

Office of
Inspector
General

Semiannual
Report to the
Congress

*April 1, 2006 -
September 30, 2006*

Railroad
Retirement
Board



UNITED STATES RAILROAD RETIREMENT BOARD

OFFICE OF INSPECTOR GENERAL

October 31, 2006

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

Dear Mr. Schwartz:

I am pleased to submit the Semiannual Report to the Congress on the activities and accomplishments of the Office of Inspector General for the period April 1, 2006 through September 30, 2006. 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 the Fiscal Year 2006 evaluation of the agency's information security, and issued a summary of the weaknesses identified during our testing. We also issued results of audits on the Railroad Retirement Board's (RRB) Disaster Recovery Plan, computer incident reporting, the awarding of a database conversion contract, and three reviews conducted in support of the FY 2006 audit of the RRB's financial statements.

Our criminal investigators achieved 36 criminal convictions, 19 indictments and informations, 27 civil judgements, and \$2.2 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

Audit Activities

During the reporting period of April 1 through September 30, 2006, the Office of Audit completed the Fiscal Year (FY) 2006 evaluation of the Railroad Retirement Board's information security to meet the requirements of the Federal Information Security Management Act (FISMA) of 2002. Auditors reported that the agency continues to experience difficulty in achieving an effective, FISMA compliant security program. (A summary of the auditors' findings can be found on page 5.)

Auditors also issued their findings from their evaluation of the agency's Disaster Recovery Plan, a review of computer incident handling and reporting, and the award of a database conversion contract. Management concurred with the all recommendations contained in the reports and have initiated corrective actions.

Three additional reviews were completed to support the annual audit of the RRB's financial statements. These reviews examined compliance with the provisions of the Railroad Retirement Act in the initial award of benefits, the termination and suspension of benefits, and actions to deny or cancel applications for benefits. They estimated a one-time financial impact of \$200,000 resulting from unidentified overpayments and underpayments.

Investigative Accomplishments

The Office of Investigations (OI) achieved 36 convictions, 19 indictments and informations, 27 civil judgements, and \$2.2 million in recoveries, restitutions, fines, civil damages, and penalties. OI also submitted a number of recommendations to agency program management concerning program processed and records management operations. (Details of the recommendations are described on pages 15-16.)

INTRODUCTION

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 2005, the RRB paid approximately \$9.2 billion in retirement and survivor benefits to some 634,000 beneficiaries, while net unemployment and sickness insurance benefits of \$73 million were paid to almost 29,000 claimants. The RRB also administers its own Medicare Part B program through a single carrier, Palmetto GBA. The carrier made payments totaling \$870 million to provide medical insurance benefits for 535,000 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 newly established domicile investigative office in Arlington, VA staffed with a senior special agent. The OIG opened this office to allow more effective liaison with the investigative offices of other Inspectors General that are headquartered in the Washington, DC metropolitan area.

OFFICE OF AUDIT

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 FY 2006 evaluation of the agency's information security and reported that weaknesses continue to exist in many areas.

Three additional audits were completed concerning the agency's Disaster Recovery Plan, computer incident handling and reporting, and the awarding of a database conversion contract.

Auditors also conducted reviews in support of the FY 2006 audit of the RRB's financial statements. These reviews examined compliance with the provisions of the Railroad Retirement Act in the awarding, termination, suspension, denial and cancellation of benefits.

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

Fiscal Year 2006 Evaluation of Information Security

OIG auditors performed the annual evaluation of the agency's information security to meet the requirements of the Federal Information Security Management Act of 2002 (FISMA). As required by the legislation, they tested the effectiveness of information security, policies, procedures and practices of a representative subset of the RRB's information systems, and assessed the compliance with FISMA requirements and related information security policies, procedures, standards and guidelines.

During FY 2006, the OIG audited the agency's incident handling and reporting program, and evaluated the disaster recovery plan. Auditors also initiated an audit of the application controls of the Daily Activity Input System/Checkwriting Integrated Computer Operation component application of the RRA benefit payment major application. They examined the results of prior audits and evaluations of information security conducted during FYs 2000-2005.

Review results indicated that the RRB continues to experience difficulty in achieving an effective, FISMA compliant security program. During FY 2006, the agency completed corrective action to eliminate the previously reported significant deficiency in training. However, significant deficiencies in access controls, risk assessments, and periodic testing and evaluation continue to exist. In addition, 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 continue to exist.

Recommended Action:

Because agency actions to implement prior OIG recommendations for corrective action are pending, no new recommendations were made. Auditors noted that the RRB is in the process of forming an agencywide Security and Privacy

Committee that will be responsible for providing direction, issuing guidance, compiling certifications and providing specific oversight for agencywide implementation of FISMA requirements.

Evaluation of the Railroad Retirement Board's Disaster Recovery Plan

The RRB, with the assistance of Science Applications International Corporation, prepared and published its Disaster Recovery Plan on December 23, 2003. The plan includes provisions for the recovery of critical business functions performed by the agency and restoration of full normal operations when conditions permit return to original or replacement primary facilities. The majority of critical functions are dependent upon applications maintained on the agency's mainframe. In addition, the RRB's local area network is important in ensuring communications among field office networks, headquarters workstations and the agency's mainframe.

