RRB and SSA Benefits***

The OIG initiated an investigation of the daughter of an annuitant based upon information received from the Social Security Administration (SSA) indicating that a retirement annuitant was deceased and the RRB was still issuing retirement benefits in the annuitant's name.

The OIG's investigation revealed that the RRB and SSA retirement annuitant had died in July 2004. Neither agency was notified of the annuitant's death and continued to deposit money via electronic funds transfer in the annuitant's account. It was determined that the annuitant's daughter continued to withdraw and use these funds for her own personal use resulting in a theft of \$11,920 in combined RRB and SSA benefits. When interviewed by Special Agents she admitted to spending the funds issued into the bank account after her father's death and that she knew she was not entitled to these funds. She was convicted of theft of government funds and ordered to make restitution of \$11,920 to the U.S. Government and fined \$489.

***Disability Investigations***

The OIG also conducts fraud investigations relating to the RRB's disability program, which typically involves 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 income.

During this reporting period, OI obtained 5 convictions and 3 civil judgments in cases involving disability fraud. The defendants in these cases received sentences totaling three months imprisonment, and 10.5 years probation. They were also ordered to pay \$354,163 in restitution, \$86,114 in civil damages, and \$25 fines. The RRB will recover an additional \$32,484 as a result of disability fraud investigations concluded during this reporting period. Descriptions of several cases follow.



***Real Estate Agent Fraudulently Received \$130,000 in Disability Benefits***

The RRB's Debt Recovery Division referred a matter regarding a disability annuitant based on a computer wage match with Social Security Administration records which showed that the annuitant received self-employment wages that he failed to report to the RRB as required. The OIG determined that the annuitant was employed as a real estate agent for various companies. From 1995 through 2003 the annuitant worked for three different real estate companies and failed to report his work and earnings to the RRB. As a result the annuitant fraudulently received \$130,526 in benefits. He was convicted for failure to report his employment and earnings. He was sentenced to three months in jail, six months house arrest, one year probation and ordered to make restitution of \$130,526 to the RRB.

***Disability Annuitant Convicted of Failing to Report Work and Earnings***

The OIG received allegations that a disability annuitant owned and operated a corporation. The annuitant had not reported any employment to the RRB as required. The OIG's investigation revealed that the annuitant owned and operated two popcorn stores in Louisville, Kentucky. When the RRB issued a form asking the annuitant to report any employment and earnings, the annuitant lied on the form and stated that he was not working and had no income other than his annuity. However, when OIG Special Agents interviewed the annuitant, he admitted that he wife operated the two stores with his wife and that he had intentionally lied to the RRB about his employment. His failure to report his work and income resulted in the annuitant being paid \$75,000 in disability benefits to which he was not entitled.

The United States Attorney filed a criminal information charging the annuitant with submitting a false statement to the RRB. He was convicted for violating this statute and was ordered to serve 12 months probation and to pay a special assessment of \$25. In a parallel civil action the annuitant entered into a

Settlement Agreement to repay the RRB \$75,000 in benefits he had fraudulently received.

***Annuitant Ordered To Repay \$43,000***

The RRB referred this matter involving possible fraud by a disability annuitant to the OIG based upon the results of information received from Social Security Administration records. The records indicated that the annuitant may have worked for a private employer and failed to report his earnings to the RRB as required.

The subsequent investigation by the OIG revealed that the annuitant worked for a County Board of Commissioners and an auto parts retailer while collecting his disability annuity. The annuitant was earning the exceeded amount allowed under the Railroad Retirement Act and he failed to report his employment and income. Between 2002 and 2004 his failure to report his employment and income resulted in his theft of \$43,009 in government funds. During an interview with Special Agents he provided a sworn statement in which he admitted that he failed to report his employment to the RRB.

A civil complaint was filed by the U.S. States Attorney for violation of the False Claims Act. The court then rendered judgment against the annuitant and he was ordered to pay the principal amount of \$43,010, plus interest at the legal rate prescribed by law.

## **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 for followup investigation 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 had wages reported to the state during the same period of time.

