OIG Report #12-01
November 15, 2011

The Office of Inspector General's report on the RRB's financial statements begins on page 109 of the RRB's FY 2011 Performance and Accountability Report.

RAILROAD RETIREMENT BOARD

PERFORMANCE AND ACCOUNTABILITY REPORT

FISCAL YEAR 2011

BLANK PAGE FOR PRINTING PURPOSES

Railroad Retirement Board
Performance and Accountability Report
Fiscal Year 2011

TABLE OF CONTENTS

TABLE OF CONTENTS

RRB's fiscal year 2011 Performance and Accountability Report is available on the Internet at: www.rrb.gov

MESSAGE FROM THE BOARD MEMBERS

PAGE INTENTIONALLY LEFT BLANK

Message from the Board Members

This fiscal year 2011 Performance and Accountability Report highlights the goals and accomplishments of the Railroad Retirement Board (RRB) in achieving its mission of administering the retirement, disability, and survivor benefit program provided under the Railroad Retirement Act (RRA) and the unemployment and sickness insurance benefit program provided under the Railroad Unemployment Insurance Act (RUIA). This report describes our continuing efforts to provide timely and useful information to RRB managers, the Office of Management and Budget (OMB), the Congress, and our constituents. We are proud of the agency's dedicated employees whose achievements are reflected in this report.

The RRB has a long and distinguished tradition of excellence in serving our customers and safeguarding the agency's trust funds. In recent years, we have achieved high levels of accuracy and timeliness in the benefit programs we administer. In July 2011, the RRB concluded its year-long participation in the American Customer Satisfaction Index (ACSI) Survey, which focused on customers' experiences with the agency's website (www.rrb.gov). We are using the customer feedback received to improve and enhance the RRB website over the coming months.

This year we implemented the Tax Relief, Unemployment Insurance Reauthorization and Job Creation Act of 2010, which extended the provisions of the Worker, Homeownership and Business Assistance Act of 2009. The Tax Relief Act provides for the payment of up to 65 days of additional extended unemployment benefits. The RRB began making payments under this Act on December 17, 2010, and has paid approximately $5.4 million of these extended benefits through May 31, 2011.

In October 2010, the RRB implemented an on-line process to allow beneficiaries to submit biweekly claims for sickness insurance benefits. In May 2011, we implemented an automated eligibility screening process so that less complex claims can be automatically forwarded to employers for prepayment verification. These initiatives provide for improved customer self-service as well as more timely and efficient processing of sickness benefit claims.

We believe the performance and financial data presented in this report are complete and reliable in accordance with OMB guidance. The adequacy and effectiveness of our management controls and the compliance of our financial management systems with governmentwide requirements are delineated in the Systems and Controls part of the Management's Discussion and Analysis section. That part also provides the status of the actions we are taking and progress we are making to correct Office of Inspector General identified material weaknesses in internal control environment for information security (risk management and applications and services), non-integrated subsystems, and budgetary reporting.

We will continue to apply information technology and innovation to provide excellent customer service to the railroad employers, railroad employees, and the beneficiaries whom we serve. We are also committed to prudent stewardship over the agency trust funds and the administrative resources entrusted to us.

Original signed by:

Michael S. Schwartz, Chairman
Walter A. Barrows, Labor Member
Jerome F. Kever, Management Member

November 8, 2011

PAGE INTENTIONALLY LEFT BLANK

MANAGEMENT'S DISCUSSION AND ANALYSIS

PAGE INTENTIONALLY LEFT BLANK

Management's Discussion and Analysis

Overview of the Railroad Retirement Board

Mission

The RRB is an independent agency in the executive branch of the Federal Government. The agency's mission statement is as follows:

> *The RRB's mission is to administer retirement/survivor and unemployment/sickness insurance benefit programs for railroad workers and their families under the Railroad Retirement Act and the Railroad Unemployment Insurance Act. These programs provide income protection during old age and in the event of disability, death or temporary unemployment and sickness. The RRB also administers aspects of the Medicare program and has administrative responsibilities under the Social Security Act and the Internal Revenue Code. In carrying out its mission, the RRB will pay benefits to the right people, in the right amounts, in a timely manner, and will take appropriate action to safeguard our customers' trust funds. The RRB will treat every person who comes into contact with the agency with courtesy and concern, and respond to all inquiries promptly, accurately and clearly.*

Major Program Areas

The RRB was created in the 1930's by legislation establishing a retirement benefit program for the nation's railroad workers. Private industrial pension plans had been pioneered in the railroad industry; the first industrial pension plan in North America was established on a railroad in 1874. By the 1930's, pension plans were far more developed in the rail industry than in most other businesses or industries, but these plans had serious defects which were magnified by the Great Depression.

The economic conditions of the 1930's demonstrated the need for retirement plans on a national basis because few of the nation's elderly were covered under any type of retirement program. While the social security system was in the planning stage, railroad workers sought a separate railroad retirement system which would continue and broaden the existing railroad programs under a uniform national plan. The proposed social security system was not scheduled to begin monthly benefit payments for several years and would not give credit for service performed prior to 1937, while conditions in the railroad industry called for immediate benefit payments based on prior service.

Legislation was enacted in 1934, 1935, and 1937 to establish a railroad retirement system separate from the social security program legislated in 1935. Such legislation, taking into account particular circumstances of the rail industry, was not without precedent. Numerous laws pertaining to rail operations and safety had already been enacted since the Interstate Commerce Act of 1887. Since passage of the Railroad Retirement Acts of the 1930's, numerous other railroad laws have subsequently been enacted.

While the railroad retirement system has remained separate from the social security system, the two systems are closely coordinated with regard to earnings credits, benefit payments, and taxes. The financing of the two systems is linked through a financial interchange under which, in effect, the portion of railroad retirement annuities that is equivalent to social security benefits is coordinated with the social security system. The purpose of this financial coordination is to place the social security trust funds in the same position they would be in if railroad service were covered by the social security program instead of the railroad retirement program.

Legislation enacted in 1974 restructured railroad retirement benefits into two tiers, so as to coordinate them more fully with social security benefits. The first tier is based on combined railroad retirement and social security credits, using social security benefit formulas. The second tier is based on railroad service only and is comparable to the private pensions paid over and above social security benefits in other industries.

The railroad unemployment insurance system was also established in the 1930's. The Great Depression demonstrated the need for unemployment compensation programs, and State unemployment programs had been established under the Social Security Act in 1935. While the State unemployment programs generally covered railroad workers, railroad operations which crossed State lines caused special problems. Unemployed railroad workers were denied compensation by one State because their employers had paid unemployment taxes in another State. Although there were cases where employees appeared to be covered in more than one State, they often did not qualify in any.

A Federal study commission, which reported on the nationwide State plans for unemployment insurance, recommended that railroad workers be covered by a separate plan because of the complications their coverage had caused the State plans. The Congress subsequently enacted the Railroad Unemployment Insurance Act (RUIA) in June 1938. The RUIA established a system of benefits for unemployed railroad workers, financed entirely by railroad employers and administered by the RRB. Sickness insurance benefits were added in 1946.

Railroad Retirement Act

Under the Railroad Retirement Act (RRA), retirement and disability annuities are paid to railroad workers with at least 10 years of service. Such annuities are also payable to workers with 5 years of service if performed after 1995.

Full age annuities are payable at age 60 to workers with 30 years of service. For those with less than 30 years of service, reduced annuities are payable at age 62 and unreduced annuities are payable at full retirement age, which is gradually rising from 65 to 67, depending on the year of birth. Disability annuities can be paid on the basis of total or occupational disability. Annuities are also payable to spouses and divorced spouses of retired workers and to widow(er)s, surviving divorced spouses, remarried widow(er)s, children, and parents of deceased railroad workers. Qualified railroad retirement beneficiaries are covered by Medicare at age 65, or earlier if disabled, in the same way as social security beneficiaries.

Jurisdiction over the payment of retirement and survivor benefits is shared by the RRB and the Social Security Administration (SSA). The RRB has jurisdiction over the payment of retirement benefits if the employee had at least 10 years of railroad service, or 5 years if performed after 1995; for survivor benefits, there is an additional requirement that the employee's last regular employment before retirement or death was in the railroad industry. If a railroad employee or his or her survivors do not qualify for railroad retirement benefits, the RRB transfers the employee's railroad retirement credits to SSA, where they are treated as social security credits.

Payroll taxes paid by railroad employers and their employees are the primary source of funding for the railroad retirement and survivor benefit programs. By law, railroad retirement taxes are coordinated with social security taxes. Employees and employers pay tier 1 taxes at the same rate as social security taxes. In addition, both employees and employers pay tier 2 taxes which are used to finance railroad retirement benefit payments over and above social security levels. Tier 2 taxes are based on the ratio of certain asset balances to the sum of benefit payments and administrative expenses. Historically, railroad retirement taxes have been considerably higher than social security taxes.

Revenues in excess of benefit payments are invested to provide additional trust fund income, and the legislation enacted in 2001 allows for Railroad Retirement (RR) Account funds transferred to the National Railroad Retirement Investment Trust (NRRIT) to be invested in non-governmental assets, as well as in governmental securities. Funds transferred from the Social Security Equivalent Benefit (SSEB) Account to the NRRIT are allowed to be invested only in governmental securities. The legislation also established the NRRIT, whose Board of seven trustees oversees these investments. The Board of Trustees is comprised of three members selected by rail labor, three members selected by rail management, and one independent member selected by a majority of the other six members.

Another major source of income to the railroad retirement and survivor benefit program consists of transfers from the social security trust funds under a financial interchange between the two systems. The financial interchange is intended to place the social security trust funds in the same position in which they would have been had railroad employment been covered by the Social Security Act and Federal Insurance Contributions Act (FICA). In fiscal year 2011, the RRB trust funds realized a net of almost $3.9 billion, representing 41 percent of RRB financing sources (excluding transfers to/from the NRRIT and the decrease in NRRIT net assets), through the financial interchange.

Other sources of income currently include revenue resulting from Federal income taxes on railroad retirement benefits (tier I, tier II, and vested dual benefits), and appropriations from general Department of the Treasury (Treasury) revenues provided after 1974 as part of a phase-out of certain vested dual benefits.

Railroad Unemployment Insurance Act

Under the RUIA, unemployment insurance benefits are paid to qualified railroad workers who are unemployed but ready, willing, and able to work and sickness insurance benefits to railroad workers who are unable to work because of illness, injury, or pregnancy. The RRB also operates a placement service to assist unemployed railroad workers in securing employment.

A new unemployment and sickness insurance benefit year begins every July 1, with eligibility generally based on railroad service and earnings in the preceding calendar year. Up to 26 weeks of normal unemployment and 26 weeks of sickness insurance benefits are payable to an individual in a benefit year. Additional extended benefits are payable for up to 13 weeks to persons with 10 or more years of service.

The railroad unemployment and sickness insurance benefit program is financed by taxes on railroad employers under an experience rating system initiated in 1991. Each employer's payroll tax rate is determined annually by the RRB on the basis of benefit payments to the railroad's employees.

Reporting Components

The RRB, as an independent agency in the executive branch of the U.S. Government, is responsible for administering the RRA and the RUIA. The financial statements include the accounts of all funds under the control of the RRB and the Office of Inspector General (OIG). These funds consist of two administrative funds, three trust funds, two general funds, one deposit fund, six American Recovery and Reinvestment Act of 2009 (ARRA) funds, and two Worker, Homeownership and Business Assistance Act of 2009 (WHBAA) funds.