Auditors evaluated the agency's disaster recovery plan and concluded that the plan provides assurance that major information technology functions will be operational in the event of a disaster, but only if the agency has access to a Chicago area offsite disaster recovery site. The current contract provides the RRB access to the local offsite facility on a first-come, first-served basis, and provides for an alternate facility located in Philadelphia, PA. However, the agency has not performed any testing at this alternate facility.

Auditors also expressed concerns that, although the RRB tests the Recovery Phase of the plan twice a year, it has not tested the entire Disaster Recovery Plan. The testing focuses on verifying that the mainframe operating system and the local area network execute properly on the offsite facility's system. There has been inadequate preparation to ensure that the RRB

will be brought back to full business operations in a timely manner.

The agency also maintains an Emergency Management Organization Recall Roster that provides data for all personnel assigned to emergency management positions. Auditors identified instances of critical employees who were omitted from the roster. Weaknesses were also noted in the training of emergency personnel.

Recommended Action:

The report recommended that the RRB management address the possibility of using the Philadelphia facility if the primary recovery facility is unavailable and identify what actions would be necessary. Auditors also emphasized the importance of testing the complete disaster recovery plan and ensuring all emergency personnel have been identified and fully trained.

Management concurred with the findings, and plan to complete all corrective actions within six months.

Review of Incident Handling and Reporting at the Railroad Retirement Board

The Federal Information Security Management Act of 2002 (FISMA) mandates that the National Institute of Standards and Technology develop standards and guidance for the security of agency information and information systems. FISMA also established a Federal information security incident center, headed by the U.S. Department of Homeland Security's Computer Emergency Readiness Team (US-CERT), to compile and analyze security incidents and provide assistance to Federal agencies. US-CERT issued an official taxonomy that defines the incident and event categories and reporting time frames for Federal agency reporting.

The RRB has developed policies and procedures to protect the information system environment, including communication networks and data, from unauthorized use, misuse or abuse by both internal and external threats. The agency's Computer Security Incident Response Plan (CSIRP) procedures include handling and reporting and the establishment of a Computer Emergency Response Team (CERT) that manages computer security incidents as they occur. Each CERT member has assigned roles and responsibilities for incident handling and reporting.

Review results indicated that the RRB's incident handling and reporting program is generally operating effectively, but the program is not in full compliance with US-CERT standards and guidelines for external reporting. Auditors also identified other areas of program management which should be improved to ensure that the agency's risk has been minimized: inconsistent adherence to the CSIRP, incomplete internal reporting, the lack of formal policies for anti-virus software and patch management, and the exclusion of previously identified weaknesses of the incident program in the agency's formal plan of action and milestones for program remediation.

Recommended Action

Auditors issued recommendations to address the cited weaknesses through training, implementation of controls and development of policies/procedures. Management agreed to implement all corrective actions and provided a timetable for completion.

Solicitation and Award of the DB2 Conversion Contract

In FY 2004, the RRB began detailed planning for the conversion from a non-relational database to IBM's DB2 relational database to meet its future technology needs. On

September 9, 2005, the agency awarded a firm-fixed price contract to Tiburon Technologies, Inc.

OIG auditors conducted this audit to determine if the agency solicited and awarded the contract in accordance with the agency's contracting policies and procedures and the Federal Acquisition Regulations. They concluded that RRB actions in selecting the contractor followed applicable policies, procedures and regulations. However, they did identify a few weaknesses that required management action.

During their review, auditors found indications that the selected contractor may have been experiencing financial problems that could result in delays and/or nonperformance. However, this information had not been found prior to the audit because RRB staff had not conducted a sufficient financial responsibility analysis. Contracting documents also contained incorrect FAR citations.

Most government solicitations over \$25,000 must be publicized on a Federal government procurement internet site, FedBizOpps.gov. This site permits vendors to search, monitor and retrieve opportunities solicited by the entire Federal contracting community. Auditors identified several errors in the RRB's solicitation data posted on the site. In addition, the amendments posted on FedBizOpps were approved verbally, not in writing by the appropriate person.

Recommended Actions:

Auditors recommended that the agency establish appropriate policies and procedures to address the identified weaknesses. Management concurred with all report recommendations and has initiated corrective action.

Reviews to Support Annual Audit of Financial Statements

During this semiannual reporting period, OIG auditors conducted reviews to support the annual audit of the RRB's financial statements that is required by the Accountability of Tax Dollars Act of 2002. To ensure compliance with the Office of Management and Budget's Bulletin 01-02, Audit Requirements for Federal Financial Statements, auditors assessed compliance with selected provisions of the Railroad Retirement Act (RRA).

- Auditors performed tests to determine if the agency had a reasonable basis for the award of initial retirement, spouse and survivor benefits under the RRA during the first quarter of FY 2005. Through tests of controls and transactions, they determined that the RRB had a reasonable basis for the award of benefits and had also established effective compliance controls. Auditors' testing also disclosed no evidence of material non-compliance with the benefit payment provisions of the RRB. However, auditors did detect some weaknesses in supporting documentation as well as one payment error not previously identified for correction by agency control processes.

