

Office of
Inspector
General

Semiannual
Report to the
Congress

*October 1, 2005 -
March 31, 2006*

Railroad
Retirement
Board



UNITED STATES RAILROAD RETIREMENT BOARD

OFFICE OF INSPECTOR GENERAL

April 28, 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 October 1, 2005 through March 31, 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 audit of the Fiscal Year 2005 financial statements and issued a clean opinion. We also identified material weaknesses, reportable conditions, and serious management challenges that the Railroad Retirement Board faces.

Our criminal investigators achieved 26 criminal convictions, 16 indictments and informations, 16 civil judgements, and \$1.5 million in recoveries, restitutions, fines, civil damages and penalties.

The Office of Inspector General sincerely appreciates the assistance and cooperation extended to its staff by all agency personnel.

Sincerely,

Martin J. Dickman
Inspector General

Enclosure

TABLE OF CONTENTS

| | |
|---|-----------|
| EXECUTIVE SUMMARY | 1 |
| INTRODUCTION | 2 |
| OFFICE OF AUDIT | |
| Mission | 4 |
| Report Summaries | 5 |
| Audits: Management Decisions and Implementation | 12 |
| OFFICE OF INVESTIGATIONS | |
| Mission | 13 |
| Accomplishments | 14 |
| Investigative Cases | 15 |
| Representative Investigations | 17 |
| Affirmative Civil Enforcement Program | 25 |
| Hotline Calls | 26 |
| LEGISLATIVE AND REGULATORY REVIEW | 27 |
| APPENDICES | |
| (A) OIG Reports Issued | 28 |
| (B) OIG Reports with Recommendations that Questioned Costs and Recommendations that Funds Be Put To Better Use | 29 |
| (C) Report on Receivables, Waivers, and Recoveries | 31 |
| (D) RRB Management Reports | 32 |
| (E) Cross References to Inspector General Act | 38 |

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

EXECUTIVE SUMMARY

Audit Activities

During the reporting period of October 1, 2005 through March 31, 2006, the Office of Audit completed the audit of the Railroad Retirement Board's Fiscal Year 2005 financial statements, related internal controls and compliance with laws and regulations. Auditors issued a clean opinion, and reported that the principal financial statements presented fairly the financial position of the agency for the fiscal years ending September 30, 2005 and 2004. They reported material weaknesses in the agency's information security program, performance measurement program, and the actuarial projection process. They also cited two reportable conditions related to agency compliance with the Prompt Payment Act and accounting for leases.

The Office of Inspector General also issued a summary of serious management challenges that the agency faces: internal control, the statement of social insurance, the financial reporting entity, performance measures, improper payments and information technology security.

Auditors examined the processing of annuity deductions for retired employees who work after full retirement age. They estimated a one-time financial impact of \$257,000 resulting from improper payments for this category of annuitants. Another review on the accuracy of some performance measures was also issued.

Investigative Accomplishments

The Office of Investigations achieved 26 convictions, 16 indictments and informations, 16 civil judgements, and \$1.5 million in recoveries, restitutions, fines, civil damages, and penalties.

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 Fiscal Year (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 two locations: the headquarters of the Railroad Retirement Board in Chicago, Illinois, and an investigative field office in Philadelphia, Pennsylvania.

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 audit of the agency's FY 2005 financial statements, related internal controls and compliance with laws and regulations. Auditors reported that the principal financial statements presented fairly the financial position of the agency for the fiscal years ending December 31, 2005 and 2004. Auditors also identified the serious management challenges that the agency faces.

Two additional audits were completed concerning the application of work deductions and the reliability of performance measures.

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

FISCAL YEAR 2005 FINANCIAL STATEMENTS

During this semiannual reporting period, the RRB issued the FY 2005 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 2005 financial statements and a description of the serious management challenges facing the agency that were identified by OIG auditors.

Auditors examined the FY 2005 financial statements, related internal controls, and compliance with laws and regulations and issued a clean opinion on the financial statements. They reported three material weaknesses: the RRB's information security program, the performance measurement program, and the actuarial projection process. They also cited two reportable conditions related to compliance with the Prompt Payment Act and accounting for leases. Several other matters involving internal control were addressed, and recommendations issued for improvement.

Material Weaknesses

Information System Security

For the fifth consecutive year, auditors identified the agency's information security program as a source of material weakness in internal control. Their review disclosed significant weaknesses in program management and access controls. They noted that the agency has not completed corrective actions necessary to eliminate previously reported deficiencies in training and access controls, the basis of the OIG's original finding of material weakness.