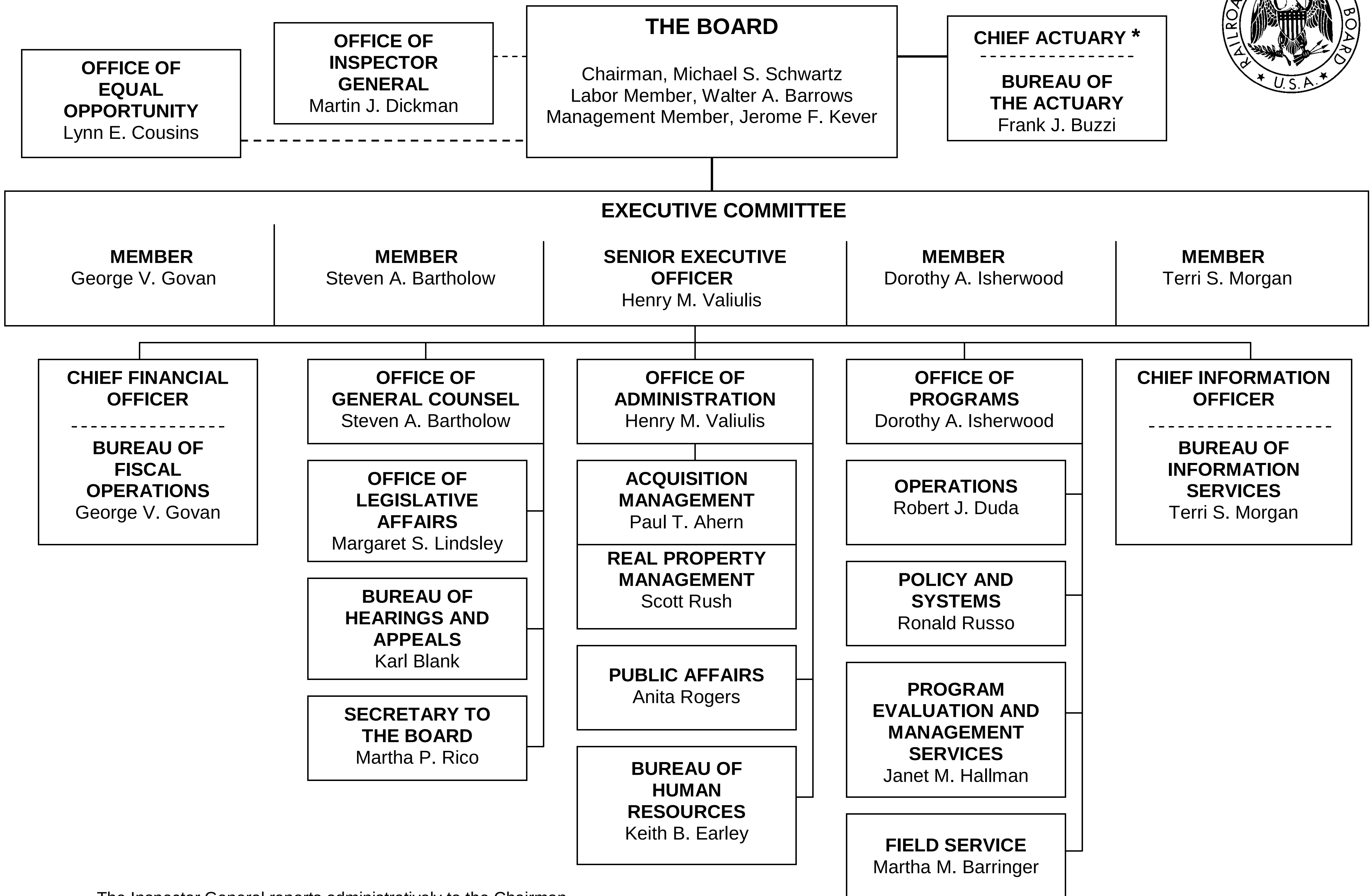
RRB Organizational Structure

The RRB is headed by three Board Members appointed by the President of the United States, with the advice and consent of the Senate. One member is appointed upon recommendation of railroad employers; one is appointed upon recommendation of railroad labor organizations; and the third, who is the Chairman, is appointed to represent the public interest. The Board Members' terms of office are 5 years and are scheduled to expire in different years. The Chairman of the Board is Michael S. Schwartz, the Labor Member is Walter A. Barrows, and the Management Member is Jerome F. Kever. The President also appoints an Inspector General for the RRB; the Inspector General is Martin J. Dickman.

The primary function of the RRB is the determination and payment of benefits under the railroad retirement and survivor and the unemployment and sickness insurance programs. To this end, the RRB employs field representatives to assist railroad personnel and their families in filing claims for benefits, examiners to adjudicate the claims, and information technology staff, equipment, and programs to maintain earnings records, calculate benefits, and process payments. The RRB also employs actuaries to predict the future income and outlays of the agency's trust funds and accounts, statisticians and economists to provide vital data, and attorneys to interpret legislation and represent the RRB in litigation. Internal administration requires a procurement staff, a budget and accounting staff, quality assurance staff, and personnel specialists. The Inspector General employs auditors and investigators to detect waste, fraud, or abuse in the benefit programs.

The RRB's headquarters is located at 844 North Rush Street in Chicago, Illinois. The RRB field structure is comprised of 53 offices located throughout the United States as shown on page 12.

U.S. RAILROAD RETIREMENT BOARD



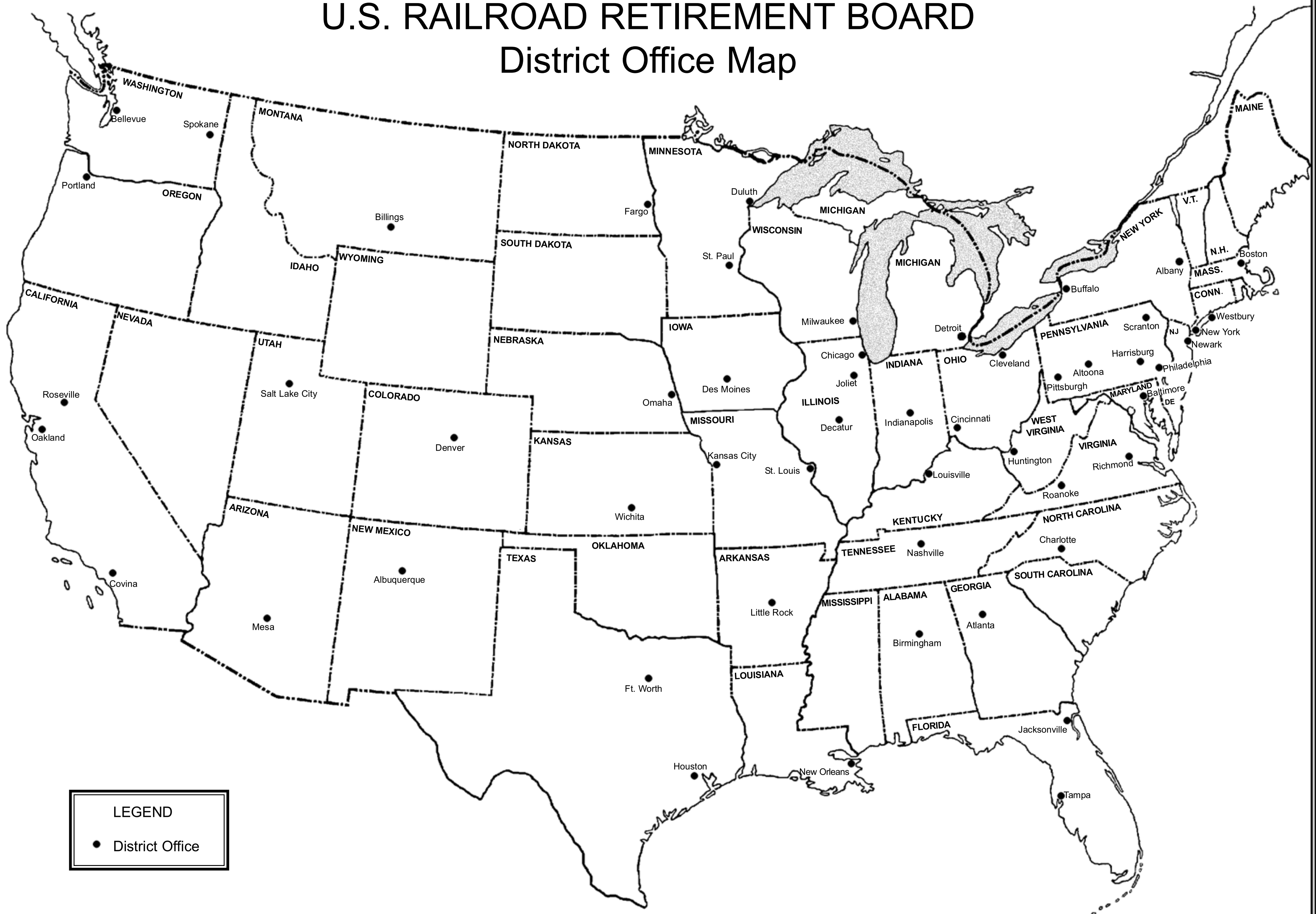
--------- The Inspector General reports administratively to the Chairman.

- - - - - - - The Director of Equal Opportunity reports administratively to the Director of Administration and programmatically to the Board.

*** Non-voting member of the Executive Committee.**

OCTOBER 2011

U.S. RAILROAD RETIREMENT BOARD
District Office Map



Financial Highlights

Amounts in the RR Account not needed to pay current benefits and administrative expenses are transferred to the NRRIT whose Board of seven trustees is empowered to invest NRRIT assets in non-governmental assets, such as equities and debt, as well as in governmental securities. Amounts in the SSEB Account not needed to pay current benefits and administrative expenses are transferred to either the RR Account or the NRRIT.

On February 17, 2009, President Obama signed the ARRA. Under the ARRA, the RRB has two major benefit programs to administer, economic recovery payments, and extended unemployment insurance benefits. For additional information on the ARRA, see page 37.

On November 6, 2009, President Obama signed the WHBAA. The legislation authorized payment of extended unemployment insurance benefits to rail workers. For additional information on WHBAA, see page 37.

On December 17, 2010, President Obama signed the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010. The legislation provides a 1-year reduction in employee payroll taxes and provides more extended unemployment benefits for railroad workers. For additional information on the Tax Relief Act, see page 38.

Shown on the following page are snapshots of the net position, financing sources, and benefit payments (before elimination of inter-fund transactions) for the RRB accounts. All dollar amounts are in millions.

Net Position, Financing Sources, and Benefit Payments
(In millions)

	2011	2010
NET POSITION AT SEPTEMBER 30		
Social Security Equivalent Benefit Account	$ 319.9	$ 564.9
Railroad Retirement Account 1/	22,466.7	23,981.0
Railroad Retirement Administration Fund	3.3	3.6
Railroad Unemployment Insurance Trust Fund –		
Benefit Payments	40.3	(25.2)
Administrative Expenses	11.7	8.2
Limitation on the Office of Inspector General	.8	.8
Dual Benefits Payments Account	9.0	8.3
Federal Payments to the Railroad Retirement Accounts	21.0	.5
American Recovery and Reinvestment Act of 2009		
Railroad Unemployment Insurance Extended Benefit Payments – Recovery Act (no year dollars)	9.5	8.9
Economic Recovery Payments – Recovery Act	5.0	5.1
Administrative Expenses – Recovery Act (no year dollars)	-	-
Administrative Expenses – Recovery Act	-	-
Limitation on Administration – Recovery Act (no year dollars)	-	-
Limitation on Administration – Recovery Act	.7	.7
Worker, Homeownership and Business Assistance Act of 2009		
Railroad Unemployment Insurance Extended Benefits Payments (no year dollars)	147.8	155.6
Administrative Expenses, Railroad Unemployment Insurance Extended Benefit Payments	-	-
Total	$23,035.7	$24,712.4
FINANCING SOURCES FOR FISCAL YEAR		
Social Security Equivalent Benefit Account	$ 6,272.1	$ 6,389.4
Railroad Retirement Account 2/	3,008.7	5,054.9
Railroad Retirement Administration Fund	118.6	117.1
Railroad Unemployment Insurance Trust Fund –		
Benefit Payments	158.1	84.2
Administrative Expenses	3.4	(0.5)
Limitation on the Office of Inspector General	8.7	8.5
Dual Benefits Payments Account	55.2	62.1
Federal Payments to the Railroad Retirement Accounts 3/	698.1	467.1
American Recovery and Reinvestment Act of 2009		
Railroad Unemployment Insurance Extended Benefit Payments – Recovery Act (no year dollars)	(.5)	.8
Economic Recovery Payments – Recovery Act	-	.4
Administrative Expenses – Recovery Act (no year dollars)	-	-
Administrative Expenses – Recovery Act	-	-
Limitation on Administration – Recovery Act (no year dollars)	-	-
Limitation on Administration – Recovery Act	-	-
Worker, Homeownership and Business Assistance Act of 2009		
Railroad Unemployment Insurance Extended Benefits Payments, (no year dollars)	7.8	19.4
Administrative Expenses, Railroad Unemployment Insurance Extended Benefit Payments	-	.8
Total	$10,330.2	$12,204.2

1/ NRRIT-held net assets are a financing source and are included in the Railroad Retirement Account above.
2/ Change in NRRIT-held net assets is included in the Railroad Retirement Account above.
3/ Includes funds subsequently transferred to other accounts. Such inter-fund transfers are eliminated in the preparation of the consolidated statements.

	2011	2010
BENEFIT PAYMENTS FOR FISCAL YEAR 4/		
Social Security Equivalent Benefit Account	$ 6,384.6	$ 6,260.9
Railroad Retirement Account	4,522.4	4,473.1
Railroad Unemployment Insurance Trust Fund –		
Unemployment Insurance	36.8	84.4
Sickness Insurance	54.1	51.7
Dual Benefits Payments Account	55.2	62.1
American Recovery and Reinvestment Act of 2009		
Railroad Unemployment Insurance Extended Benefit Payments – Recovery Act (no year dollars)	.5	.8
Economic Recovery Payments – Recovery Act	-	.4
Worker, Homeownership and Business Assistance Act of 2009		
Railroad Unemployment Insurance Extended Benefits Payments (no year dollars)	7.8	19.4
Total	$11,061.4	$10,952.8

4/ Net of recoveries and offsetting collections; excludes SSA benefit payments.

The RRB's financial statements are comprised of: Balance Sheet and Statements of Net Cost, Changes in Net Position, Budgetary Resources, and Social Insurance and notes which are an integral part of the statements. We also present as required supplementary information a discussion of the actuarial outlook for the railroad retirement program and the Disaggregate of Budgetary Resources.