However, several cases with incomplete documentation to support the initial award of benefits were identified and resulted from agency personnel failing to scan paper documents into agency automated systems. The agency is currently developing plans to eliminate the manual transmission aspect of processing.

In five of 45 cases reviewed, the earnings records used to compute the benefit amount was either inconsistent with the proof of military service retained by the agency, inconsistent with the automated historical record maintained, or both.

Recommended Action:

Management concurred with the auditors' findings and is undertaking a series of initiatives to improve record-keeping for military service data. Program officials will examine the specifics of the audit exceptions to determine if the problems detected by the OIG auditors will be identified, resolved or prevented by new software that is scheduled to be implemented in the future. They will also consider if the changes to the project will be necessary to address problems identified by the auditors.

■ In the second audit, auditors examined suspensions and terminations of benefits awarded under the RRA to determine if all such actions were performed in compliance with applicable provisions of that law and related agency procedure.

Auditors determined that, during the first half of FY 2005, agency processing of suspensions and terminations was generally completed in compliance with law and regulations. The review did identify some exceptions that indicated controls may be inadequate for the minority of cases that require manual handling.

A railroad worker must leave his or her job in the railroad industry and formally relinquish the right to future work in the industry to qualify for retirement benefits under the RRA. If the beneficiary returns to railroad service, he or she must notify the RRB, the agency issues a suspension notice and takes action to recover any related overpayment.

Review results also indicated that additional controls are needed for cases with assumed effective dates. The RRB receives information that an annuitant's entitlement to benefits had ended but does not always receive enough information to determine the date from which payments should have been stopped. In those cases, the RRB uses an "assumed effective

date” until an actual date is established. Agency procedure requires that action be taken to determine the actual date, recover overpayments, pay benefits due but unpaid and change the beneficiary’s payment date. In their sample, auditors found 21 of 100 cases for which all required agency actions had not been completed. They estimated the monetary impact of unidentified overpayments and underpayments to be approximately \$200,000.

Recommended Action:

Auditors recommended that agency staff review the procedures for handling correspondence from the field service offices. They also advised management to determine controls and actions to ensure full adjudication of suspension cases involving determination of a correct effective date, and to reduce erroneous closure of cases terminated with an assumed effective date. (Similar issues were identified by investigative activities. See page 15.)

Management agreed to take action on all recommendations contained in the report.

■ The third review studied RRB actions to deny or cancel applications for benefits under the RRA. Applicants are required to demonstrate they meet the minimum requirements for the type of annuity for which they have applied. If an individual is not eligible, the claim is denied and the agency notifies the applicant of the reason for the denial. Applicants may request that a decision be reversed through the appeals process. In other cases, an individual may file an application and later withdraw the claim for benefits. The applicant must notify the agency in writing that he/she does not wish to pursue the claim for benefits.

Auditors examined application cancellations and denials during the first quarter of FY 2005 for compliance with law, regulation and applicable procedure. Again, they determined that the

agency generally processed these actions in compliance with the RRA and related regulations, but controls need to be strengthened.

The RRB has implemented a computer based imaging system that stores most documentation accumulated during the claims adjudication process. Information is entered into the system either by scanning paper documents into a compatible format or electronically passing computer generated documents to the system.

During their sample review, auditors identified applications for which the supporting documentation was incomplete. In some cases, applicant statements had been retained in the paper files of a field office, not forwarded to headquarters for imaging. Three denial letters had not been imaged because they were erroneously retained in a temporary electronic authorization folder.

Recommended Action:

Missing documentation makes it more difficult to determine the accuracy of adjudicative actions, increases the risk of adjudicative errors, and weakens agency accountability and credibility. The RRB's Office of Programs reviewed the exceptions identified by the auditors and reported that they had already implemented additional controls to ensure (1) electronically generated correspondence is forwarded to the imaging system after authorization, and (2) field office personnel forward cancellation requests to headquarters for imaging.

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 April 1, 2006	0
Pending management decisions for new recommendations	0
Management decisions for previous recommendations	<u>0</u>
Recommendations pending a management decision on September 30, 2006	0

Corrective Actions

Recommendations requiring action on April 1, 2006	138
Recommendations issued during this period	29
Corrective actions completed during the period	<u>- 31</u>
Final actions pending on September 30, 2006	136

OFFICE OF INVESTIGATIONS



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 Issues and Suggestions for Improvement Identified During Investigation

As a result of investigative work conducted during this reporting period, OI submitted a number of recommendations to agency managers concerning program processes and records management operations. A summary of the recommendations follow.

- The RRB referred a matter for investigation in which it was alleged that a retirement annuitant had failed to report work and earnings which would have affected his eligibility. An OIG investigator reviewed records maintained by a District Office and found that the annuitant had, in fact, reported that he was

currently working. The District Office, however, had not forwarded the information to RRB headquarters. OI recommended that the agency establish a policy requiring District Offices to forward such information to headquarters and included it with the imaged records for the appropriate annuitant. Agency officials are reviewing current procedures to determine the efficacy of implementing this recommendation.

■ Based on an investigation of an allegation that an agency employee had fraudulently directed Medicare premium refunds due to RRB annuitants to herself and a family member, OI made five recommendations concerning policy and procedural matters.