Auditors also reported that the RRB is experiencing difficulty in achieving an effective security program that is compliant with

the Federal Information Security Management Act (FISMA). Two new significant deficiencies, delays in meeting FISMA requirements for risk assessments and periodic testing/evaluation, were identified.

Performance Measures

Auditors performed detailed tests of two performance measures and determined that the agency had materially overstated its performance with respect to timeliness. As a result, the RRB withdrew its prior year performance information for the two indicators and qualified its presentation of current year performance. Auditors recommended that the agency include validation of data and retention of supporting documentation.

Actuarial Projection Process

The OIG identified inadequacies in internal control over the projections and related reports. The RRB must strengthen controls over the actuarial projection process that supports the projections and estimates presented in the statement of social insurance and related disclosures.

Reportable Conditions

Controls Over Compliance with the Prompt Payment Act

The agency's existing systems and procedures are not effective in ensuring interest is paid to vendors in accordance with requirements. The RRB has not identified all invoices on which interest should be paid and has not paid the correct amount of interest when a late payment is recognized.

Accounting for Leases

Auditors determined that the RRB does not have adequate controls to ensure leases are properly classified, justified and reported. Current procedures do not include formal evaluation and documentation of pre-contract review to identify capital leases and ensure their proper recording and reporting. Recommendations were provided to management to improve current processing.

Other Matters Involving Internal Control

In the Letter to Management, auditors addressed other internal control issues related to the computation of Prompt Payment Act interest, separation of duties, the untimely recording of pending tax credits, the validation and reconciliation of personnel record changes and the verification of Department of Labor fund transfers.

SERIOUS MANAGEMENT CHALLENGES

As part of its financial statement audit, the OIG identified six serious management challenges that the agency faces.

Internal Control - The OIG has repeatedly questioned the effectiveness of the RRB's overall control environment, and identified it as a material weakness in previous audits of the agency's financial statements. Although the agency has implemented a management control review process, OIG evaluations have determined that the process does not identify weaknesses and does not fully integrate information security responsibilities into the process.

Statement of Social Insurance - The FY 2006 basic financial statements must include a statement of social

insurance. In a FY 2005 assessment of controls over the actuarial projection process, auditors reported that the agency must take action to ensure an auditable statement of social insurance.

Financial Reporting Entity - The National Railroad Retirement Investment Trust (NRRIT), a non-governmental entity, is responsible for investing railroad retirement assets of approximately \$29 billion. It has never been included in the RRB's consolidated reporting because management considered its status precluded such treatment.

The OIG reported that new Federal financial reporting requirements related to social insurance and earmarked funds would create unacceptable inconsistencies in the RRB's financial reports due to the exclusion of the NRRIT. In FY 2005, the Office of Management and Budget (OMB) directed the RRB to take action to include the NRRIT in its audited financial reports.

The OIG is working with RRB management to obtain the necessary information from the NRRIT on a timely basis for the audit of the FY 2006 financial statements.

Improper Payments - Although the RRB maintains a system of program integrity measures and quality assurance reviews, the Improper Payments Information Act (IPIA) of 2002 has had little real impact at the Railroad Retirement Board other than to mandate annual reporting. The agency's General Counsel advised that the RRB is not subject to requirements for statistical estimates or remediation plans that the IPIA imposes on risk susceptible programs.

Performance Measures - The RRB needs to be proactive in ensuring the credibility of its performance measures. A FY 2005 OIG audit identified weaknesses in the agency's measurement of selected indicators.

Information Technology Security - Information security remains an area of material weakness for the RRB. Auditors 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. They also noted that the RRB's response to Federal requirements for certification and accreditation of information systems has been adversely impacted by the existence of deficiencies in the FISMA mandated security program.

Annuity Deductions for Retired Employees Working After Full Retirement Age

When a railroad employee works after retirement, his/her railroad annuity may be impacted in the following ways:

- If the retired employee works for a railroad employee or railroad labor organization, the entire annuity is not payable.
- If an annuitant works for his/her last pre-retirement non-railroad employer (LPE), a portion of benefit is reduced, regardless of the amount of earnings or the annuitant's age. The annuitant's LPE is any non-railroad institution which employed the annuitant on his/her annuity beginning date, or for which he/she stopped working in order to receive an annuity.
- A retired employee can work for a non-railroad employer other than a LPE and still receive retirement benefits. However, benefits will be reduced if earnings exceed certain limits and if the annuitant is under the full retirement age.

Auditors examined employee age and service annuities for individuals born between January 1, 1935 and October 31, 1938, and in current pay status as of February 28, 2005 to determine if the RRB identified and applied work deductions to

employee annuities accurately. They determined that the agency is not, in fact, applying work deductions for all employee annuitants who work after the full retirement age because some annuitants are not monitored for LPE earnings.