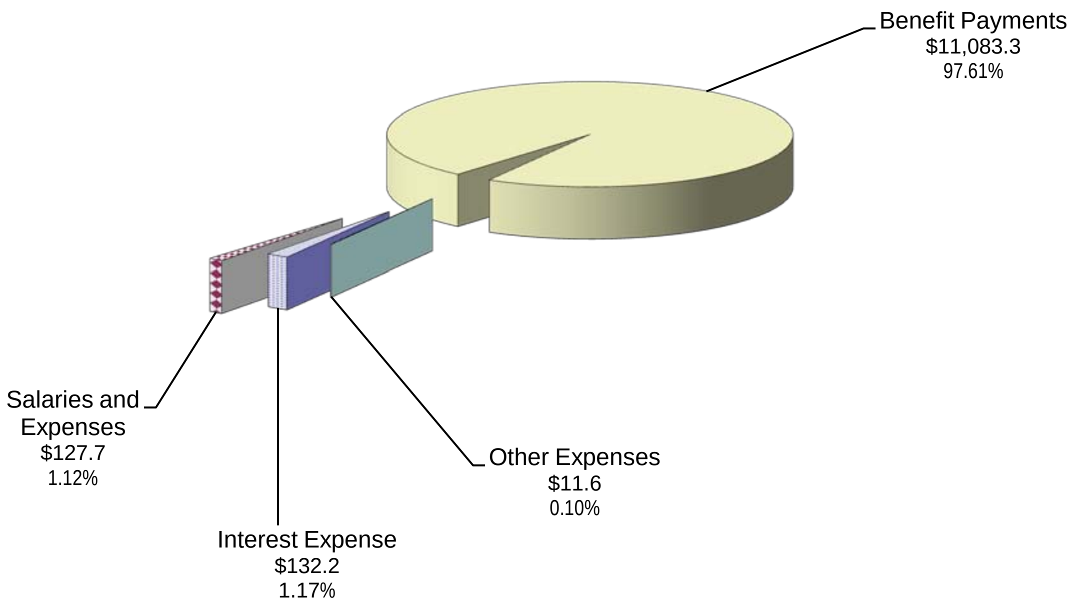
Comparison of Net Cost of Operations and Financing Sources

The net cost of operations for fiscal years 2011 and 2010 was $11,321.8 million and $11,221.5 million, respectively. The details of the net cost of operations by type, amount, increase or decrease, and percentage change from fiscal year 2010 to fiscal year 2011 are shown below. Additional information regarding the net cost of operations and financing sources for fiscal years 2011 and 2010 is shown on the following pages.

NET COST OF OPERATIONS
(In millions)

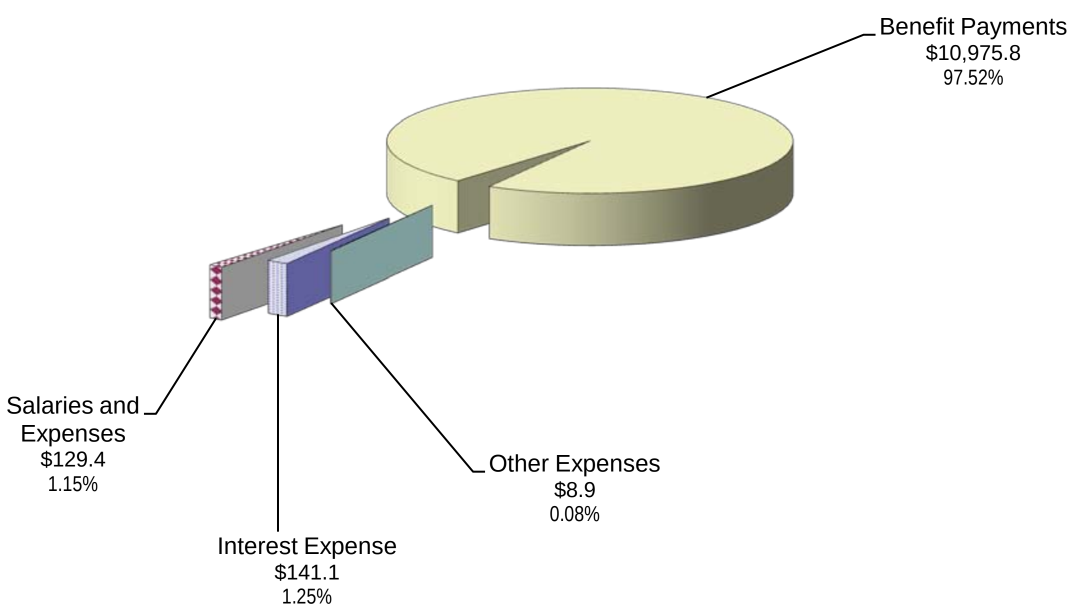
	FY 2011	FY 2010	Amount of Increase (Decrease)	Percent of Increase (Decrease)
Interest expense – Treasury borrowing	$ 132.2	$ 141.1	$ (8.9)	(6.3)
Salaries and expenses	127.7	129.4	(1.7)	(1.3)
Benefit payments – RRB	11,083.3	10,975.8	107.5	1.0
Other expenses	11.6	8.9	2.7	30.3
Subtotal	11,354.8	11,255.2	99.6	0.9
Less: Earned revenues	33.0	33.7	(0.7)	(2.1)
Net cost of operations	$11,321.8	$11,221.5	$100.3	0.9

FY 2011
NET COST OF OPERATIONS
(In millions)



Totals $11,354.8 million, excluding reimbursements and earned revenues of $33.0 million.

NET COST OF OPERATIONS (In millions)
FY 2010



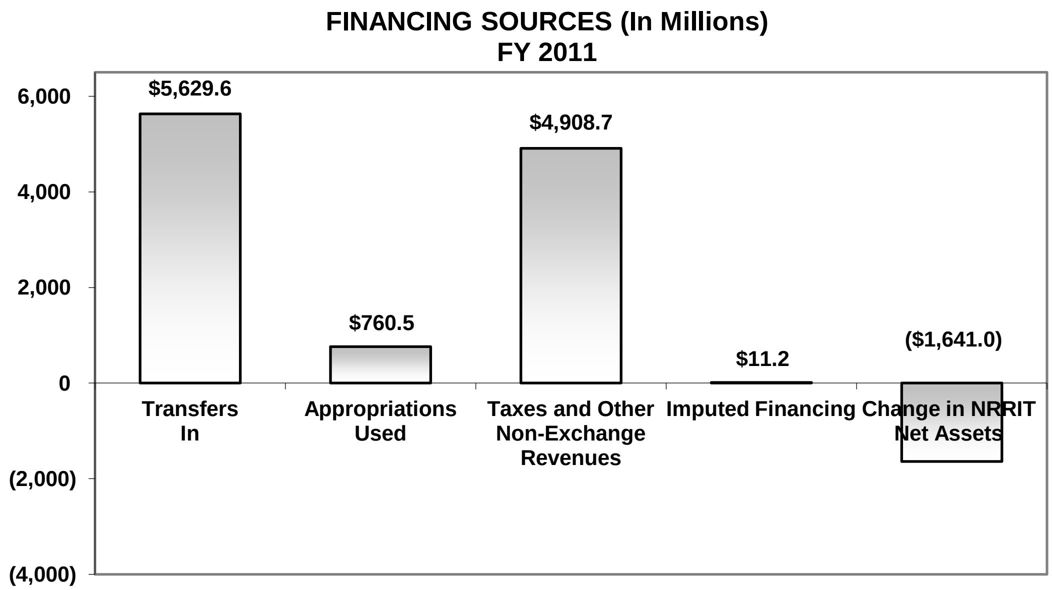
Totals $11,255.2 million, excluding reimbursements and earned revenues of $33.7 million.

The following table shows financing sources (excluding changes in unexpended appropriations) by type, amount, increase or decrease, and percentage change from fiscal year 2010 to fiscal year 2011.

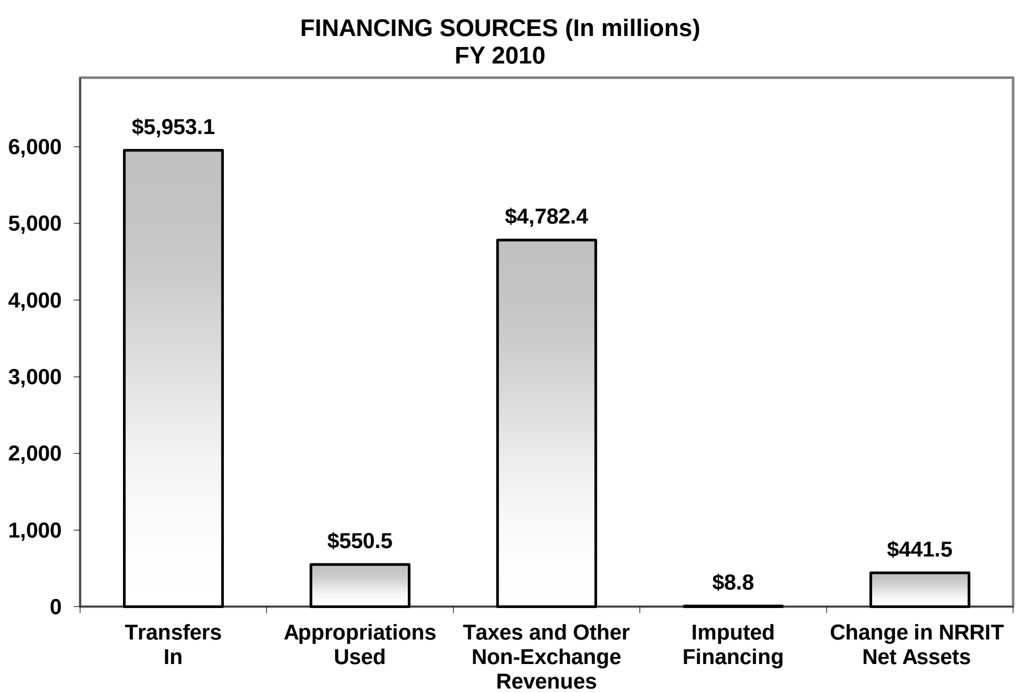
FINANCING SOURCES
(In millions)

	FY 2011	FY 2010	AMOUNT OF INCREASE (DECREASE)	PERCENT OF INCREASE (DECREASE)
Appropriations used	$ 760.5	$ 550.5	$ 210.0	38.1
Taxes and other non-exchange revenues:				
Payroll taxes	4,696.7	4,648.1	48.6	1.0
Interest revenue and other income	41.6	37.2	4.4	11.8
Carriers refunds – principal	(2.4)	(1.0)	(1.4)	140.0
Railroad Unemployment Insurance (RUI) revenue	172.8	98.1	74.7	76.1
Subtotal	$4,908.7	$ 4,782.4	$ 126.3	2.6
Imputed financing (amount to be provided by the Office of Personnel Management (OPM) to pay future retirement benefits to RRB employees)	11.2	8.8	2.4	27.3
Transfers in:				
Financial Interchange, net	3,885.6	3,964.1	(78.5)	(2.0)
NRRIT	1,744.0	1,989.0	(245.0)	(12.3)
Subtotal	$5,629.6	$ 5,953.1	($323.5)	(5.4)
Other:				
Change in NRRIT net assets	(1,641.0)	441.5	(2,082.5)	(471.7)
Subtotal	$9,669.0	$11,736.3	($2,067.3)	(17.6)
Less: Transfers out to NRRIT	0.0	0.0	0.0	0.0
Loss Contingency	37.9	0.9	37.0	4,111.1
Subtotal	37.9	0.9	37.0	4,111.1
Total	$9,631.1	$11,735.4	($2,104.3)	(17.9)

The most significant difference between the RRB's financial statements for fiscal year 2010 and fiscal year 2011 was the change in NRRIT net assets. The decrease in NRRIT net assets of $1,641.0 million is due to market fluctuations during the past year. There is a section on page 20 that describes the NRRIT, and the NRRIT net assets balances for 2010 and 2011 are shown in the RRB's Financial Section of this publication.



Total Financing Sources $9,669.0 million, excluding $37.9 million loss contingency.



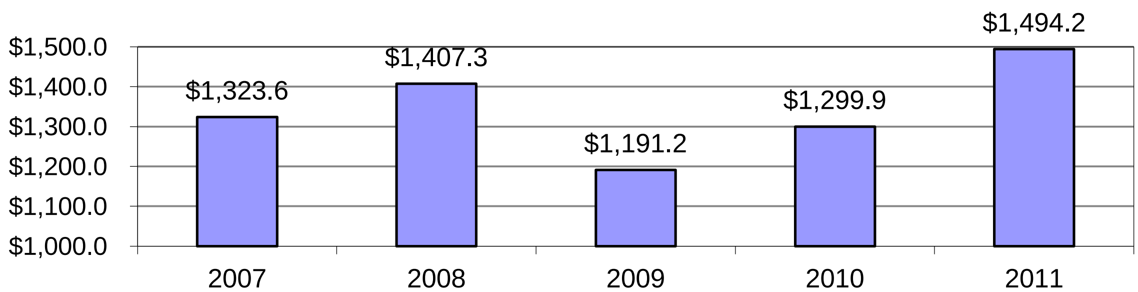
Total Financing Sources $11,736.3 million, excluding $0.9 million loss contingency.