The recommendations addressed computer security policies and the employee notifications regarding those policies, the agency's payment thresholds requiring a second level authorization for processing, and a requirement that the agency conduct background updates for employees who are assigned or reassigned to positions involving disbursement of funds with little or no oversight. OI also recommended that the agency maintain electronic records for automated processes. Investigation disclosed that the agency cannot track automated transactions to identify employees who are responsible for them. Program officials are conducting internal reviews to determine the feasibility of implementing the policy and procedure changes.

Finally, OI recommended that the agency issue a reminder to all employees about the importance of safeguarding their system password. The agency subsequently issued the recommended reminder.

■ Based on fraud trends related to the RRB disability and retirement programs, OI recommended changes to the certification and reporting requirement sections for RRB Forms AA-1 (the application filed by railroad employees for a retirement or disability annuity) and AA-3 (the application filed

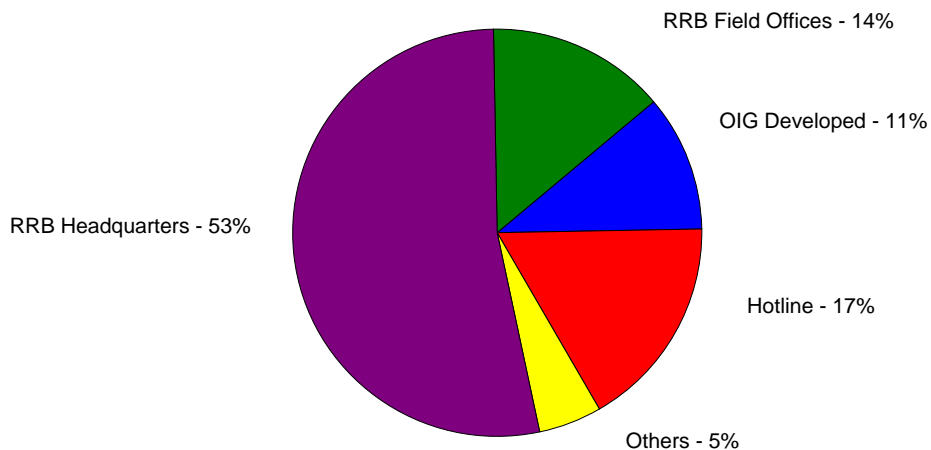
by a railroad employee's survivor for an annuity). OI recommended that these sections be amended to provide more specific information to the applicant concerning information that he/she must report if awarded an annuity. The agency's Board Members are currently reviewing these proposed changes.

INVESTIGATIVE ACCOMPLISHMENTS

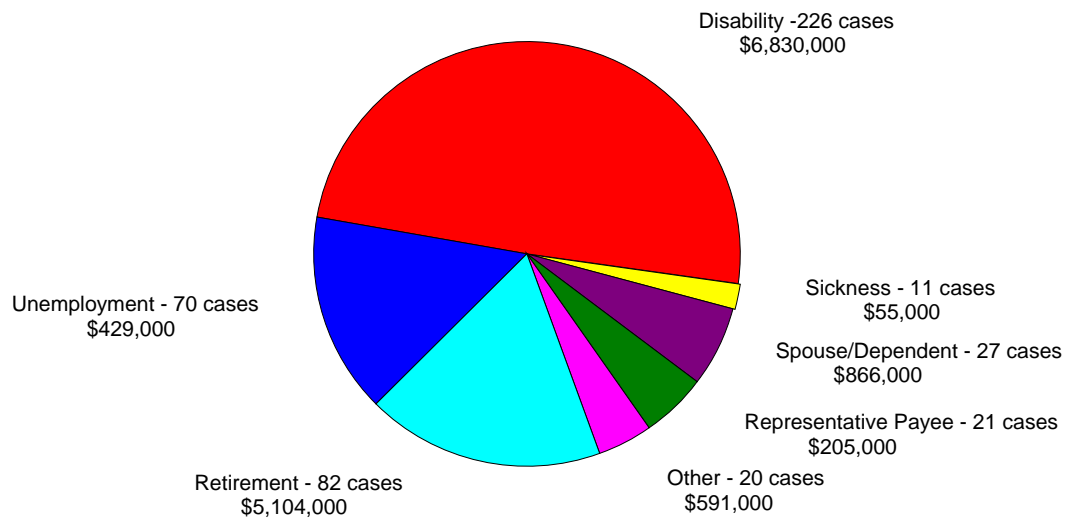
	04/01/06 - 09/30/06	FY 2006
Convictions	36	62
Civil Judgements	27	43
Indictments/Informations	19	35
Investigative Recoveries	\$ 160,634	\$ 636,859
Restitutions and Fines	\$ 1,407,899	\$ 2,261,781
Civil Damages and Penalties	\$ 620,000	\$ 819,369
Potential Economic Loss Prevented (PELP)	\$ 253,121	\$ 506,730
Community Service Hours	1,290	8,260
Disciplinary/Administrative Actions	0	0
Civil Complaints Criminal Complaints	14 0	18 0
Arrests	0	1
Subpoena Service: Inspector General Federal Grand Jury Trial	12 57 0	22 94 10
U.S. Attorney Referrals	91	260

INVESTIGATIVE CASELOAD DATA

During this semiannual period, OI opened 210 investigations and closed 151 cases. The major sources of case referrals are illustrated below.