These annuitants are removed from the agency's annual earnings and LPE monitoring process the year after they stop working. They are also not included in the policing program that monitors the wage histories of annuitants to identify undisclosed income. If annuitants resume working for the LPE and do not inform the agency, work deductions are not applied because the RRB cannot detect the earnings.

Auditors estimated a one-time financial impact of approximately **\$257,000 from overpayments** to this type of annuitant. Program officials agreed to implement system programming changes for the current computer programs that identify LPE earnings.

Accuracy and Reliability of GPRA Performance Measures: Timeliness of Non-Disability Survivor Annuity Payments

The Government Performance and Results Act (GPRA) of 1993 initiated program performance reform in requiring agencies to establish program goals, measure performance against those goals and report publicly on their progress in annual reports. The annual performance report must address each program activity included in an agency's budget.

The RRB's report contains performance indicators for the timeliness of non-disability survivor payments that include initial survivor benefits, spouse to survivor benefit conversions and lump-sum death benefits. OIG auditors evaluated the performance documentation recorded for these measures from October 2004 through June 2005 to determine the reliability and validity of the data.

The review identified problems in verification procedures, processing methods, and internal controls. The agency had incorrectly included some disability cases in the initial survivor payment performance statistics, and made errors in the time lapse methodology for some initial survivor payment cases. In addition, the current process for compiling performance measure data relies upon multiple systems and data sources as well as extensive manual processing and adjustments. Procedures for the preparation of performance reports are not documented, and a single person is trained and designated to compile data. Auditors also noted that there is a lack of adequate record retention policies for management records and supporting system data for performance measures.

Auditors recommended that program management implement controls and procedures to ensure accurate performance information is compiled, documented and reported for the annual GPRA report. Corrective action is underway for all report recommendations.

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, 2005 | 45 |
| Pending management decisions for new recommendations | 0 |
| Management decisions for previous recommendations | <u>45</u> |
| Recommendations pending a management decision on March 31, 2006 | 0 |

Corrective Actions

| | |
|---|-------------|
| Recommendations requiring action on October 1, 2005 | 166 |
| Recommendations issued during this period | 18 |
| Corrective actions completed during the period | <u>- 46</u> |
| Final actions pending on March 31, 2006 | 138 |

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.

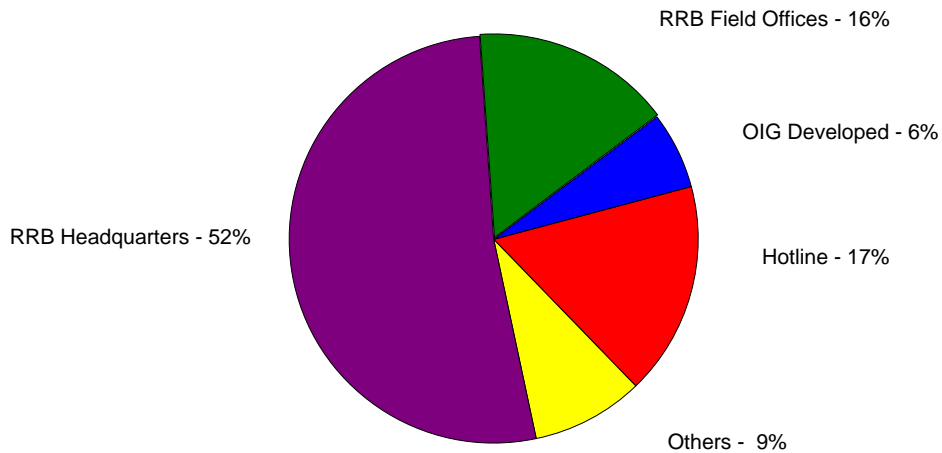
During this semiannual reporting period, OI conducted two projects to identify disability annuitants who may be receiving benefits to which they are not entitled. These projects involved conducting searches of online records of states to identify annuitants who are registered as officers or directors of corporations in those states. As a result, OI has initiated a significant number of investigations, and will continue to conduct such studies.