Railroad Retirement Investments at Treasury

The book value of all railroad retirement investments, including accrued interest, increased to $1,494.2 million as of September 30, 2011, from $1,299.9 million on September 30, 2010 (excludes NRRIT net assets). The graph below reflects the book value of the railroad retirement investments from September 30, 2007, through September 30, 2011.

INVESTMENT BALANCES HELD AT TREASURY (AT BOOK VALUE)
AT SEPTEMBER 30, 2007 - 2011

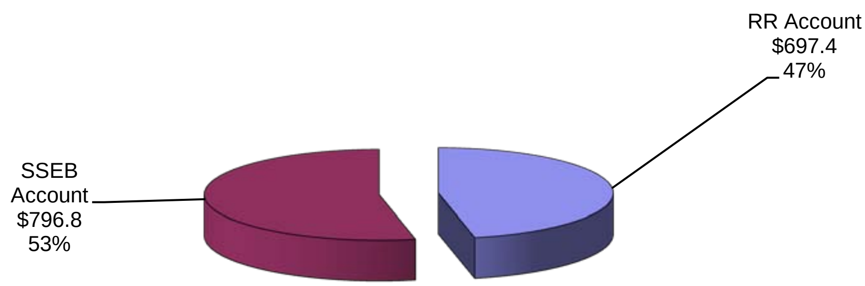
(In millions, excluding NRRIT net assets)



The following chart shows the portfolio of the railroad retirement investments as of September 30, 2011.

RAILROAD RETIREMENT INVESTMENTS HELD AT TREASURY
AS OF SEPTEMBER 30, 2011

(In millions, excluding NRRIT net assets)



AT BOOK VALUE
Total $1,494.2

Railroad Retirement Account

On September 30, 2011 and 2010, the book values of the RR Account investments, excluding NRRIT assets, including accrued interest, totaled $697,396,746 and $506,776,803, respectively. The balance on September 30, 2011, consisted of $696,280,000 in 3.000 percent par value specials (with market value equal to face value) maturing on October 3, 2011, and $1,116,746 in accrued interest. The balance on September 30, 2010, consisted of $505,951,000 in 3.000 percent par value specials (with market value equal to face value) maturing on October 1, 2010, and $825,803 in accrued interest. Par value specials mature on the first working day of the month following the month of issue and have a yield based on the average yield of marketable Treasury notes with maturity dates at least 3 years away.

Social Security Equivalent Benefit Account

On September 30, 2011 and 2010, the book values of the SSEB Account investments, including accrued interest, totaled $796,827,566 and $793,129,608, respectively. The balance on September 30, 2011, consisted of $795,547,000 in 3.000 percent par value specials maturing on October 3, 2011, and $1,280,566 in accrued interest. The balance on September 30, 2010, consisted of $791,857,000 in 3.000 percent par value specials maturing on October 1, 2010, and $1,272,608 in accrued interest.

National Railroad Retirement Investment Trust

The NRRIT was established by the Railroad Retirement and Survivors' Improvement Act of 2001 (RRSIA). The sole purpose of the NRRIT is to manage and invest railroad retirement assets. The NRRIT is a tax-exempt entity, independent from the Federal Government and not subject to Title 31, United States Code (USC). The NRRIT is domiciled in and subject to the laws of the District of Columbia.

The NRRIT is comprised of a Board of seven Trustees, three selected by railroad labor unions and three by railroad companies. The seventh Trustee is an independent Trustee selected by the other six. Members of the Board of Trustees are not considered officers or employees of the Government of the United States.

The RRSIA authorizes the NRRIT to invest railroad retirement assets in a diversified investment portfolio in the same manner as those of private sector retirement plans. Prior to the RRSIA, investment of railroad retirement assets was limited to U.S. Government securities.

The NRRIT and the RRB are separate entities. The RRB remains a Federal agency and continues to have full responsibility for administering the railroad retirement program, including eligibility determinations and the calculation of benefit payments. The NRRIT has no powers or authority over the administration of benefits under the railroad retirement program. Under the RRSIA, the NRRIT is required to act solely in the interest of the RRB, and through it, the participants and beneficiaries of the programs funded under the RRA. The RRSIA does not delegate any authority to the RRB with respect to day-to-day activities of the NRRIT, but the RRSIA provides that the RRB may bring a civil action to enjoin any act or practice of the NRRIT that violates the provisions of the RRSIA or to enforce any provision of the RRSIA.

Under the RRSIA, the financial statements of the NRRIT are required to be audited annually by an independent public accountant. In addition, the NRRIT must submit an annual management report to the Congress on its operations, including a Statement of Financial Position, a Statement of Operations, a Statement of Cash Flows, a Statement on Internal Accounting and Administrative Control Systems, the independent auditor's report, and any other information necessary to inform the Congress about the operations and financial condition of the NRRIT. A copy of the annual report must also be submitted to the President, the RRB, and the Director of OMB.

Program, Operations, and Financial Performance and Results

During fiscal year 2011 (ended September 30, 2011), railroad retirement and survivor benefit payments totaled $11.0 billion, net of recoveries and offsetting collections. Railroad unemployment and sickness insurance benefit payments totaled $90.9 million in fiscal year 2011, net of recoveries and offsetting collections. During fiscal year 2011, the RRB also paid benefits on behalf of SSA (for which the RRB is reimbursed) amounting to $1.4 billion to about 115,000 beneficiaries.

In fiscal year 2011, the RRB continued to focus its efforts on providing excellent customer service to current and former railroad workers and their family members. Our regular workloads in fiscal year 2011 included:

- Providing payments to 578,000 retirement and survivor beneficiaries.
- Providing payments to 11,000 unemployment insurance beneficiaries.
- Providing payments to 18,000 sickness insurance beneficiaries.
- Processing 30,146 retirement, survivor, and disability applications for benefits and then determining eligibility (through May 2011).
- Processing 179,221 applications and claims for unemployment and sickness insurance benefits (through May 2011).
- Issuing 257,302 certificates of employee railroad service and compensation (mailed on June 10, 2011).

During fiscal year 2011, the RRB used 40 specific program performance objectives, including several with multiple indicators, to manage and track progress in meeting its long-term strategic plan goals. These objectives were accomplished with direct appropriations of $108,854,854 for administration of the RRB. (A breakdown of administrative expenses by strategic goal is not available at the time of this report.) Agency performance with respect to the key performance indicators is covered in the following section. For most performance measures, actual full-year performance results for fiscal year 2011 were not available at the time this report was published. For those objectives, we reported part-year performance information for fiscal year 2011, if available. We also reported actual results from prior years, as applicable.

Summary of Achievement by Strategic Goal

Strategic Goal I: Provide Excellent Customer Service. For fiscal year 2011, we expect that benefit payment accuracy rates will exceed 99 percent, and we expect to meet or exceed most of our timeliness goals.

Strategic Goal II: Serve as Responsible Stewards for Our Customers' Trust Funds and Agency Resources. The RRB is committed to fulfilling its fiduciary responsibilities to the rail community. For fiscal year 2011, we expect to meet or exceed our performance goals.

Strategic Goals and Objectives

The RRB has a long and distinguished tradition of excellence in serving our customers, and we will strive to continue that tradition in the coming years. We have achieved high levels of accuracy and timeliness in processing retirement/survivor and unemployment/sickness insurance benefits, while embracing new technology, especially in areas where it can improve customer service and efficiency. We have also achieved very high scores for customer service in independent assessments of our operations related to initial railroad retirement applications, unemployment and sickness insurance benefits, survivor applications and disability applications.

The two overriding strategic issues for the upcoming planning period relate to customer service and trust fund stewardship. The **service issue** involves our ability to continue to meet our customers' expectations for personal, high quality service, and our ability to position the agency to meet rising customer expectations for new and improved services in the future. The **stewardship issue** has multiple aspects, some of which arise from legislative changes and others which relate to our ongoing ability to meet our program integrity responsibilities and to maintain effective, efficient and secure agency operations. To effectively address these issues, we have established two strategic goals on which we will focus our efforts.

Provide excellent customer service

We aim to satisfy our customers' expectations for quality service both in terms of service delivery options and levels and manner of performance. Our Annual Performance Budget for Fiscal Year 2011 reflects two strategic objectives that focus on the specifics of achieving this goal.

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

Serve as responsible stewards for our customers' trust funds and agency resources

The RRB is committed to fulfilling its fiduciary responsibilities to the rail community. Our performance budget reflects four objectives that direct our focus on this goal.

- Ensure that trust fund assets are projected, collected, recorded and reported appropriately.
- Ensure the integrity of benefit programs.
- Ensure effectiveness, efficiency, and security of operations.
- Effectively carry out responsibilities with respect to the NRRIT.

The RRB of the future will continue to be customer-focused, quality-driven, and fiscally responsible. Our overall mission and responsibilities as a Federal agency will remain unchanged, even though our organization may be smaller in terms of staff and budget resources. We will use creativity, automation and innovation to continue to deliver best-in-class service while ensuring cost-effective and efficient operations.

Our customers will have a broad range of choices for conducting their business with the agency, including more Internet options that will allow for private, secure transactions from their homes at any time of the day. Railroad employers will be able to conduct most, if not all, of their routine transactions with the RRB through secure and efficient electronic systems. Direct customer feedback will shape our planning efforts and enhance our responsiveness. Our customer service levels will serve as a standard of excellence for the rest of the Federal community.

The agency's internal culture will reflect a strong commitment to its employees, and a drive to ensure continual learning at all levels. Given the large percentage of employees who will be eligible for retirement in the near future, senior employees will engage in knowledge transfer and sharing as a top priority.

Our ultimate measures of success will be the sustained satisfaction level of our customers and our ability to respond to their needs and concerns.

Validation of Performance Information. The RRB has implemented comprehensive administrative procedures to ensure that reported performance information is accurate and valid. Administrative Circular RRB-2 establishes standards and assigns responsibility for collecting, documenting, validating, certifying, reporting and retaining information related to the actual performance data reported for objectives in the RRB's Annual Performance Budget and Government Performance and Results Act (GPRA) Report.

The procedures require that reporting managers develop and maintain written procedures for:

- Collecting data related to each objective,
- Testing and validating performance data to ensure accuracy,
- Retaining source documents for future reference, and
- Attesting to the accuracy of performance information reported.

Members of the RRB's Planning Council review the certified performance data and attestations for completeness and identify any problems. The Planning Council also compiles the performance data for agency reports, and monitors compliance with the requirements of Administrative Circular RRB-2.

Members of the RRB's Executive Committee review performance issues related to their areas of responsibility and assign follow-up action, as necessary. The Executive Committee also reviews and approves performance reports before releasing the drafts for approval by the Board Members.

The following begins a discussion of our key performance indicators.

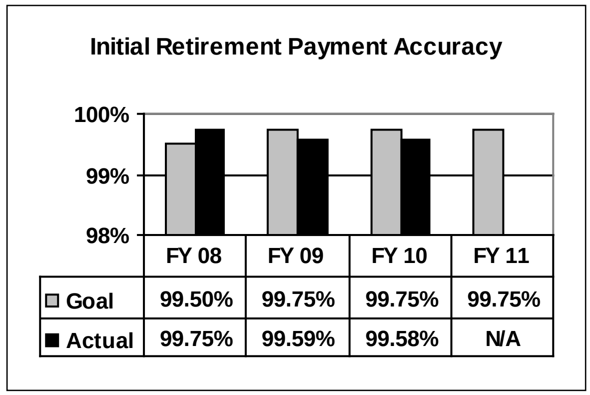
Discussion of Key Performance Indicators

The RRB has identified the following 10 key performance indicators, which represent our most important responsibilities.

<u>Key performance indicator 1:</u> Initial recurring retirement payment accuracy (Objective I-A-1a)

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

FY 2011 goal: 99.75%
Our FY 2011 performance: Not available



Full-year data will be available in fiscal year 2012.

FY 2010 goal: 99.75%
Our FY 2010 performance: 99.58%

We did not meet our goal. However, the performance goal was set at an approximate target level, and the deviation from that level is slight. There was no effect on overall program or activity performance.

Automation plays a key role in assuring initial benefit payment accuracy by reducing the number of erroneous payments. Automation will become more critical in this area as experienced personnel retire in the coming years.

Data definition: This is the percentage of the dollar value of initial recurring retirement benefit payments paid correctly as a result of adjudication actions performed, based on a review of a sample of cases.

Key performance indicator 2: Unemployment insurance payment accuracy (Objective I-A-2a)

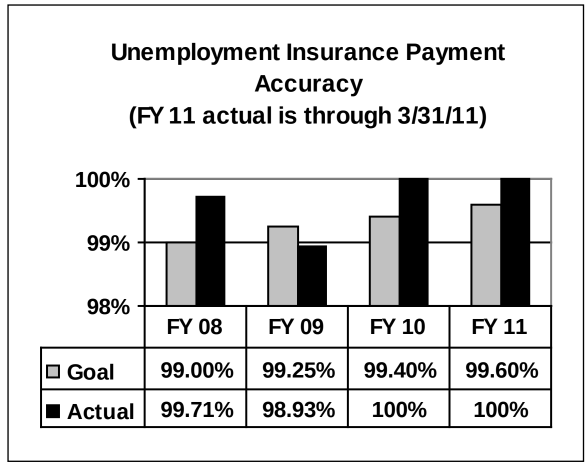
Our overall strategic goal is to achieve a railroad unemployment insurance benefit payment accuracy rate of at least 99 percent.