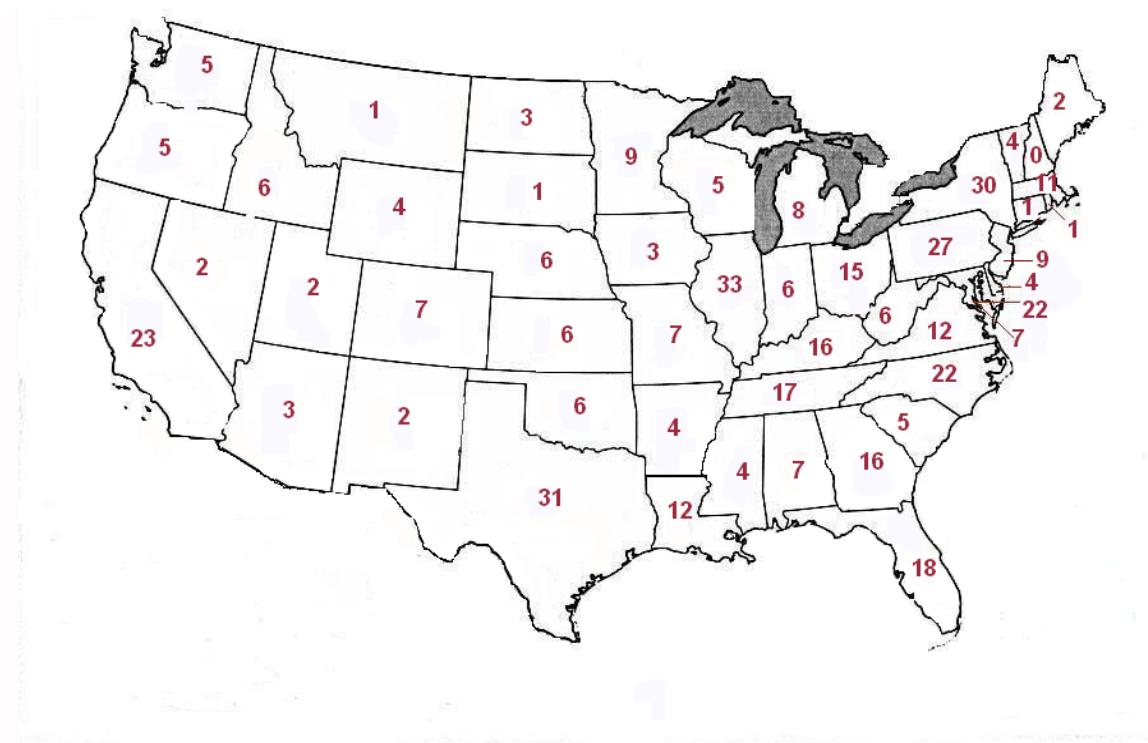
OI's current caseload totals 457 criminal matters, representing approximately \$14 million in fraud against the RRB.



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. During this reporting period, OI obtained four convictions and four civil judgements for retirement fraud. The defendants in these cases received sentences totaling 11 years probation, one year house arrest and were ordered to perform 300 hours of community service. They were also ordered to pay \$184,512 in restitution, \$225 in fines, \$97,661 in damages and \$5,000 in penalties.

OI routinely receives referrals from the RRB's Debt Recovery Division that involve the fraudulent receipt of RRB retirement annuity payments, usually by a relative of a deceased annuitant.

Examples of recent retirement cases follow.

Son of Deceased Annuitant Ordered to Repay \$115,610

The RRB's Pittsburgh District Office attempted to deliver a congratulatory centenarian letter to an annuitant in recognition of her 100th birthday. RRB staff were unsuccessful and mailed a letter to the annuitant asking for someone to contact them to arrange for delivery of the letter.

The annuitant's son subsequently returned an annuity check issued to his mother and notification that she had died on November 23, 2003. Efforts to contact the son concerning his mother's death were also unsuccessful. A certified letter was then issued to him but was returned as being refused. Copies of the mother's annuity checks for four months in 2003 were

obtained and contained the signatures of both the annuitant and her son.

When interviewed by OI special agents, the son admitted that his mother had, in fact, died on June 23, 1987. He confessed to forging his mother's name on all RRB monthly annuity checks and to depositing them into his personal account.

He was convicted and sentenced to five years probation, 16 months of electronically monitored home confinement, 500 hours of community service, a \$100 special assessment fee and ordered to pay \$115,610 in restitution to the RRB. The subject was ordered to make monthly installments of not less than 10% of his gross monthly income with a minimum payment of at least \$50.

Theft of Missing Annuitant's Benefits by a Former Neighbor

The RRB's Birmingham, AL District Office (DO) staff also encountered difficulty when they attempted to deliver a centenarian letter. After making numerous telephone calls and visits to the annuitant's home, the DO staff referred the case to the OIG for investigation.

Relatives of the annuitant advised OI special agents that they had not seen the annuitant since February 2000 when she was released from a nursing home and transported to a private residence in Jasper, AL. The annuitant, who would currently be 105 years old and her 83 year old daughter have been missing for years.