INVESTIGATIVE ACCOMPLISHMENTS

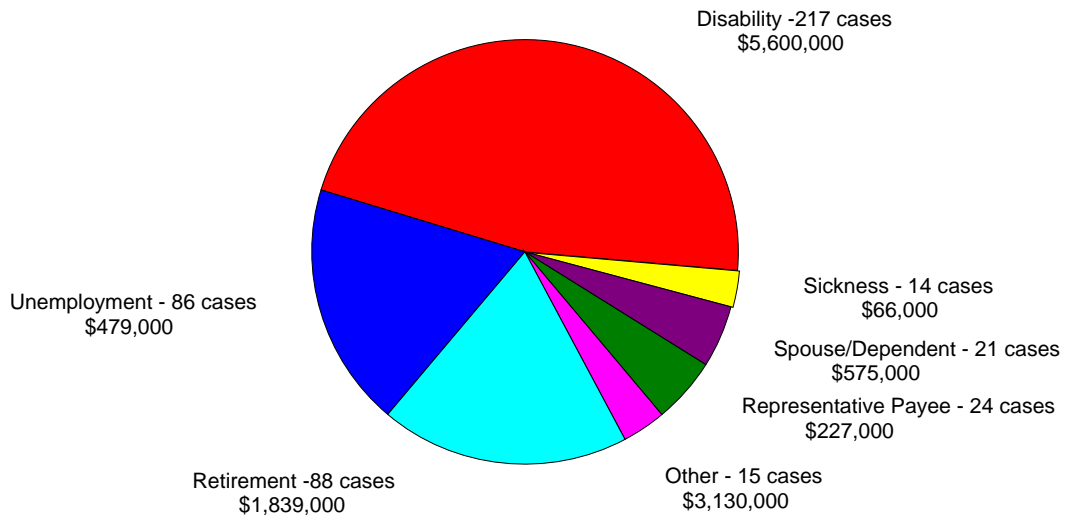
| | 10/01/05 - 03/31/06 |
|--|--------------------------------|
| Convictions | 26 |
| Civil Judgements | 16 |
| Indictments/Informations | 16 |
| Investigative Recoveries | \$ 476,225 |
| Restitutions and Fines | \$ 853,882 |
| Civil Damages and Penalties | \$ 199,369 |
| Potential Economic Loss Prevented (PELP) | \$ 253,609 |
| Community Service Hours | 6,970 |
| Disciplinary/Administrative Actions | 0 |
| Civil Complaints | 4 |
| Criminal Complaints | 1 |
| Arrests | 1 |
| Subpoena Service: | |
| Inspector General | 10 |
| Federal Grand Jury | 37 |
| Trial | 10 |
| U.S. Attorney Referrals | 169 |

INVESTIGATIVE CASES

During this semiannual period, OI opened 144 investigations and closed 121 cases. The major sources of case referrals are illustrated below.



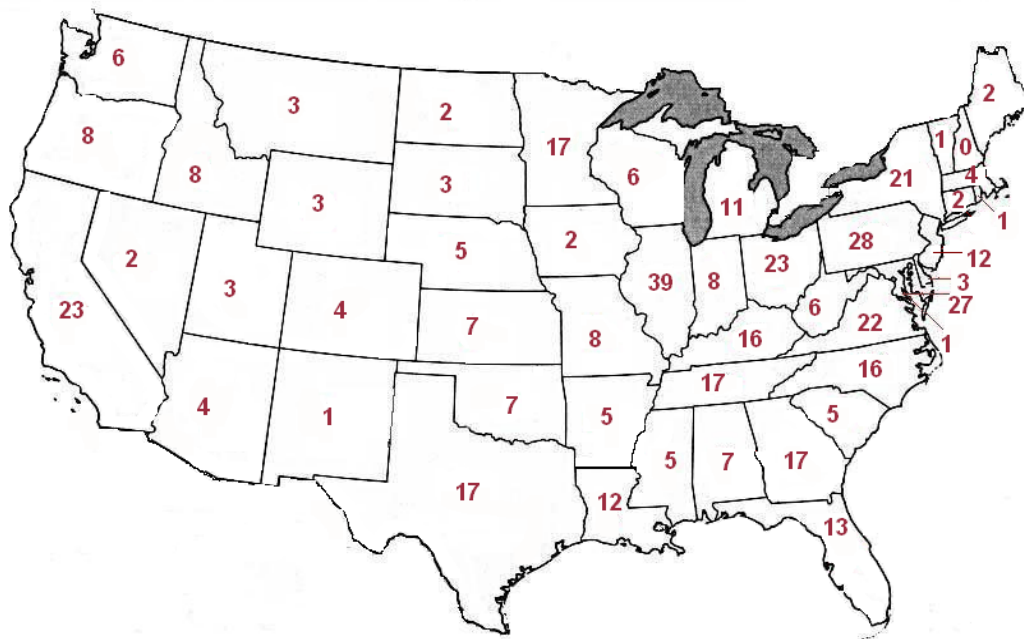
OI's current caseload totals 465 criminal matters, representing approximately \$11.9 million in fraud against the RRB.