FY 2011 goal: 99.60%
Our FY 2011 performance: 100% through the quarter

We are achieving our goal. Automation plays a key role in assuring benefit payment accuracy by reducing the number of erroneous payments.

FY 2010 goal: 99.40%
Our FY 2010 performance: 100%

Data definition: This is the percentage of the dollar value of unemployment insurance benefit payments paid correctly as a result of adjudication actions performed, based on a review of a sample of cases.



Key performance indicator 3: Sickness insurance payment accuracy (Objective I-A-2b)

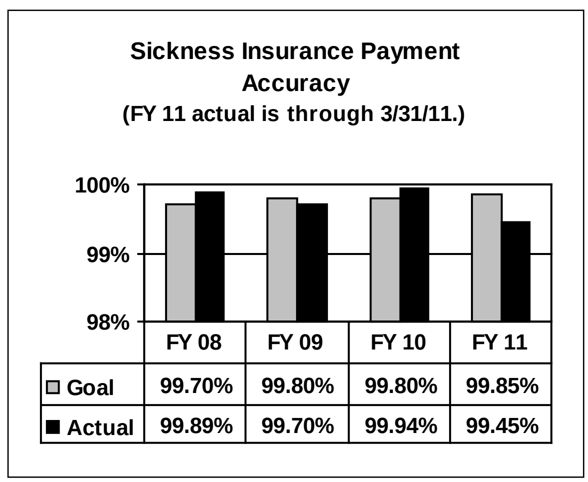
Our overall strategic goal is to achieve a railroad sickness insurance benefit payment accuracy rate of at least 99 percent.

FY 2011 goal: 99.85%
Our FY 2011 performance: 99.45% through the quarter

We are close to achieving our goal. We hope to achieve our goal with actual year-end performance. Automation plays a key role in assuring benefit payment accuracy by reducing the number of erroneous payments.

FY 2010 goal: 99.80%
Our FY 2010 performance: 99.94%

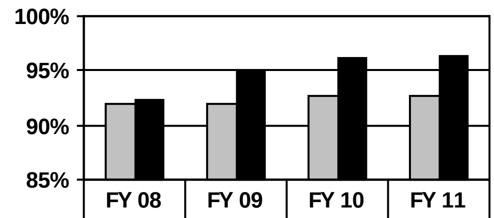
Data definition: This is the percentage of the dollar value of sickness insurance benefit payments paid correctly as a result of adjudication actions performed, based on a review of a sample of cases.



Key performance indicator 4: Timeliness of initial railroad retirement annuity payments, when advanced filed (Objective I-A-5)

FY 2011 goal: 92.75%
Our FY 2011 performance: 96.37%
through the quarter

The RRB makes a decision to pay or deny a railroad retirement employee or spouse initial annuity application within 35 days of the annuity beginning date, if advanced filed.
(FY 11 actual is through 3/31/11.)



	FY 08	FY 09	FY 10	FY 11
Goal	92.00%	92.00%	92.75%	92.75%
Actual	92.40%	94.86%	96.16%	96.37%

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

FY 2010 goal: 92.75%
Our FY 2010 performance: 96.16%

Data definition: This goal is included in the RRB Customer Service Plan. Prior to fiscal year 2008, the goal was stated from the customer's perspective and attempted to measure timeliness to the point of delivery by reporting performance as the percent of retirement age and service applications for which all RRB processing was completed within 30 days, allowing 5 days to account for handling by the Department of the Treasury or U.S. Postal Service (USPS). An audit by the RRB's OIG (05-05, dated May 17, 2005), however, found technical problems with the data, specifically, the time to voucher the case for payment was not included in the measure. Since that time, we qualified the performance report to indicate that, due to system limitations, our tracking did not include all internal processing time, but only measured to 30 days adjudicative processing time. In its audit, the RRB's OIG also found a reporting flaw in our measurement process for third-party payment cases, which affected 2 out of 150 cases in the sample. For fiscal years before 2009, the performance level reported is inaccurate for the few cases of this type processed during the reporting period, and is measured as 30 days to the end of the adjudicative process.

In fiscal year 2008, we reworded the goal to express performance from the RRB's perspective. The current goal is stated in the chart above.

Effective October 1, 2008, the system problems described above were corrected allowing us to track performance for the entire internal processing time. Beginning with fiscal year 2009, there is no longer a need to qualify the measure for this objective to refer to "adjudicative processing days." The other errors found by the OIG have also been corrected.

We believe that performance data reported for fiscal year 2009 and later accurately reflect the percentage of applications processed to the point of payment or denial within 35 days of the annuity beginning date, if advanced filed.

We will continue to disclose the previous problems until the point where the performance for fiscal year 2008 and earlier is no longer included in this report.

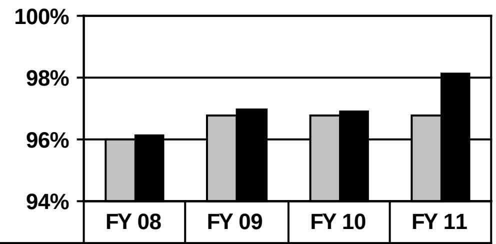
<u>Key performance indicator 5:</u> Timeliness of initial railroad retirement annuity payments, if not advanced filed (Objective I-A-6)

FY 2011 goal: 96.80%
Our FY 2011 performance: 98.10%
through the quarter

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

FY 2010 goal: 96.80%
Our FY 2010 performance: 96.90%

The RRB makes a decision to pay or deny a retirement employee or spouse initial annuity application within 60 days of the date the application was filed. (FY 11 actual is through 3/31/11.)



	FY 08	FY 09	FY 10	FY 11
Goal	96.0%	96.8%	96.8%	96.8%
Actual	96.1%	97.0%	96.9%	98.1%

Data definition: This goal is included in the RRB Customer Service Plan. Prior to fiscal year 2008, the goal was stated from the customer's perspective and attempted to measure timeliness to the point of delivery by reporting performance based on the percent of retirement age and service applications for which all RRB processing was completed within 60 days, allowing 5 days to account for handling by the Department of the Treasury or U.S. Postal Service (USPS). An audit by the RRB's OIG (05-05, dated May 17, 2005), however, found technical problems with the data, specifically the time to voucher the case for payment was not included in the measure. Since that time, we qualified the performance report to indicate that, due to system limitations, our tracking did not include all internal processing time, but only measured to 60 days adjudicative processing time. While the issues described in detail for Key Indicator 4 apply to these non-advanced filed cases as well, the net impact on actual performance levels was not as significant.

In fiscal year 2008, we reworded the goal to express performance from the RRB's perspective. The current goal is stated in the chart above.

Effective October 1, 2008, the system problems described above were corrected allowing us to track performance for the entire internal processing time. Beginning with fiscal year 2009, there is no longer a need to qualify the measure for this objective to refer to "adjudicative processing days." The other errors found by the OIG have also been corrected.

We believe that performance data reported for fiscal year 2009 and later accurately reflect the percentage of applications processed to the point of payment or denial within 60 days of the date the application was filed.

We will continue to disclose the previous problems until the point where the performance for fiscal year 2008 and earlier is no longer included in this report.

<u>Key performance indicator 6:</u> Timeliness of new survivor benefit payments (Objective I-A-7)

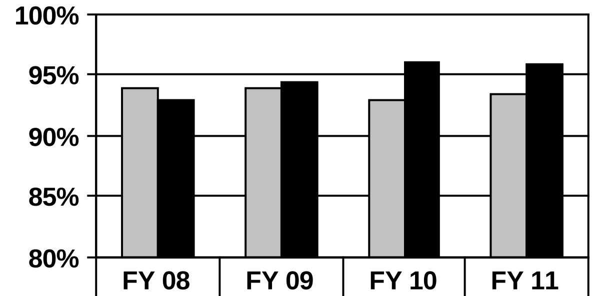
FY 2011 goal: 93.50%
Our FY 2011 performance: 95.98%
through the quarter

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

FY 2010 goal: 93.00%
Our FY 2010 performance: 96.10%

Data definition: This goal is included in the RRB Customer Service Plan. In fiscal year 2008, we reworded the goal to more precisely measure RRB internal processing time. The indicator was again restated in our final performance budget for fiscal year 2010 to more accurately describe how timeliness is measured. The current goal is stated in the chart at the right.

RRB makes a decision to pay, deny or transfer to SSA an initial annuity application for a retirement survivor not already receiving a benefit within 60 days of the annuity beginning date or date filed, (whichever is later). (FY11 is through 3/31/11.)



	FY 08	FY 09	FY 10	FY 11
Goal	94.0%	94.0%	93.0%	93.50%
Actual	92.9%	94.4%	96.1%	95.98%

<u>Key performance indicator 7:</u> Timeliness of spouse to survivor benefit payment conversions (Objective I-A-8)

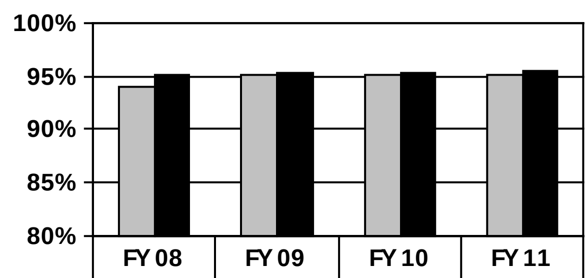
FY 2011 goal: 95.20%
Our FY 2011 performance: 95.58%
through the quarter

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

FY 2010 goal: 95.10%
Our FY 2010 performance: 95.30%

Data definition: This goal is included in the RRB Customer Service Plan. In fiscal year 2008, we reworded the goal to more precisely measure only RRB internal processing time. The indicator was again restated in our final performance budget for fiscal year 2010 to more accurately describe how timeliness is measured. The current goal is stated in the chart at the right.

RRB makes a decision to pay, deny or transfer to SSA an initial annuity application for a survivor already receiving benefits as a spouse within 30 days of the RRB's receipt of first notice of the employee's death. (FY 11 actual is through 3/31/11.)



	FY 08	FY 09	FY 10	FY 11
Goal	94.0%	95.1%	95.1%	95.20%
Actual	95.1%	95.4%	95.3%	95.58%

Key performance indicator 8: Timeliness of unemployment or sickness insurance payments (Objective I-A-12)

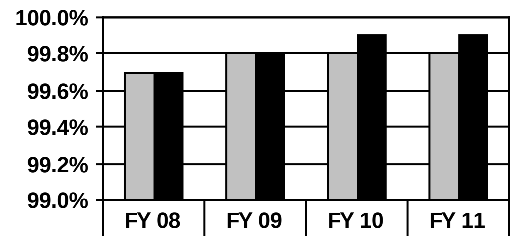
FY 2011 goal: 99.80%
Our FY 2011 performance: 99.90%
through the quarter

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

FY 2010 goal: 99.80%
Our FY 2010 performance: 99.90%

Data definition: This goal is included in the RRB Customer Service Plan. In fiscal year 2008, we reworded the goal to more precisely measure only RRB internal processing time. The current goal is stated in the chart at the right.

RRB certifies a payment or releases a letter of denial of UI or SI benefits within 10 days of the date the RRB receives the claim. (FY 11 actual is through 3/31/11.)



	FY 08	FY 09	FY 10	FY 11
Goal	99.7%	99.8%	99.8%	99.8%
Actual	99.7%	99.8%	99.9%	99.9%

Key performance indicator 9: Timeliness of disability decisions (Objective I-A-13)

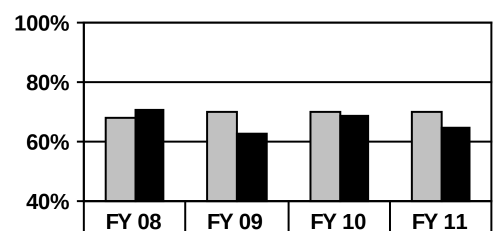
FY 2011 goal: 70.00%
Our FY 2011 performance: 64.80%
through the quarter

We are not yet achieving our goal. We are monitoring closely our monthly performance statistics in this area, and are hoping for a higher percentage by the end of the fiscal year. Actions to improve performance include expanded efforts to identify and monitor aging cases and use of overtime.

FY 2010 goal: 70.00%
Our FY 2010 performance: 68.90%

Data Definition: This goal is included in the RRB Customer Service Plan. In fiscal year 2008, we reworded the goal to more precisely measure only RRB internal processing time. The current goal is stated in the chart at the right.

The RRB makes a decision to pay or deny a benefit for a disabled applicant or family member within 100 days of the date the application is filed. (FY 11 actual is through 3/31/11.)