Investigation by OI agents revealed that a former neighbor of the women had established a joint bank account using their names and her own name. She submitted a false statement to the RRB on July 17, 2002 to have the annuitant's benefits electronically deposited to the new joint account. She also later contacted the Pittsburgh, PA District Office and impersonated the annuitant to have RRB benefits reinstated.

The neighbor was indicted for submitting false statements to the RRB and wire fraud. After pleading guilty, she was ordered to pay restitution in the amount of \$10,264 to the RRB, serve six months house arrest and three years probation.

OI is continuing to assist the Alabama Bureau of Investigation with investigation of the disappearance of the two women.

Failure to Report Mother's Death Results in Fraudulent Receipt of \$144,529

OI was contacted by the RRB's Covina, CA District Office concerning possible fraud. The OI investigation identified an annuitant's daughter who had failed to report her mother's death in June 1991. The mother had been the recipient of annuity benefits based on her husband's railroad service.

The daughter's failure to report her mother's death resulted in the fraudulent negotiation of RRB annuity checks totaling \$144,529 from July 1991 through August 2004.

When interviewed by OI agents, the subject acknowledged that she had failed to report her mother's death to the RRB, and that she knew that all payments should have been returned. On May 10, 2006, she was convicted and ordered to make restitution of \$144,529 to the RRB, ordered to serve six months house arrest and five years probation.

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. An individual who receives a disability annuity is restricted to earning not more than \$400 in one month. An earnings cap of \$4,999 per year also applies. Disability annuitants must report all work activity to the RRB.

During this reporting period, OI obtained 16 convictions and five civil judgements for disability fraud. The defendants in these cases received sentences totaling 30 days imprisonment, 36½ years probation, 1½ years suspended sentences, two years house arrest, and were ordered to perform 250 hours of community service. They were also ordered to pay \$994,835 in restitution, \$373,761 in damages, and \$90,400 in fines. The RRB will recover an additional \$133,123 as a result of disability fraud investigations concluded during this reporting period. Descriptions of several cases follow.

Attorney Conspires to Hide Disability Annuitants' Wages

OI initiated investigation of a Minnesota attorney as the result of an investigation of three RRB disability annuitants who were employed by the attorney and hid their earnings from the agency for seven years. It appeared that the attorney had conspired with the annuitants to hide their wages.

Subsequent investigation revealed that the attorney was the designated legal counsel for various unions connected to the railroad industry. The attorney hired the annuitants to obtain new client referrals and conduct investigations related to railroad injury settlements. The law firm fraudulently reported wages for two of the annuitants under the social security numbers of their respective wives. Records also indicated that the law firm had purchased a parcel of land and a vehicle for the annuitant at an estimated value of \$80,000.

The OI investigation disclosed that, over a seven year period, the third annuitant received approximately \$130,000 from the attorney which was used to pay the annuitant's personal expenses such as property taxes, automobile repairs and air fare costs for a family vacation. None of these funds were reported as compensation for the annuitant.

The three annuitants were previously convicted for their participation in the scheme. The attorney was ordered to pay

restitution of \$261,878 to the RRB, fined \$86,000, placed under six months house arrest and ordered to serve three years probation. In addition, as part of his plea agreement, the attorney has agreed to issue a public statement to be published in major newspapers and rail industry trade publications in which he acknowledges his role in this conspiracy and solicits cooperation with the OIG in its investigation of similar fraud schemes.

Airline Mechanic Repays \$87,007 to the RRB

OI initiated this investigation based upon a referral from the RRB concerning a disability annuitant in California. A check with the Social Security Administration (SSA) indicated the subject received RRB disability benefits while wages were reported to SSA by Alaska Airlines for the annuitant.

Records revealed that the annuitant earned in excess of the earnings restrictions on his annuity. His employment as a mechanic with Alaska Airlines from October 2000 through May 2004 resulted in his fraudulent receipt of \$87,007 in RRB disability benefits. Despite numerous RRB mailings and requests for employment information, the subject failed to notify the agency of his earnings.

He was subsequently convicted and made full restitution to the RRB prior to his sentencing. He was also ordered to serve three years probation.

Annuitant Reported Earnings Under His Wife's Social Security Number

OI initiated a case in Georgia based upon a referral from the RRB which indicated that a disability annuitant was overpaid \$9,428 in benefits based on his self-employment earnings reported to the Social Security Administration.

OI agents determined that the annuitant had been self-employed since January 1998. The annuitant operated a title research company and performed 40 hours of work per week while collecting disability benefits from the RRB. The subject stated he reported his income on his Federal income taxes as his spouse's self-employment income. However, when the RRB contacted him, he stated he had no income and his wife's self-employment income had been incorrectly applied to him.

OI agents noted that the original overpayment calculation was computed using retirement provisions instead of disability provisions, and requested the RRB to prepare a corrected overpayment calculation. The subject had earned \$190,543 from 1998 through 2005 that he reported under his wife's social security number. As a result, he had received \$124,441 in disability benefits to which he was not entitled.

On July 25, 2006, he pleaded guilty, was convicted and sentenced to five years probation, fined \$3,000, received a special assessment of \$25, and ordered to complete 200 hours of community service. He agreed to make monthly payments of \$500 to the RRB or the agency can withhold \$1,000 each month from any disability or retirement annuity he is receiving, until his debt of \$124,441 is paid in full.