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. Two additional investigations are 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 six convictions for retirement fraud. The defendants in these cases received sentences totaling 4¼ years imprisonment, 29 years probation, one year and 11 months house arrest and were ordered to perform 6,820 hours of community service. They were also ordered to pay \$295,834 in restitution and \$200 in fines. The RRB will recover an additional \$138,498 in overpayments as a result of OIG investigations of retirement benefit programs.

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.

Divorcee Ordered to Repay \$97,961

OI opened an investigation based on a complaint received on the OIG hotline. The caller alleged the recipient of an RRB surviving divorced spouse annuity in Kansas had remarried and failed to notify the RRB.

Subsequent investigation confirmed the annuitant failed to reveal her marriage on her application for a surviving divorced spouse annuity in December 1994. As a result, she fraudulently received RRB benefits totaling \$97,961 from November 1995 through November 2004.

When interviewed by OI special agents, the woman stated she did not remember if she was remarried when she filed her application.

She then told the agents that she thought her marriage had been annulled or dissolved. When asked to provide documentation, she admitted that she had remarried prior to application to be covered under her husband's health insurance. She then admitted that she knowingly withheld information to receive the retirement benefits as a divorced spouse.

In January 2006, the subject was convicted and sentenced to five months of home confinement, five years probation, fined \$100 and ordered to make restitution of \$97,961.

Granddaughter of Deceased Annuitant Agrees to Return \$57,718

A referral from the RRB's District Office in New York City indicated that an annuitant had died but the RRB continued to issue benefit checks to her.

OI agents determined that the annuitant's granddaughter illegally received the retirement benefits from May 1991 through September 2003. The total overpayment was \$57,718. When interviewed by agents, the subject admitted to failing to advise the RRB of her grandmother's death.

The subject accepted a plea agreement and was subsequently sentenced to five years supervised probation, ordered to perform 80 hours of community service, and required to make full restitution to the RRB.

Fraudulent Receipt of \$23,000 in Benefits for Alleged Minor Child

OI opened an investigation based on a referral from an RRB program office that alleged that a Pennsylvania woman had failed to notify the agency that her daughter had reached the age of 18. A survivor annuity may be paid to an unmarried child under age 18 but notification to the RRB is required when the child reaches 18.

The subject in this case failed to notify the RRB when her daughter reached 18 in February 1998. The agency continued to pay benefits until June 2000, resulting in an overpayment of \$29,120. When interviewed by OI special agents, the mother accepted responsibility for not advising the agency when her child turned 18, and agreed to make restitution. She subsequently entered into a settlement agreement in which she agreed to make a lump sum payment of \$23,000 to the RRB.

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 nine convictions and four civil judgements for disability fraud. The defendants in these cases received sentences totaling nine months imprisonment, 27½ years probation and one year, 11 months house arrest. They were also ordered to pay \$384,014 in restitution, \$72,841 in damages, \$4,345 in penalties and \$1,550 in fines. The RRB will recover an additional \$247,387 as a

result of disability fraud investigations concluded during this reporting period. Descriptions of several cases follow.

Disability Annuitant Who Failed to Reveal Earnings from Health Club and Construction Company Ordered to Repay \$167,013

The RRB's Milwaukee District Office provided information to the OIG concerning an allegation that a disability annuitant was managing a construction company but failing to report his wages.

Subsequent investigation by OI special agents revealed that the annuitant received disability benefits from December 1995 through October 2003. As a result, he had fraudulently received \$167,013 in disability benefits. He had directed a construction company from 1998 through 2003. He had also managed a Wisconsin health club from 1995 through 1997, and concealed his wages by working under his wife's name and social security number. The subject had earned over \$10,000 a year from 1995 through 2003.

The subject told OI agents that he was aware that he was required to report his work and earnings to the RRB. He denied he ever worked at the construction company, and worked only 3-4 hours a week at the health club but received no wages for his work.

The annuitant was subsequently convicted and sentenced to nine months in prison, three years probation, fined a special assessment fee of \$100 and ordered to make full restitution to the RRB.

Owner of Freight Company Ordered to Repay \$48,938

OI opened this case as the result of a special disability project initiated to identify RRB disability annuitants who might be concealing employment and income under corporations established in the State of Georgia. OI agents identified an annuitant who had filed his application for a disability annuity in October 1989, and was awarded an occupational disability in November 1989 due to low back pain syndrome and lumbar fusion. Continuing disability reports filed by the subject indicated no employment or self-employment since his annuity beginning date.

OI investigation revealed that the annuitant and his wife had incorporated a freight company in Georgia in April 1994. The subject admitted that he had, in fact, worked as a broker for the corporation, but that his spouse performed no services.

In October 2005, the subject pleaded guilty to a criminal information and was sentenced to three years probation, six months of which were served in home confinement with electronic monitoring. He was ordered to pay restitution of \$48,938 and a special assessment fee of \$25.