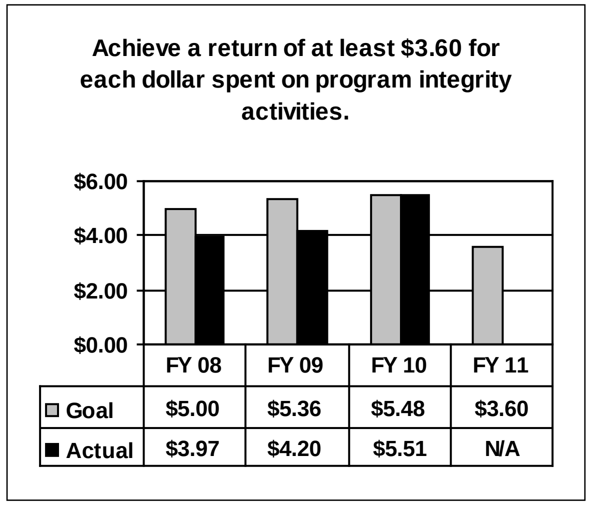
	FY 08	FY 09	FY 10	FY 11
Goal	68.0%	70.0%	70.0%	70.0%
Actual	70.4%	62.5%	68.9%	64.8%

Key performance indicator 10: **Return on investment in program integrity activities (Objective II-B-1)**

FY 2011 goal: $3.60 **:** $1
Our FY 2011 performance: Not available

FY 2011 data will be available in FY 2012.

FY 2010 goal: $5.48 **:** $1
Our FY 2010 performance: $5.51 **:** $1



We met our goal. In November 2010, we discovered that not all program integrity cost information was being used to compile the program integrity ratio – most significantly, the cost of a major monitoring activity was not being captured, even though the benefits of that process were included. As a result, we recomputed the program integrity ratios for fiscal years 2008 and 2009 using the updated cost amounts. We have also adjusted the fiscal year 2011 target for this indicator from $5.48: $1.00, to an adjusted level of $3.60: $1.00, which is consistent with the initial statement of the objective.

As part of our fiduciary responsibilities to the rail community, we must ensure that the correct benefit amounts are being paid to the right people. We match our benefit payments against SSA's earnings and benefits database, the Centers for Medicare & Medicaid Services' utilization and death records, the Office of Personnel Management's benefit records, and State wage reports, usually via computer tapes, and administer other benefit monitoring programs to identify and prevent erroneous payments. We also refer some cases to the RRB's OIG for investigation. After investigation, the OIG may pursue more aggressive collection methods, which include civil and criminal prosecution.

Data definition: This is the ratio of the sum of the dollar recoveries and savings, to the labor dollars spent.

Future Plans/Objectives

Program Improvements

- **Patient Protection and Affordable Care Act** The Patient Protection and Affordable Care Act of 2010 provides for an Income-Related Monthly Adjustment Amount (IRMAA) to be added to the Medicare prescription drug plan (Part D) premiums paid by high-income beneficiaries beginning in January 2011. This provision allows for the collection of Part D IRMAA through withholding from railroad retirement benefit checks or through direct billing. We implemented Part D IRMAA collection in January 2011 through direct billing, utilizing the existing Program Accounts Receivable system. Work is now proceeding to implement premium withholding from railroad retirement benefit checks. This work is targeted to be completed by January 2013.

- **Employer Reporting System (ERS) – Internet Site** Phase 3 of the ERS Internet-based versions of Forms BA-3, Annual Report of Service and Compensation and BA-11, Report of Gross Earnings is planned for completion in fiscal year 2011. When this phase is completed, the ERS project will have consolidated 20 paper-based forms into 17 on-line services. We also initiated Phase 4 which will automate access to the Forms ID-40 series of RUIA contribution notices; the ID-6 series of tax notices; and the Form G-88a.2, which transmits annuity eligibility information to rail employers. This will result in three additional on-line services.

  In fiscal year 2012, we will continue our development of automated processes to notify employers of errors or the need for additional information and provide a means for correcting the data. These include requests for verification of last date on the payroll (Form G-88a.1) and for the payment of supplemental annuities (Form G-88p). Starting in fiscal year 2013, we plan to develop additional record correction forms (Forms GL-99, Deemed Service Questionnaire and GL-132, Notice of Service After ABD). Automating these processes will give us direct contact with the responsible official and provide a means for immediate correction of the data. When implemented, these will add four more services to the system. Replacing these paper based processes continues to improve customer service by speeding up initial annuity processing, and enhances stewardship of the trust funds by securing and better protecting personally identifiable information.

Improper Payments Information Act (IPIA)

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

  - development of an enhanced automated retirement payment system to replace the current legacy system that processes retirement applications, planned for calendar year 2012,
  - development of an interface between systems to ensure accurate use of military service in the calculation of benefits, tentatively scheduled for completion in calendar year 2012,
  - work on the expansion of a Medicare premium collection database to include Part B premium withholding history is expected to begin in fiscal year 2013,
  - development of an interface between ORCS (Overpayment Recovery Correspondence System) and payment programs to insure that the most current data is retrieved and

used in the development of cases involving overpayment recovery. Current plans are to complete this initiative by end of calendar year 2011,

- o continued development of SPEED (System Processing Excess Earnings Data), a multi-phase automation initiative designed to process annuity adjustments resulting from excess earnings and work deductions on a timely basis.

See the IPIA reporting details for further discussion of these automation initiatives.

Systems and Controls

The RRB continually evaluates the effectiveness and efficiency of its operations using ongoing assessments and reviews of management controls, internal and external audits, quality control and assurance reviews, program integrity activities, and customer satisfaction surveys.

Under the direction of a Management Control Review Committee (MCRC) composed of senior managers from its program, information services, administrative, and financial operations, the RRB has divided these operations functionally into 44 assessable units. The number of assessable units can vary from year to year as operations are restructured to accommodate changes precipitated by such factors as new and revised missions, reduced resources, and increased automation.

The mission, key performance indicators, workflow, control objectives and techniques, guidance, automated systems support, impact, and vulnerability of each assessable unit are documented. The RRB maintains and annually updates a 5-year plan for review of the assessable units. The official responsible for each assessable unit prepares an annual assessment of key indicators and open or new issues requiring management's attention. High impact and vulnerable assessable units are scheduled for more frequent, in-depth reviews as deemed necessary by the MCRC in consultation with senior management. During fiscal year 2011, responsible officials performed in-depth reviews of 4 assessable units, assessed all 44, and certified 42.

In fiscal year 2011, the OIG has determined that there is still an Information Security – Risk Management material weakness in the security authorization (previously C&A) and continuous monitoring review process that includes complete, accurate, and trustworthy documentation. Their inspection determined that the activities conducted by the RRB for the authorization and continuous monitoring process do not fully comply with existing policy, procedures, guidance, and standards. The agency is addressing these concerns and the Chief Information Security Officer has been tasked to develop training to ensure that RRB staff involved in the authorization and continuous monitoring process can perform this process adequately and meet the requirements set forth by the OIG.

In fiscal year 2009, the OIG identified Non-Integrated Subsystems as a material weakness. The agency developed an inventory of non-integrated subsystems and is implementing and documenting new reconciliations between these and the general ledger.

The OIG recently identified Information Security – Applications and Services and Budgetary Reporting as material weaknesses.

The agency is committed to resolving these reported weaknesses and will closely monitor progress during fiscal year 2012.

Management Assurances

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

1. In accordance with OMB Circular No. A-123, Section VI (B), we are issuing a qualified statement of assurance considering the OIG-identified material weaknesses indicated under paragraph (4). Except as indicated under (4), the system of internal control of this agency is functioning and provides reasonable assurance as to the: efficiency and effectiveness of programs and operations; reliability of financial and performance information; and compliance with laws and regulations. These controls satisfy the requirements of the Federal Managers' Financial Integrity Act (FMFIA) §2.

2. The financial management systems of this agency maintain accountability for assets and provide reasonable assurance that obligations and costs are in compliance with applicable law, and that performance data and proprietary and budgetary accounting transactions applicable to the agency are properly recorded and accounted for to permit the timely preparation of accounts and reliable performance information. The financial management systems at this agency satisfy the requirements of the FMFIA §4.

3. The financial management systems of this agency provide the agency with reliable, timely, complete, and consistent performance and other financial information to make decisions and efficiently operate and evaluate programs and substantially satisfy the requirements of the GPRA and OMB Circular No. A-11.

4. The RRB's Inspector General, in his auditor's report, identifies Information Security – Risk Management, Information Security – Applications and Services, Non-Integrated Subsystems, and Budgetary Reporting as material weaknesses.

Description of OIG-Identified Material Weaknesses

1. During fiscal year 2011, the OIG inspected the internal control environment regarding the authorization and continuous monitoring process, which includes risk assessments and testing and evaluation of security controls and is still considered to be a material weakness for Information Security – Risk Management.

   In fiscal year 2012, the plan is to develop a comprehensive review process that will adequately address the authorization and continuous monitoring process as required for FISMA compliance. To ensure that this process is completed accurately, all RRB staff with roles and responsibilities in the process will be provided training by the Chief Information Security Officer.

2. The OIG recently identified Information Security – Applications and Services as a material weakness, which is being assessed for corrective actions.

3. The OIG also identified Non-Integrated Subsystems as a material weakness. The agency is working on implementing and documenting an enhanced reconciliation process.

4. The OIG recently identified Budgetary Reporting as a material weakness. The agency is reviewing its process for budgetary reporting.

5. The OIG recently identified Railroad Audits as a significant deficiency. Although, the assessment is not a material weakness, the agency is applying automated and procedure enhancements to improve audit controls in the future.

Original signed by:

Michael S. Schwartz, Chairman
Walter A. Barrows, Labor Member
Jerome F. Kever, Management Member

Financial Management Systems Strategy

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

The financial management system of the RRB is considered a major application for certification and accreditation purposes. Other major applications include the financial interchange and the payment of benefits under the RUIA and RRA.

In the current financial management system area, core financial management functions are centralized in a mainframe-based system (the Federal Financial System (FFS)) which continues to be under a maintenance contract between the RRB and CGI. FFS met the Core Financial System Requirements that were established by the former Joint Financial Management Improvement Program. The last major upgrade to the system by the contractor was in 1999 to make the system year 2000 compliant. Since then, the RRB has relied on its own administrative and information technology (IT) staff to ensure that the RRB's core financial system remains able to meet current and future requirements.

Pursuant to KPMG LLP assessment of the RRB's core financial management system (FFS) in 2010, the agency took the next step towards the recommended solution to migrate to a designated shared service provider (SSP). The RRB, with contractual assistance, completed an OMB Exhibit 300 (Capital Asset Plan and Business Case Summary) for submission with its fiscal year 2013 budget request to secure the Development/Modernization Enhancement (DME) funding required for migration. In addition, fiscal year 2011 funds were used to retain contractual services for pre-migration activities, chiefly the preparation of a statement of work (SOW) which will contain a complete description of the financial management requirements of the RRB that covers the complete range of focus that the new SSP system must address. Through the requirements definition supporting the SOW, areas of concern, such as interfacing non-integrated subsystems will be addressed. The result of the migration to a SSP environment will decrease the risk of gaps with Federal Systems Integration Office requirements.

Summary of Actuarial Forecast

The Statement of Social Insurance presents an actuarial analysis of the financial position of the railroad retirement system as of January 1, 2011, under our intermediate employment assumption. The Required Supplementary Information presents sensitivity analyses showing the impact of changes in employment and investment return assumptions. Although under our intermediate assumption no cash flow problems arise over the period 2011-2085, the sensitivity analyses show that, under the current financing structure, actual levels of railroad employment and investment return over the coming years will determine whether additional corrective action is necessary.

Section 7105 of the Technical and Miscellaneous Revenue Act of 1988 requires the RRB to submit an annual report to Congress on the financial status of the railroad unemployment insurance system. Projections were made for the various components of income and outgo under each of 3 employment assumptions for the 11 fiscal years 2011-2021. The results indicate that the Railroad Unemployment Insurance (RUI) Account will be solvent during the 11-year projection period. Full repayment of the loans made in 2010 is expected by the end of fiscal year 2011.

Social Insurance: Key Measures

Balance Sheet: The Balance Sheet displayed on page 68 presents our assets, liabilities, and net position. Total assets for fiscal year 2011 are $28.2 billion, a 5.4% decrease over last year. Of the total assets, $22.1 billion relates to funds held by the National Railroad Retirement Investment Trust (NRRIT). The net asset value of funds held by the NRRIT decreased from fiscal year 2010 by 6.9%. Our investments total $1.5 billion and we invest those funds not needed to pay current expenses or benefits in interest bearing Treasury securities. A chart of investment balances held at Treasury can be found on page 19. Total liabilities for fiscal year 2011 are $5.2 billion. Liabilities increased in fiscal year 2011 principally because of an increase of borrowing from Treasury. Also, benefits due increased by $19.8 million. By statute, benefits due in September are not paid until October.

Statement of Net Cost: The Statement of Net Cost displayed on page 69 presents the annual cost of operating our two major programs: railroad retirement and railroad unemployment insurance. In fiscal year 2011, our net cost of operations was $11.3 billion, an increase over last year of $100.3 million, or .9%. A chart for the net cost of operations for fiscal years 2011 and 2010 can be found on page 15.

Statement of Changes in Net Position: The Statement of Changes in Net Position displayed on page 70 reflects the changes that occurred within cumulative results of operations and unexpended appropriations. Total net position for 2011 is $23.0 billion. The statement shows a decrease in the net position of the agency of $1.7 billion attributable to the change in cumulative results of operations. Total financing sources for 2011 are $9.6 billion. A chart for financing sources for fiscal years 2011 and 2010 can be found on page 17.