During this reporting period, OI obtained 10 convictions and 7 civil judgments for UI and SI fraud. Defendants in these cases received, in the aggregate, 27 years probation, and were directed to perform 300 hours of community service. They were ordered to pay \$65,556 in restitution, \$74,480 in civil damages and penalties, and \$2,562 in fines. The RRB will also be able to initiate administrative action to recover an additional \$25,501 as a result of OI investigations.

Examples of cases completed this reporting period follow.

### ***UI Claimant ordered to Repay \$10,000***

The OIG began this investigation of an unemployment insurance claimant based upon a wage match with the State of California, which 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 had two separate periods during which she claimed unemployment benefits the same days she was working and being paid by an employer. During the period of September 2002 through October 2003 she submitted a total of 23 false claims when applying for benefits and intentionally did not report her employment to the RRB. Her actions resulted in the theft of \$10,995 in benefits.

The annuitant was charged with failure to report information to the RRB. She was sentenced to a term of three years probation, 150 hours of community service, ordered to make restitution to the RRB in the amount of \$10,995 and a special assessment of \$25.

***Florist Convicted of Fraudulently Claiming Sickness Benefits***

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

The investigation showed that the claimant fraudulently collected sickness benefits on many of the same days she worked as a florist in Rancho Cucamonga, California. From September 2003 through April 2004 the claimant failed to notify the RRB of her employment and submitted 15 false claims to the government to continue the scheme, resulting in her theft of \$6,894 in government funds. During an interview with Special Agents, the claimant provided a written statement admitting her culpability in this matter and agreed to make full restitution.

She was convicted for theft of government funds. She was ordered to make restitution of \$6,894 to the RRB and serve six months probation.

***UI Claimant Sentenced to 2 years in Prison***

The RRB's Sickness and Unemployment Benefits Division discovered this case as the result of a wage match with the State of California. This match identified railroad employees who collected UI benefits from the RRB and also had wages reported to the State of California during the same period. This match indicated that the UI claimant may have collected RRB administered UI benefits on many of the same days he was employed by a private employer.

The OIG discovered that the claimant fraudulently collected UI benefits on many of the same days he was employed at a Jiffy Lube Service Center located in Los Alamitos, California. From March through November 2004 the claimant fraudulently claimed RRB administered UI benefits, submitting 19 false claims and three false statements to the RRB, resulting in his theft of \$10,054 in benefits. When interviewed by Special Agents he admitted to his fraudulent acts.

He was convicted and sentenced to two years of imprisonment and 300 hours of community service. During community service he is required to pay restitution of \$500 to the RRB and pay \$2,550 to the Department of Justice.

***RRB Employee Dismissed for Theft of Official Records***

The OI also investigates cases of employees misconduct and the following case resulted in the RRB taking administrative action against an employee during this reporting period.

The OIG initiated an investigation based upon a referral from U.S. Department of Homeland Security, Immigration and Customs Enforcement (ICE) alleging that the employee was soliciting a minor child to have a sexual relationship via the Internet. Analysis of the information and the computer media obtained by Special Agents showed that the employee utilized both his home computer and his agency computer to communicate with this minor.

OIG and ICE Special Agents executed search warrants at the employee's RRB work area and residence. During the search of the residence a large volume of RRB official documents were located in the basement of the residence. Agents also found shredded RRB documents during the search. The employee admitted removing these documents from the RRB without authorization.

Based on his theft of official RRB documents, the employee was terminated from government service in December 2006. The employee has been charged with manufacture and distribution of child pornography and is currently awaiting sentencing.

## **HOTLINE CALLS**

The Office of Inspector General 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, conflict of interest, mismanagement, and waste of RRB funds.

**10/01/06 -  
03/31/07**

Total Contacts: (Telephone Calls and Letters)	464
Referred to:	
RRB-OIG, Office of Investigations	50
RRB-OIG, Office of Audit	0
RRB Bureaus/Offices	159
Other Federal Agencies	8
Local or State Agency	0
RRB Medicare Carrier/Durable Medical Equipment Regional Carriers	4
Other (misdirected calls, follow-up calls to agents, etc.)	201
Calls for which there was insufficient information to substantiate an allegation or to make a referral	36

# **LEGISLATIVE & REGULATORY REVIEW**

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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, and to make recommendations in the semiannual report concerning the impact on the economy and efficiency of the agency's administration of its programs and on the prevention of fraud and abuse.