Fraudulent Receipt of \$42,856 by Bar Doorman

A complaint received by OI indicated an RRB disability annuitant was working as a doorman at a Chicago bar while receiving RRB disability benefits. OI agents determined that the subject had failed to report his earnings to the RRB and had exceeded the earnings restrictions on his annuity.

From 2001 through 2004, the subject had earned \$52,230. He was charged and convicted for theft of government funds. He was ordered to make restitution of \$42,855 to the RRB, and sentenced to three years probation and five months home detention.

Missouri electrician must remit \$55,014 to the RRB

OI opened this case based on a referral from an RRB program division. The RRB conducted a match of Social Security earnings data with RRB disability annuitant information. The match identified earnings posted to an annuitant's social security number from a number of different private employers.

OI special agents determined that the subject was employed during 2000 through 2002 while receiving a total and permanent disability benefit from the RRB. He had been employed as an electrician and laborer at several firms, and had earned in excess of the monthly/annual earnings limitation amounts. He had failed to report this work and earnings as required.

The subject had received \$55,014 in benefits to which he was not entitled. He pleaded guilty to a criminal information and was sentenced to six months home confinement, five years of probation, drug and alcohol treatment, mental health treatment, and ordered to pay \$55,014 in restitution to the RRB.

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 eight convictions and 11 civil judgements for UI and SI fraud. Defendants in these cases received, in the aggregate, 122 days imprisonment, 9 years probation, and six months house arrest. They were ordered to pay \$30,731 in restitution, \$55,856 in damages, \$275 in fines, and \$43,328 in civil penalties. The RRB will also be able to recover an additional \$61,509 as a result of OI investigations.

Examples of cases completed this reporting period follow.

Nevada Annuitant Falsely Claims Unemployment Benefits

A wage match with the State of Nevada identified an annuitant who was receiving UI benefits while employed by Manpower, the City of Las Vegas and Levi Strauss. The subject submitted 17 false claims and two false statements to the RRB, resulting in the theft of \$7,771 in UI benefits.

The annuitant entered into a settlement agreement and agreed to repay the total amount. He was ordered to make an initial payment of \$50 within ten days of the agreement.

Judge Trebles Judgement to \$14,268

A wage match with the State of Florida resulted in a referral to OI concerning an annuitant who had wages reported for the same days that he was receiving UI benefits. OI investigation revealed that the annuitant had fraudulently received \$4,756 in UI benefits for 99 days.

The U.S. District Court in Tampa, FL filed a default judgement in a civil case against the subject ordering a judgement of \$14,268 (single damages trebled to this amount). The RRB will receive the original overpayment amount of \$4,756 and interest pertaining to this sum.

Employee Misconduct

Identity Theft

OI also has the responsibility for ensuring agency integrity by investigating alleged misconduct by RRB employees.

OI special agents initiated an investigation based upon a complaint from an RRB program director. The director alleged that an unknown person had stolen her personal information and opened a Visa credit card account under her name. The director became aware of the account when she was notified that there was a delinquent balance of \$1,153 on the credit card.

Through investigation, OI special agents identified a previous temporary employee who had been responsible for entering data into the RRB's payroll system. In this capacity, she had access to the social security numbers for employees. When she left her temporary position, she took a list of the agency employee social security numbers.

When questioned by OI agents, the subject admitted to attempts to obtain credit cards using the stolen social security numbers. However, she denied that she had charged \$1,000 on the Visa card, and explained that someone had stolen the card from her mailbox.

She was subsequently convicted and ordered to make restitution of \$1,000 to the issuing institution and was sentenced to two years probation.

AFFIRMATIVE CIVIL ENFORCEMENT (ACE) PROGRAM

OI continues to pursue prosecution of cases under the Department of Justice's Affirmative Civil Enforcement Program. This program involves "fast track" civil prosecution of cases under the provisions of the Title 31, U. S. Code, Sections 3729-3733, 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.

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.

During this reporting period, three civil judgements under the ACE program were entered by Federal district courts which will result in the return of \$49,317 to the government when the funds are collected.

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.

**10/01/05 -
03/31/06**

| | |
|---|-----|
| Total Contacts: (Telephone Calls and Letters) | 669 |
| Referred to: | |
| RRB-OIG, Office of Investigations | 22 |
| RRB-OIG, Office of Audit | 1 |
| RRB Bureaus/Offices | 201 |
| Other Federal Agencies | 26 |
| RRB Medicare Carrier/Durable Medical Equipment Regional Carriers | 1 |
| Other (misdirected calls, follow-up calls to agents, etc.) | 389 |
| Calls for which there was insufficient information to substantiate an allegation or to make a referral | 29 |

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.