Statement of Social Insurance: Federal accounting standards require the presentation of a Statement of Social Insurance as a basic financial statement. The Statement of Social Insurance presents estimates of the present value of the income to be received from or on behalf of current and future participants of the Railroad Retirement program, the present value of the cost of providing scheduled benefits to those same individuals, and the difference between the income and cost. The Statement of Social Insurance covers a period of 75 years in the future, and the information and disclosures presented are deemed essential to the fair presentation of this statement.

The open group includes current participants who have attained retirement age under the Railroad Retirement program, current participants who have not yet attained retirement age, and those expected to become participants, or new entrants. The closed group includes only current participants, both those who have not yet attained retirement age and those who have. The open group measure gives a more complete assessment of the long-term financial stability of the program.

The net present value (NPV) of future revenue less future expenditures for all participants over the next 75 years (open group) decreased from ($23.8) billion as of December 31, 2009 to ($25.2) billion as of December 31, 2010, a net change in the open group measure of ($1.4) billion.

As can be seen on the Statement of Changes in Social Insurance Amounts, the largest change in the open group measure, ($1.6) billion, is due to changes in economic data and assumptions. Although ultimate economic assumptions remained the same, select assumptions for COLA, wage increase rate, and investment return were updated in 2011, as described in the footnotes to the Statement of Changes. Also, between December 31, 2009 and December 31, 2010, the fund balance increased by about $1.4 billion. The change in the valuation period (from 2010-2084 to 2011-2085) had a lesser effect, resulting in a change of $0.2 billion in the open group measure. There were no changes in demographic assumptions, and the changes in demographic data had a minimal effect. This year there were no changes in law, policy, or methodology and programmatic data.

From January 1, 2011, the valuation date of the Statement of Social Insurance, to September 30, 2011, the balance sheet date, there was a decline in the value of the NRRIT assets. If a change in the trust fund balance is not excessively large, then the effect of the change is expected to be offset by a corresponding change in the present value of future taxes due to the operation of the Account Benefits Ratio on future tax rates. Given the extent of the decline in the NRRIT assets from January 1 to September 30, there should be little effect on the net surplus position. The decline in the line item "Treasury securities and assets held by the program" would be expected to be largely offset by increases in the line items "Contributions and earmarked taxes," resulting in relatively little change to the final line item "Open group surplus/(unfunded obligation)."

TABLE OF KEY MEASURES

Dollars in ***MILLIONS***	FY 2011	FY 2010	Increase / (Decrease) $	%
COSTS				
Total Financing Sources	$ 9,631.1	$11,735.4	(2,104.3)	(17.9)
Less: Net Cost	11,321.8	11,221.5	100.3	0.9
Net Change of Cumulative Results of Operations	($1,690.7)	$ 513.9	(2,204.6)	(428.99)
NET POSITION				
Assets	$28,201.2	$29,801.8	(1,600.6)	(5.37)
Liabilities	5,165.5	5,089.4	76.1	1.50
Net Position (Assets minus Liabilities)	$23,035.7	$24,712.4	(1,676.7)	(6.78)

Dollars in ***BILLIONS***	1/1/2011	1/1/2010	Increase / (Decrease) $	%
SOCIAL INSURANCE*				
Social Insurance Net Expenditures (Open Group)	($25.2)	($23.8)	($1.4)	5.9%

*Social insurance amounts cover calendar year timeframes January 1 through December 31.

American Recovery and Reinvestment Act of 2009

Under the ARRA, the RRB administered two major benefit programs. These are:

- Economic Recovery Payments (ERP). This program, authorized by Section 2201 of the ARRA, provided for one-time payments of $250 to eligible adult beneficiaries under the RRA. The RRB paid $128,718,500 to 514,874 individuals in late May 2009. Additional people were paid through six quarterly catch-up runs scheduled through the end of the program on December 31, 2010. The catch-up runs resulted in an additional $1,405,500 paid to an additional 5,622 individuals.

  In accordance with guidance from OMB, we conducted a risk assessment of this program to ensure that funds are being awarded and distributed as authorized by law and that risks of waste, fraud and abuse are mitigated through reasonable and effective management controls.

  The results of the risk assessment indicated that the risks associated with the ERP program were low. This was primarily due to the following factors:

  - we were able to use many previously existing, tested and reliable systems to assist in making these payments;
  - we had experienced staff in place who were familiar with claims adjudication;
  - the benefit to be paid was a standard, fixed amount for all beneficiaries; and
  - we were working with other agencies that also had experienced staff and existing systems in place to assist with the overall program.

- Extended Unemployment Benefits. This program, authorized by Section 2006 of the ARRA, provided for up to 13 weeks of additional extended unemployment benefits to rail employees who had already exhausted their unemployment benefits under the RUIA. An appropriation of $20 million was made available to fund this program. The RRB began making payments and mailing claims for these special extended unemployment benefits on June 30, 2009. As of May 2011, claims and payments of unemployment benefits under ARRA have ended and the RRB had paid out over $11 million.

  Because the Extended Unemployment Benefits program is directly related to the regular unemployment insurance program, it is assessed as part of our normal quality assurance process for the RUIA program.

For more detailed information on the RRB's ARRA programs, see http://www.rrb.gov/recovery/default.asp.

Worker, Homeownership and Business Assistance Act (WHBAA) of 2009

In November 2009, the President signed the WHBAA which extended the previous ARRA provisions. WHBAA provided for the payment of extended unemployment benefits to anyone who claimed unemployment benefits during the period July 1, 2008 through June 30, 2010, thus increasing the pool of eligible recipients. WHBAA allowed for the same number of days of extended benefits (65 days) and also included an additional appropriation of $175 million. The RRB began making payments under WHBAA on November 6, 2009 and has paid approximately $20.2 million of these extended benefits through December 16, 2010. The latest date that a WHBAA extended benefit period could begin was December 31, 2010.

Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010

In December 2010, President Obama signed the Tax Relief, Unemployment Insurance Reauthorization and Job Creation Act of 2010 ("the Tax Relief Act") which extended the previous WHBAA provisions. The Tax Relief Act provides for the payment of up to 65 days of additional extended unemployment benefits to anyone who claimed unemployment benefits during the period July 1, 2010 through June 30, 2011, to be paid from the existing WHBAA appropriation of $175 million. It also sustains the voluntary tax withholding rate for unemployment claims at 10% and reduces the Tier 1 tax rate (during calendar year 2011 only) for sickness benefits by 2 percentage points.

The RRB began making payments under this Act on December 17, 2010 and has paid approximately $5.4 million of these extended benefits through May 31, 2011. The latest date that an extended benefit period may begin under the Tax Relief Act is December 31, 2011.

Limitations of the Financial Statements

The limitations of the principal financial statements are as follows:

1. The principal financial statements have been prepared to report the financial position and results of operations of the entity, pursuant to the requirements of 31 USC 3515(b).

2. While the statements have been prepared from the books and records of the entity in accordance with U.S. generally accepted accounting principles for Federal entities and the formats prescribed by OMB, the statements are in addition to the financial reports used to monitor and control budgetary resources which are prepared from the same books and records.

3. The statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity.

PERFORMANCE SECTION –

GOVERNMENT PERFORMANCE AND RESULTS ACT (GPRA) REPORT

PAGE INTENTIONALLY LEFT BLANK

Performance Section - Government Performance and Results Act (GPRA) Report

The following performance report is based on the major goals and objectives from the RRB's Annual Performance Budget for Fiscal Year 2011. The indicators we developed support our mission and communicate our intentions to meet challenges and seek opportunities for greater efficiency, effectiveness, and economy.

To achieve our performance goals, the RRB holds managers accountable for achieving program results and improving program effectiveness by focusing on results, service quality, and customer satisfaction. In addition, the annual performance budget is used to help managers improve service delivery by requiring that they plan for meeting program objectives and by providing them with information about program results and service quality. To provide reasonable assurance that the reported performance information is relevant and reliable, performance goals are incorporated into performance standards for managers and supervisors, and monitored on an agency-wide basis.

Automation, e-Government and Customer Service Initiatives

The RRB is continuing with long-term plans to implement significant automation initiatives and other improvements. These changes have enabled the agency to operate with reduced resources in recent years and continue to streamline our operations with the assistance of information technology. We believe that significant new investments in information technology and further management improvements will help us to meet or exceed our customer service goals efficiently.

On October 30, 2010, we launched the RRB’s newest online service, sickness benefit claims under the Railroad Unemployment Insurance Act (RUIA). This new service enables beneficiaries to submit their biweekly claims over the Internet, providing safety and convenience while expediting payments. To increase efficiency, in May 2011, we implemented an automated eligibility screening process so that those claims that pass will be automatically forwarded to employers for prepayment verification.

It is important that we provide information in a timely manner and in ways that are accessible and responsive to the individual’s needs. Customer feedback through American Customer Satisfaction Index (ACSI) surveys and directly from customers helps us determine whether the information we are providing satisfies our customers’ needs and expectations. In July 2010, the RRB began a year-long ACSI survey, focusing on customers’ experiences with the www.rrb.gov website. During fiscal year 2011, based on the feedback obtained from respondents, we implemented major changes to the home page to make it easier to navigate and more visually appealing. The new home page also organizes information by audience and subject in a clear and logical manner. A new feature is the addition of a log-in box that will allow customers to access online services directly from the home page. We are working on a second phase of improvements focusing on the secondary pages of our website which should even further enhance the level of satisfaction our customers have with the access to information and services via the RRB website. In fiscal year 2011, we will also initiate a survey of recipients of unemployment and sickness insurance benefits. We will conduct the actual survey after October 1, 2011, and we expect the final survey results to be available in December 2011.

In fiscal year 2009, the agency successfully implemented a national toll-free telephone service. The features include a single nationwide toll-free number, automatic distribution of customer calls, interactive voice response (IVR) functionality, an upgrade of the existing data network, and implementation of Voice over Internet Protocol (VoIP) telephone service at all RRB field offices. The toll-free number provides a single access point to claims representatives in the agency's field service offices and to IVR self-service options. In 2011, a system enhancement was implemented which provides the ability to create "special announcement" messages in the IVR main menu. The special announcement messages address as they occur important legislative or procedural changes which are likely to generate increased numbers of RRB customer calls. Also in 2011, the RRB developed a series of customized reports of both real-time and historical call data collected from the toll-free system. These reports are currently being used to identify customer usage trends and ensure management decisions are being made which provide better overall telephone service to all RRB customers.

Phase 3 of the Employer Reporting System (ERS) will implement an Internet-based version of Forms BA-3, Annual Report of Service and Compensation and BA-11, Report of Gross Earnings. This is on schedule to be completed in fiscal year 2011. When this phase is completed, the ERS project will have consolidated a cumulative total of 20 paper forms into 17 on-line services. We also initiated Phase 4, which will automate access to the Forms ID-40 series RUIA contribution notices; the ID-6 series tax notices; and the Form G-88a.2 which transmits annuity eligibility information. This will result in three additional on-line services to rail employers. In fiscal year 2012, we will continue our development of automated processes to notify employers of errors or the need for additional information and provide a means for correcting the data. These include requests for verification of last date on the payroll (G-88a.1) and for the payment of supplemental annuities (G-88p).

System Processing Excess Earnings Data (SPEED) is an automation initiative designed to process post-entitlement annuity adjustments in both retirement and survivor cases that result from excess earnings and work deductions. SPEED allows the RRB to adjust annuity payments for earnings on a timely basis, which minimizes any underpayments or overpayments that may result from changes in earnings. SPEED Phases 1 through 5 are currently in production (Phase 5 was completed in March 2011). Phase 6 is divided into two parts: Retirement Processing and Survivor Processing, to be worked simultaneously. Phase 6 Retirement is expected to initiate or adjust regular and/or Last Person Employment (LPE) work deductions when an estimated work report is entered. Phase 6 Survivor is expected to download survivor current-year earnings estimates from the survivor payments system, create an estimate report, suspend the annuity (if necessary), calculate withholding, establish a reinstatement call-up and release a notification letter to the annuitant. Current plans are to complete these next two phases in early calendar year 2013.

Work continued during fiscal year 2011 on an enhanced automated retirement payment system which will replace the current legacy system that processes retirement applications. The enhanced process will improve the accuracy and efficiency of retirement initial claims, as it will automatically interface with the Social Security Administration's (SSA) benefit payment system to provide real-time offset data. The new system will also allow for the payment of such application types as divorced spouse annuitants, which previously could not be processed automatically. As of June 2011, the target for completion of the enhanced system was calendar year 2012. Future enhancements include the development of a system interface to ensure the accurate use of military service in the calculation of benefits.

Work continued during fiscal year 2011 on an initiative to redesign the Overpayment Recovery and Correspondence System (ORCS) to automatically interface with other on-line and mainframe applications. The redesigned system, which we expect to complete in calendar year 2011, will completely automate the retrieval of overpayment recovery data for benefits under the Railroad Retirement Act, RUIA and Medicare. The system will also include a letter writing and calculation summary process.

The RRB has worked closely with the Centers for Medicare & Medicaid Services on implementation of Part C and Part D premium withholding to simplify the data exchange process between the two agencies, minimize errors and perform timely adjustments as needed. Beginning with the premiums due for June 2011, the RRB began withholding premiums for Medicare Part C (Medicare Advantage Plans) and Medicare Part D (prescription drug plans) from benefit payments.