The OIG has no comments for this reporting period.



# **APPENDIX A**

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## **REPORTS ISSUED**

- Fiscal Year 2006 Financial Statement Audit - Letter to Management, February 9, 2007
- Audit of the DAISY/CHICO Component Application of the RRA Benefit Payment Major Application System, March 9, 2007
- Review of the Occupational Disability Program, March 21, 2007
- Audit of the State Wage Match Data Transmission Controls, March 28, 2007

# APPENDIX B

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## INSPECTOR GENERAL ISSUED REPORTS WITH QUESTIONED COSTS

	<u>Number</u>	<u>Questioned Costs</u>	<u>Unsupported Costs</u>
A. For which no management decision had been made by April 1, 2006	0	0	0
B. Which were issued from April 1 through September 30, 2006	0	0	0
Subtotals (A + B)	0	0	0
C. For which a management decision was made from April 1 through September 30, 2006	0	0	0
(i) dollar of disallowed costs		0	0
(ii) dollar value of costs not disallowed		0	0
D. For which no management decision had been made by September 30, 2006	0	0	0
Reports for which no management decision was made within six months of issuance	0	0	0

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

	<u>Number</u>	<u>Dollar Value</u>
A. For which no management decision had been made by October 1, 2006	0	0
B. Which were issued from October 1, 2006 through March 31, 2007	0	0
Subtotals (A + B)	0	0
C. For which a management decision was made from October 1, 2006 through March 31, 2007	0	
(i) dollar value of recommendations that were agreed to by management		0
(ii) dollar value of recommendations that were not agreed to by management		0
D. For which no management decision had been made September 30, 2006	0	
Reports for which no management decision was made within six months of issuance	0	

# 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			8,000,000
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		585,282
04-10	400,000	400,000			
05-03	1,800,000	1,800,000			
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:

FY 1999	\$ 855,655
FY 2000	1,038,134
FY 2001	990,356
FY 2002	785,843
FY 2003	947,876
FY 2004	646,273
FY 2005	844,183
FY 2006	1,281,680
10/1/06 - 3/31/07	959,054

# APPENDIX D

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## 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 MARCH 31, 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.	0	0
B. Audit reports on which management decisions were made during the period.	1	\$2,835*
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 MARCH 31, 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	\$ 3,739,100 *
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	\$ 3,739,100
D. Audit reports on which final action was taken during the period.	0	0
1. Value of recommendations implemented.	1	257,000
2. Value of recommendations that management concluded should not or could not be implemented.	0	0
3. Total of 1 and 2.	1	\$ 257,000
E. Audit reports needing final action at the end of the period.	6	\$ 3,482,100

\* Compromised of the following amounts: \$400,000 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."

**MANAGEMENT STATEMENT ON RESOLVED AUDIT REPORTS  
OVER TWELVE MONTHS OLD WITH FINAL ACTION PENDING  
AS OF MARCH 31, 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 hopes to close out the only remaining open recommendation early in FY07.
Fiscal Year 2000 Financial Statement Audit (01-03)	2/23/01	None	None	The Bureau of Information Services is in the process of developing procedures related to recently purchased help-desk services and tools.
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 FY07.
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 has submitted documentation to the OIG on the last 3 open ones.
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 is working on the remaining 8.

**MANAGEMENT STATEMENT ON RESOLVED AUDIT REPORTS  
OVER TWELVE MONTHS OLD WITH FINAL ACTION PENDING  
AS OF MARCH 31, 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 has used automated software tools for some assessments, and will obtain contractor support for more comprehensive reviews of other systems in FY07.
Evaluation of the RRB E-government Initiative: RUIA Contribution Internet Reporting and Payment (03-03)	12/27/02	None	None	The Bureau of Fiscal Operations closed nine recommendations and is working with the Department of Treasury to close the remaining two.
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 FY07.
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 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 five remaining recommendations in FY07.
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 FY07.