The OIG has no comments for this reporting period.

APPENDIX A

REPORTS ISSUED

- Fiscal Year 2005 Financial Statement Audit, Letter to Management , November 15, 2005
- Fiscal Year 2005 Special-Purpose Financial Statements Audit, Letter to Management, November 17, 2005
- Accuracy and Reliability of GPRA Performance Measures and Timeliness of Non-Disability Survivor Annuity Payments, January 30, 2006
- Annuity Deductions for Retired Employees Working After Full Retirement Age, February 17, 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 October 1, 2005 | 0 | 0 | 0 |
| B. Which were issued from October 1, 2005 through March 31, 2006 | 0 | 0 | 0 |
| Subtotals (A + B) | 0 | 0 | 0 |
| C. For which a management decision was made from October 1, 2005 through March 31, 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 March 31, 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, 2005 | 0 | 0 |
| B. Which were issued from October 1, 2005 through March 31, 2006 | 1 | \$ 257,000 |
| Subtotals (A + B) | 1 | \$ 257,000 |
| C. For which a management decision was made from October 1, 2005 through March 31, 2006 | 1 | |
| (i) dollar value of recommendations that were agreed to by management | | \$ 257,000 |
| (ii) dollar value of recommendations that were not agreed to by management | | 0 |
| D. For which no management decision had been made by March 31, 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 | | | |

* 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 |
| 10/01/05-03/31/06 | 474,663 |

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 MARCH 31, 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 | |
| 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. | | |
| 1. Recoveries | 0 | 0 |
| (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, 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. | 5 | \$ 3,809,996 * |
| B. Audit reports on which management decisions were made during the period. | 1 | 257,000 ** |
| C. Total audit reports pending final action during the period. | 6 | 4,066,996 |
| D. Audit reports on which final action was taken during the period. | | |
| 1. Value of recommendations implemented. | 0 | 0 |
| 2. Value of recommendations that management concluded should not or could not be implemented. | 0 | 0 |
| 3. Total of 1 and 2. | 0 | 0 |
| E. Audit reports needing final action at the end of the period. | 6 | 4,066,996 |

* 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," and \$1,070,000 from Audit Report 05-07, "Evaluation of Survivor Annuity Work Deductions at the Railroad Retirement Board."

**Identified in Audit Report 06-04, "Annuity Deductions for Retired Employees Working After Full Retirement Age."

**MANAGEMENT STATEMENT ON RESOLVED AUDIT REPORTS
OVER TWELVE MONTHS OLD WITH FINAL ACTION PENDING
AS OF MARCH 31, 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 install necessary infrastructure in FY 06, and develop an action plan in FY 07 for tracking correspondence. |
| Information Systems Security (INFOSEC) Assessment Report | 6/28/00 | None | None | The agency has implemented 13 recommendations, and is working to close out the remaining 1. |
| Review of Document Imaging - Railroad Unemployment Insurance Act Programs (01-01) | 11/17/00 | None | None | The agency has installed new hardware and software, and will use its annual disaster recovery test to demonstrate the recommended improvements. |
| Fiscal Year 2000 Financial Statement Audit (01-03) | 2/23/01 | None | None | The Bureau of Information Services is using new help-desk software to improve problem reporting and close the last recommendation during FY06. |
| Site Security Assessment for the Office of Inspector General (Blackbird #1) | 7/20/01 | None | None | The Bureau of Information Services has closed out 11 recommendations, and is in the process of addressing the last 1. |
| Review of the Quality of the Debt Recognition and Collection Process for RRA Overpayments (01-11) | 8/9/01 | None | \$ 529,996 | The Office of Programs completed all need case reviews and hopes to issue a final report in May 2006. |
| Security Controls Analysis for the Office of Inspector General (Blackbird #2) | 8/17/01 | None | None | The Bureau of Information Services has closed 34 recommendations and should close out the remaining 4 in FY07. |

**MANAGEMENT STATEMENT ON RESOLVED AUDIT REPORTS
OVER TWELVE MONTHS OLD WITH FINAL ACTION PENDING
AS OF MARCH 31, 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 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 currently addressing 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 needed documentation for review by the OIG. |
| Evaluation of the Self-Assessment Process for Information System Security (03-02) | 12/27/02 | None | None | The Bureau of Information Services was able to use automated software tools to conduct security assessments on some systems, and hopes to complete the remaining ones during FY06. |
| 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 the RRB received a revised MOU from Treasury to address 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 scheduled for completion in FY07 following needed systems changes. |
| 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 as part of its standards update for Report 03-10 to close the remaining recommendation. |
| 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 recommendation in the first quarter of FY07. |