Car Dealer Ordered to Repay \$133,234

The RRB's Disability, Sickness and Unemployment Benefits Division referred a case to OI concerning a self-employed annuitant in Tennessee who was identified as having income in excess of the disability earnings limitations.

OI special agents conducted surveillance and posed as potential buyers at the annuitant's car dealership to confirm that he was actively involved in sales operations. Even though he was actively involved in the operation of the dealership, the annuitant attributed all personal income from the business to his wife. From August 1999 through August 2004, the subject

received \$133,234 in disability benefits to which he was not entitled. He and his wife co-owned and operated a used vehicle dealership and supplied false information to the RRB concerning his work activities and earnings.

Since the annuitant and his wife were co-owners of the dealership, the RRB attributed half the personal income from the business to each of them, resulting in the annuitant exceeding his disability earnings limitations for the years of 2000-2004.

In April 2006, the subject was convicted and ordered to repay all disability annuities to which he was not entitled and serve one year probation.

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 14 convictions and 18 civil judgements for UI and SI fraud. Defendants in these cases received, in the aggregate, two years imprisonment, 28½ years probation, 16 months house arrest and were directed to perform 690 hours of community service. They were ordered to pay \$74,488 in restitution, \$102,710 in civil damages, \$9,075 in fines, and \$40,768 in civil penalties. The RRB will also be able to initiate administrative action to recover an additional \$27,511 as a result of OI investigations.

Examples of cases completed this reporting period follow.

Fitness Studio Employee Found Guilty in the Theft of \$9,077

A referral from the RRB indicated that a claimant was working while collecting unemployment insurance benefits on the same days. Special agents determined that the subject was receiving UI benefits while employed by the Fitness Guru Studio. The subject had failed to report his employment to the RRB and fraudulently collected \$9,077 in unemployment benefits from the agency. When interviewed, he admitted to felony false claims and entered into a settlement agreement to pay the U.S. Government \$13,616; the RRB will receive \$9,077.

Massachusetts Annuitant Ordered to Repay \$7,560 to the RRB

A computer wage match with the State of Massachusetts identified an annuitant who was receiving unemployment and sickness benefits while fully employed with the City of Boston. The subject fraudulently submitted 15 false claims and collected benefits on 135 days from August 2004 through March 2005. The U.S. Attorney's Office for the District of Massachusetts entered into a settlement agreement that ordered the subject to pay \$8,000; the RRB will receive the original fraud loss of \$7,560.

Pennsylvania State Wage Computer Match Identifies Fraudulent Claimant

A wage match with the State of Pennsylvania identified an annuitant who was receiving benefits on the same days that she was employed by a non-railroad employer. OI special agents found that the annuitant was employed as a health aide for a behavioral health center in West Hampton, NJ while collecting RRB unemployment benefits. She submitted 17 false claims to fraudulently receive \$3,781 in benefits. A consent judgement against the subject ordered her to pay \$12,000, \$3,781 to the RRB. The Department of Justice will receive the remaining \$8,219.

CIVIL ENFORCEMENT RESULTS

In certain cases for which the Department of Justice (DOJ) has declined to pursue criminal prosecution, OI pursues civil action in order 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 Title 31, Sections 3729-3733, United States Code, The Civil False Claims Act. This statute allows the government to recover up to triple damages as well as \$5,000 to \$10,000 for each false claim submitted. Some of the civil actions are pursued under the DOJ's Affirmative Civil Enforcement (ACE) program which provides a fast track prosecution mechanism under the Civil False Claims Act.

During this reporting period, a total of 27 civil judgements were entered by Federal District courts which will result in \$620,000 being repaid to the government when the funds are collected.

The Department of Justice frequently obtains double damages through these civil false claims prosecutions. The judgements obtained in these cases also provide the agency with an efficient and effective basis to pursue their collection activities.

The ACE Program continues to provide an efficient means to address fraud against agency programs, particularly where the fraud losses are below the financial guidelines for criminal prosecution. It also is an effective way to return fraud losses to the RRB's trust funds and create a deterrent against future fraud.

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.

	<u>04/01/06 - 09/30/06</u>	<u>FY 2006</u>
Total Contacts: (Telephone Calls and Letters)	578	1247
Referred to:		
RRB-OIG, Office of Investigations	47	69
RRB-OIG, Office of Audit	0	1
RRB Bureaus/Offices	198	399
Other Federal Agencies	18	44
Local or State Agency	1	1
RRB Medicare Carrier/Durable Medical Equipment Regional Carriers	1	2
Other (misdirected calls, follow-up calls to agents, etc.)	295	684
Calls for which there was insufficient information to substantiate an allegation or to make a referral	18	47

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, 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.

During this reporting period, the RRB issued final regulations to include video teleconferencing as an option for hearings of appeals under the RRA and RUIA. Prior to the amended regulation, agency regulations required the hearings officer to hold hearings either in person or by telephone conference call.

The RRB also amended its regulations to allow railroad employers to electronically file requests for reconsideration of initial decisions under the RUIA. Prior to this amendment, reconsideration requests were required to be submitted in writing. The RRB's regulatory amendments improve the economy and efficiency of its programs and operations.