**MANAGEMENT STATEMENT ON RESOLVED AUDIT REPORTS  
OVER TWELVE MONTHS OLD WITH FINAL ACTION PENDING  
AS OF MARCH 31, 2007**

<b><u>Report</u></b>	<b><u>Date</u></b>	<b><u>Disallowed Costs</u></b>	<b><u>Funds to be put to better use</u></b>	<b><u>Reason action has not been completed</u></b>
Review of Accounts Receivable Established Under the Railroad Unemployment Insurance Act (04-06)	7/29/04	None	None	Use of an automated payment system by remaining employers in FY07 should close the last two recommendations.
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 complete action on the remaining two recommendations by the end of FY07.
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 by the end of FY07.
Review of Mainframe Access Controls at the Application Level - Program Accounts Receivable System (04-09)	9/9/04	None	None	The agency plans to complete action on the remaining two recommendations by the end of FY07.
Review of Spouse Annuity Work Deductions at the RRB (04-10)	9/30/04	None	\$400,000	Adjustments on all identified cases should be completed in FY07.
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 FY07.
FY2004 Financial Statement Audit, Letter to Management (05-01)	10/25/04	None	None	Agency units have closed 12 of the 14 recommendations, and hope to complete action on the remaining ones during FY07.
Review of RRB Compliance with Federal Laws & Regulations on Competitive Sourcing (05-02)	12/6/04	None	None	Discussions with Internal Revenue Service and potential contractors have indicated that sourcing of information technology may be prohibited by legal and cost concerns.

**MANAGEMENT STATEMENT ON RESOLVED AUDIT REPORTS  
OVER TWELVE MONTHS OLD WITH FINAL ACTION PENDING  
AS OF MARCH 31, 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	Programs staff is in the process of reviewing/adjusting cases from 2001 and plans to complete all action in FY08.
Review of Internal Control Over the Actuarial Projection Process (05-04)	5/5/05	None	None	The Chief Actuary has submitted a workforce development plan and will take further actions as needed.
Review of Customer Service Performance Measures for Timeliness of Initial Railroad Retirement Annuity Payments (05-05)	5/17/05	None	None	The agency adopted an administrative circular that contains procedures for improved performance reporting, with implementation to be validated as part of the financial statement audit.
Review of LAN, LAN Security Scan and Web-based Applications (DSD)	6/7/05	None	None	This contractor-prepared confidential report contained 45 recommendations. To date, Information Services has addressed over half of them.
Review of Compliance with the Prompt Payment Act (05-06)	6/15/05	None	\$10,000	The Bureau of Fiscal Operations closed six recommendations, and the other three should be closed in FY07.
Evaluation of Survivor Annuity Work Deductions at the RRB (05-07)	7/14/05	None	\$1,070,000	The Office of Programs is developing procedures for rejected cases to close the last open recommendation in FY07.
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 addressed 7 of 15 recommendations in this confidential report, with the rest to be closed in FY07.
Review of Internal Control Over Budget Execution (05-09)	9/6/05	\$2,835	None	The Bureau of Fiscal Operations has developed procedures that should close the remaining two recommendations.
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 MARCH 31, 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 a project plan, along with revised reports and procedures, to address the three open recommendations.
Fiscal Year 2005 Financial Statement Audit (06-01)	11/15/05	None	None	The agency adopted an administrative circular that contains procedures for improved performance reporting, with implementation to be validated as part of the financial statement audit.
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 half of the six recommendations, with the remainder to be addressed in FY07.

# APPENDIX E

## REPORTING REQUIREMENTS

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<b>Inspector General Requirements</b>	<u>Page</u>
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Section 5(a)(2) - Recommendations With Respect to Significant Problems, Abuses, and Deficiencies	5
Section 5(a)(3) - Prior Significant Recommendations Not Yet Implemented	5
Section 5(a)(4) - Matters Referred to Prosecutive Authorities	16
Section 5(a)(5) - Instances Where Information Was Refused	None
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Section 5(a)(10) - Summary of Each Audit Report Over 6 Months Old For Which No Management Decision Has Been Made	None
Section 5(a)(11) - Description and Explanation for Any Significant Revised Management Decision	None
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### Management Requirements

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# **REPORT**

## **FRAUD, WASTE AND ABUSE**



**Call the OIG Hotline:  
1-800-772-4258**

**E-mail: [Hotline@oig.rrb.gov](mailto:Hotline@oig.rrb.gov)**

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

**Write: RRB-OIG Hotline Officer  
844 North Rush Street  
Chicago, IL 60611-2092**