**MANAGEMENT STATEMENT ON RESOLVED AUDIT REPORTS
OVER TWELVE MONTHS OLD WITH FINAL ACTION PENDING
AS OF MARCH 31, 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> |
|---|--------------------|------------------------------------|---|--|
| 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 complete a review of sampled items and close the remaining recommendation in FY07. |
| Review of Accounts Receivable Established Under the Railroad Unemployment Insurance Act (04-06) | 7/29/04 | None | None | Software enhancements addressed two of the open recommendations, while mainframe-based programming changes will be needed to close the last one. |
| Review of Mainframe Access Controls at the Application Level - Federal Financial System (04-07) | 9/7/04 | None | None | The Bureau of Information Services has closed two recommendations, and hopes to complete action on the remaining two 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 | Three recommendations have been closed, and the Bureau of Information Services hopes to close the remaining one 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 | Agency staff plan to complete action on the remaining two recommendations by the end of FY07. |
| Review of Spouse Annuity Work Deduction at the RRB (04-10) | 9/30/04 | None | \$400,000 | More than three-fourths of the cases identified have been adjusted, with the remainder scheduled for completion during FY06. |

**MANAGEMENT STATEMENT ON RESOLVED AUDIT REPORTS
OVER TWELVE MONTHS OLD WITH FINAL ACTION PENDING
AS OF MARCH 31, 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> |
|---|--------------------|------------------------------------|---|---|
| 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 in the first quarter of FY07. |
| FY2004 Financial Statement Audit, Letter to Management (05-01) | 10/25/04 | None | None | Agency units have closed 10 Of the 14 recommendations, and hope to complete action on the remaining ones during FY06. |
| Review of the RRB's Compliance with Federal Laws and Regulations on Competitive Sourcing (05-02) | 12/6/04 | None | None | The agency made procedural change in its most recent commercial activities inventory and will submit documentation to the OIG for review prior to completing the next one. |
| Evaluation of the RRB's Processing of Disability Cases (05- 03) | 1/11/05 | None | \$1,800,000 | Programs staff has completed a review of 2000 cases and is in the process of reviewing those from 2001. They will develop an action plan and procedures to address their findings in FY06. |

APPENDIX E

REPORTING REQUIREMENTS

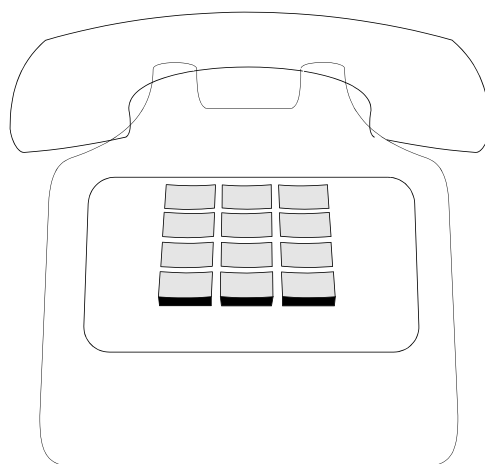
| Inspector General Requirements | <u>Page</u> |
|---|-------------|
| Section 4(a)(2) - Review of Legislation and Regulations | 27 |
| Section 5(a)(1) - Significant Problems, Abuses, and Deficiencies | 5 |
| Section 5(a)(2) - Recommendations With Respect to Significant Problems, Abuses, and Deficiencies | 5 |
| Section 5(a)(3) - Prior Significant Recommendations Not Yet Implemented | 5 |
| Section 5(a)(4) - Matters Referred to Prosecutive Authorities | 14 |
| Section 5(a)(5) - Instances Where Information Was Refused | None |
| Section 5(a)(6) - List of Audit Reports | 28 |
| Section 5(a)(7) - Summary of Each Significant Report | 5 |
| Section 5(a)(8) - Statistical Tables on Management Decisions on Questioned Costs | 29 |
| Section 5(a)(9) - Statistical Tables on Management Decisions on Recommendations That Funds Be Put to Better Use | 30 |
| 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 |
| Section 5(a)(12) - Information on Any Significant Management Decisions With Which the Inspector General Disagrees | None |

Management Requirements

| | |
|--|--------------------|
| Section 5(b)(1) - Comments Deemed Appropriate | Transmittal Letter |
| Section 5(b)(2) - Statistical Table on Final Action on Disallowed Costs | 32 |
| Section 5(b)(3) - Statistical Table on Final Action To Put Funds to Better Use | 33 |
| Section 5(b)(4) - Statement on Audit Reports With Final Action Pending | 34 |

REPORT

FRAUD, WASTE AND ABUSE



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