APPENDIX A

REPORTS ISSUED

- Review of Compliance with Provisions of the Railroad Retirement Act Governing the Initial Award of Benefits, April 12, 2006
- Review of the Termination and Suspension of Benefits Paid Under the Railroad Retirement Act, May 24, 2006
- Review of Actions to Deny or Cancel Applications for Benefits Under the Railroad Retirement Act, July 18, 2006
- Evaluation of the Railroad Retirement Board's Disaster Recovery Plan, August 14, 2006
- Review of Incident Handling and Reporting at the Railroad Retirement Board, August 24, 2006
- Audit of the Solicitation and Award of the DB2 Conversion Contract, September 26, 2006
- Fiscal Year 2006 Evaluation of Information Security at the Railroad Retirement Board, September 27, 2006

APPENDIX B

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 April 1, 2006	0	0
B. Which were issued from April 1 through September 30, 2006	1	\$ 200,000
Subtotals (A + B)	1	\$ 200,000
C. For which a management decision was made from April 1 through September 30, 2006	1	
(i) dollar value of recommendations that were agreed to by management		\$ 200,000
(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

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, 2006

	<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, 2006**

	<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.	6	\$ 4,066,996 *
B. Audit reports on which management decisions were made during the period.	2	202,100 **
C. Total audit reports pending final action during the period.	8	4,269,096
D. Audit reports on which final action was taken during the period.		
1. Value of recommendations implemented.	1	529,996
2. Value of recommendations that management concluded should not or could not be implemented.	0	0
3. Total of 1 and 2.	0	529,996
E. Audit reports needing final action at the end of the period.	7	\$ 3,739,100

* Comprised of the following amounts: \$529,996 from Audit Report 01-11, "Review of the Quality of the Debt Recognition and Collection Process for Railroad Retirement Act Overpayments," \$400,000 from Audit Report 04-10, "Review of Spouse Annuity Work Deductions at the Railroad Retirement Board," \$1,800,000 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," and \$257,000 from Audit Report 06-04, "Annuity Deductions for Retired Employees Working After Full Retirement Age."

**Includes \$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 SEPTEMBER 30, 2006**

<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 develop an action plan to track correspondence in FY07 after needed infrastructure is in place.
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 has closed 35 recommendations and should close out the remaining 3 in FY07.
Review of Information Security at the Railroad Retirement Board (02-04)	2/5/02	None	None	The Bureau of Information Services has closed 19 recommendations and is working on the remaining 9.
Fiscal Year 2002 Evaluation of Information Security at the RRB (02-12)	8/27/02	None	None	The agency awarded a new contract for offsite disaster recovery services and is developing documentation for the OIG.

**MANAGEMENT STATEMENT ON RESOLVED AUDIT REPORTS
OVER TWELVE MONTHS OLD WITH FINAL ACTION PENDING
AS OF SEPTEMBER 30, 2006**

<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 is exploring contract 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 in 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 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 SEPTEMBER 30, 2006**

<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	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 hopes 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 early in FY07.
FY2004 Evaluation of Information Security at the RRB (04-11)	9/30/04	None	None	The Bureau of Information Services has closed seven of nine recommendations, and plans to complete the remaining two early 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.
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.

**MANAGEMENT STATEMENT ON RESOLVED AUDIT REPORTS
OVER TWELVE MONTHS OLD WITH FINAL ACTION PENDING
AS OF SEPTEMBER 30, 2006**

<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 Internal Control Over the Actuarial Projection Process (05-04)	5/5/05	None	None	The Chief Actuary is working with the agency's Management Control Review Committee to improve policies and procedures.
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 the collection and validation of performance information, and changes to computer systems will also improve reliability.
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 almost 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 five recommendations, and the other four 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 that should close the last recommendation during the first half of 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 5 of 15 recommendations in this confidential report, and the rest should 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 addressed seven recommendations, and developed procedures that should close the remaining two.
Review of Employee Work Deductions Prior to Full Retirement Age (05-10)	9/19/05	None	None	The Office of Programs will release revised procedures to address the remaining open recommendation during the first half of FY07.
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.

APPENDIX E

REPORTING REQUIREMENTS

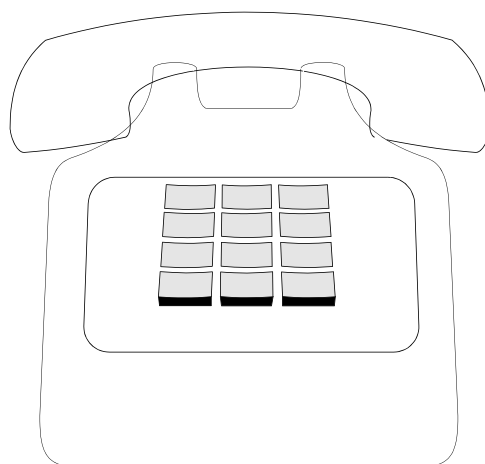
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Section 5(a)(10) - Summary of Each Audit Report Over 6 Months Old For Which No Management Decision Has Been Made	None
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Management Requirements

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REPORT

FRAUD, WASTE AND ABUSE



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

E-mail: Hotline@oig.rrb.gov

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