The Patient Protection and Affordable Care Act of 2010 provides for an Income-Related Monthly Adjustment Amount (IRMAA) to be added to the Medicare Part D premiums paid by high-income beneficiaries beginning in January 2011. This provision allows for the collection of Part D IRMAA through withholding from railroad retirement benefit checks or through direct billing. We implemented Part D IRMAA collection in January 2011 through direct billing, utilizing the existing Program Accounts Receivable system. Work on premium withholding from railroad retirement benefit checks is targeted to be completed by January 2013.

Treasury recently amended its regulations to require recipients of Federal nontax payments to receive payment by electronic funds transfer (EFT), effective May 1, 2011. The effective date is delayed until March 1, 2013, for individuals receiving Federal payments by check on May 1, 2011; and for individuals who file claims for Federal benefits before May 1, 2011, and request check payments when they file. Individuals who do not choose direct deposit of their payments to an account at a financial institution, are enrolled in the Direct Express® Debit MasterCard® card program, a prepaid card program established pursuant to terms and conditions approved by Treasury. RRB began offering Direct Express® to Railroad Retirement Act (RRA) beneficiaries in March 2011. As of July 1, 2011, there were 503 beneficiaries enrolled in the program. Additionally, RRB began offering International Direct Deposit (IDD) in April 2011 to our RRA beneficiaries who reside in foreign countries. As of July 1, 2011, there were 561 beneficiaries enrolled in the IDD program. RRB is currently working with Treasury on program changes that will allow child support payments, that are withheld from RRB benefits and paid to State agencies, to be made by EFT. The target date for completion of the changes is calendar year 2011.

In 2009, we successfully concluded a major project to develop an optimized database and synchronize it with legacy tables. Since then, with the assistance of a contractor we conducted a data management practice assessment, which provided input to the agency's data governance planning. We have developed plans for improving the database as the legacy tables are decommissioned and applications address the new database. We have also developed plans for security access and change management. We expect to implement the security, change management and data governance plans during fiscal year 2011.

We are also continuing with Phase 1 of our Systems Modernization Project Plan. Phase I of the plan has two goals; the first is to convert all existing processing to access the master database tables instead of the legacy tables, and the second is to eliminate the legacy tables as soon as they are no longer needed. In September 2010, the Medicare Online Information (MOLI) database was converted to access the master data tables, and seven legacy tables were retired.

Further enhancements to Medicare processing systems will be implemented later in the project. In addition to the conversion of the MOLI database, the System Modernization Team implemented data modeling and data stewardship programs for master data, updated naming standards, identified and standardized critical table designs, created audit columns on every master table, eliminated data synchronization and increased the use of business intelligence. The system modernization team and the RUIA group have begun work on converting the RUIA systems to access the master database. Conversion of the RUIA systems is now targeted for completion by the end of calendar year 2011.

Succession Planning and Training

Like many agencies, the RRB has an aging workforce. About 70 percent of our employees have 20 or more years of service and over 40 percent of the current workforce will be eligible for retirement by fiscal year 2013. To prepare for the expected turnover, the agency is placing increased emphasis on strategic management of human capital. Each organization has completed workforce planning documents that identify the current staffing levels, projected attrition and planned hiring in fiscal years 2011, 2012 and 2013. Each executive also completed a gap analysis for his/her organization that identified potential areas of skills and knowledge gaps that will need to be addressed, identified areas where additional training may be necessary or where mentoring may be desirable to prepare employees for more senior positions, and identified areas of new skills that may need to be addressed through outside hires.

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

The RRB is also devoting more attention and resources to training. The agency-wide Training Council coordinates this activity, recently offering courses in the areas of performance management, and managerial and supervisory development. We also make use of technology in this area, utilizing our on-line presentation facility, *RRBVision,* which allows employees to view training, including a video component, in an online format. This is particularly useful to employees and managers in the agency's field offices.

Systems Security

Information security is a critical consideration for government agencies where maintaining the public's trust is essential. The RRB relies extensively on computerized systems to support its mission operations and store the sensitive information that it collects. The RRB's information security program is established and maintained to reasonably protect systems data and resources against internal failures, human errors, attacks and natural catastrophes that might cause improper disclosure, modification, destruction, or denial of services.

To ensure mission continuity, plans and procedures exist to maintain continuity of operations after a calamity for information systems that support the operations and assets of the RRB. The RRB's Continuity of Operations plan consists of a number of components, including an Occupant Emergency Plan, a Business Continuity Plan, a Crisis Communication Plan, and technically specific plans for mainframe, local area network (LAN), data communications, and desktop recovery. The agency regularly conducts semi-annual off-site disaster recovery exercises. System programmers restore the systems and applications of the agency from back-ups retrieved from an alternate data storage facility. Program libraries are re-created and production databases established. Finally, business analysts verify that the systems recovered correctly.

Federal agencies are required to provide annual computer security awareness training for employees and contractors. Security awareness efforts are designed to change behavior or reinforce good security practices by focusing attention on security. We continue to develop new approaches for refreshing the awareness initiative by providing updated and innovative presentations for the agency staff. We have a full training program that combines a security awareness presentation with additional role-based training appropriate to the RRB's information technology environment. Every employee and contractor with computer network access participates in this annual event. Individuals who do not use a computer receive physical security awareness information. In addition to the awareness presentation, computer analysts, software developers and network/system engineers also receive specialized technical education necessary to maintain their skills and enhance proficiency. The formal awareness-training program is supplemented by a weekly Security News feature story, prominently headlined on the Intranet's home page, reminding people to protect their computers and information throughout the year. Every year, the RRB awareness program has been able to report exemplary levels of participation. As of mid-July, the 2011 the awareness program had reached 95 percent compliance, and full compliance was expected by the end of the month.

Faced with an increasingly dangerous threat environment, the RRB relies on a sophisticated hardware and software defense that utilizes carefully monitored and maintained firewall technology, anti-virus software and intrusion detection systems to prevent viruses, worms, spam and malicious content from infiltrating the network, as well as to ensure that critical data and sensitive information are not compromised. To buttress these proactive threat management resources in the event of a successful malware attack, the agency has implemented a robust incident response capability. Utilizing the capabilities of a special forensic analysis workstation, the RRB Computer Emergency Response Team has the ability to conduct forensic collection and analysis of electronic evidence from almost any type of digital media in use today. The RRB has also established an Agency Core Response Group to determine if there is a reasonable expectation that an incident may be a data breach with the potential for identity theft, and notifies the Board members who will make the final decisions regarding breach notification.

The RRB continued to strengthen its security posture by addressing access-control audit recommendations that are identified in the agency plan of actions and milestones. The RRB completed migration of all local area network (LAN)-based programs to newer computer servers with upgraded operating systems. To improve LAN security, network engineers upgraded to the latest Windows Server 2008 operating system the architecture for the Active Directory, an operating system database that controls the resources, services and functions on the network domain. Also, owners of all LAN applications re-examined access rights to ensure that only appropriate users have specific privileges. The RRB has also developed new information security policy and procedures for the security control families identified in National Institute of Standards and Technology guidance that meet the requirements for compliance with the Federal Information Security Management Act (FISMA). The policies and procedures will be submitted to the RRB's management for approval, and published for ease of reference by the end of fiscal year 2011.

The Security Authorization process is integral to the information security programs of Federal agencies. Performing the security authorization process helps provide an understanding of the risks and other factors that could adversely affect the agency's mission. In fiscal year 2011, contractual services are being utilized for the authorization of the Benefit, Payment and Operations major application, and continuous monitoring of the RRB's other systems. Achievement of authorization for all general support systems and major applications, together with the initiation of the periodic control assessment process, positions the RRB in full compliance with a major provision of FISMA.

Program Evaluations

Program Evaluation	Results in Fiscal Year 2011
Federal Managers' Financial Integrity Act Reports	See "Systems and Controls" in the "Management's Discussion and Analysis" section.
Annual actuarial report required by the Railroad Retirement Act of 1974 and the Railroad Retirement Solvency Act of 1983	The report, which was completed in June 2011, addresses the 25 calendar year period 2011 through 2035. It indicates that cash flow problems arise only under the most pessimistic employment assumption, and not until 2034. The report did not include any recommendations for financing changes.
Railroad Unemployment Insurance System, annual report required by section 7105 of the Technical and Miscellaneous Revenue Act of 1988	The report, which was released in June 2011, addresses the 11 fiscal year period 2011 through 2021. The report indicated that even as maximum benefits are expected to increase 38 percent from 2010 to 2021, experience-based contribution rates are expected to keep the unemployment insurance system solvent. The report did not include any recommendations for financing changes at this time.
Customer service performance reports	The RRB continuously monitors the timeliness and accuracy of our performance in managing program workloads. These results are reflected in the performance objectives shown in the chart on the following pages, and published on our website at www.rrb.gov.
Program integrity report	The RRB's program integrity report for fiscal year 2010, released in December 2010, showed that program integrity activities resulted in the establishment of about $14.1 million in recoverables, recovery of $12.5 million, benefit savings of $1.6 million, and referral of 34 cases to the Office of Inspector General.
Quality assurance reviews and special studies	RRA adjudicative and payment accuracy is measured in regular diagnostic reviews conducted by quality assurance staff within the RRB's Program Evaluation and Management Services (PEMS) component. PEMS also evaluates policies and processes through special studies, as needed. PEMS reports to the Director of Programs.
Occupational disability reviews	Advisory doctors, representing the rail industry (labor and management), are authorized by law to review agency medical decisions. An audit was done in 2000; another audit was completed in 2008. In addition, consulting physicians from Consultative Examinations, Ltd. perform a quarterly quality review of disability documentation to ensure it is adequate to support medical decisions.
RRB Office of Inspector General audits	See "Inspector General's Statement on Management and Performance Challenges" and "Management's Comments" in the "Other Accompanying Information" section.

Program Evaluation	Results in Fiscal Year 2011
Performance budget monitoring	Results of performance budget monitoring are shown in the chart of performance objectives on the following pages. Actual performance data are reviewed, validated and certified prior to inclusion in this report. Validation and certification processes are documented as part of the RRB's management control review process.
Computer security and privacy assessment	See performance goals II-C-2, II-C-3, II-C-4 and II-C-12 in the chart of performance objectives on the following pages. All of the RRB's general support systems and all major applications are fully certified and accredited in compliance with the Federal Information Security Management Act, Office of Management and Budget directives and National Institute of Standards and Technology guidance.
Electronic government (e-Gov) activities	Information concerning these initiatives begins on page __.
Improper payment evaluation	See "Improper Payments Information Act (IPIA)" in the "Other Accompanying Information" section.

The next page begins a consolidated presentation of our actual performance in fiscal year 2008 through March 31, 2011 (except as noted), followed by a discussion of our unmet performance goals and objectives for fiscal year 2010. At the time this report was prepared, we had incomplete information on our fiscal year 2011 performance. The discussion of any unmet fiscal year 2011 performance goals and indicators will be presented in next year's report. This performance report was prepared by RRB employees.

Railroad Retirement Board FY 2011 Performance Budget		**2008 Actual [1/] (At $101.9m)**	**2009 Actual [1/] (At $105.5m)**	**2010 Actual [1/] (At $109.1m)**	**2011 Projected [1/] (At $108.9m)**	**2011 Actual [1/] (At $108.9m)**
STRATEGIC GOAL I: Provide Excellent Customer Service						
Performance Goal I-A: Pay benefits accurately and timely.						
I-A-1. Achieve a railroad retirement benefit payment recurring accuracy rate [2/] of at least 99%. (Measure: % accuracy rate)	a) Initial recurring payments:	99.75%	99.59%	99.58%	99.75%	Not available
	b) Sample post recurring payments:	99.97%	100%	Deferred [3/]	Deferred [3/]	Deferred [3/]
I-A-2. Achieve a railroad unemployment/ sickness insurance benefit payment accuracy rate [2/] of at least 99%. (Measure: % accuracy rate)	a) Unemployment:	99.71%	98.93%	100%	99.60%	100% (through 3/31/11)
	b) Sickness:	99.89%	99.70%	99.94%	99.85%	99.45% (through 3/31/11)
I-A-3. Achieve a railroad retirement case accuracy rate [2/] of at least 94%. (Measure: % of case accuracy)	a) Initial cases:	96.1%	96.1%	91.6%	94.00%	Not available
	b) Post cases:	96.8%	99.3%	Deferred [3/]	Deferred [3/]	Deferred [3/]
I-A-4. Achieve a railroad unemployment/ sickness insurance case accuracy rate [2/] of at least 98%. (Measure: % of case accuracy)	a) Unemployment:	98.55%	97.04%	100%	97.50%	100% (through 3/31/11)
	b) Sickness:	99.03%	97.52%	99.51%	99.00%	99.01% (through 3/31/11)

Railroad Retirement Board FY 2011 Performance Budget	2008 Actual [1/] (At $101.9m)	2009 Actual [1/] (At $105.5m)	2010 Actual [1/] (At $109.1m)	2011 Projected [1/] (At $108.9m)	2011 Actual [1/] (At $108.9m)
I-A-5. The RRB makes a decision to pay or deny a railroad retirement employee or spouse initial annuity application within 35 days of the annuity beginning date, if advanced filed. (Measure for fiscal year 2008: % ≤ 30 adjudicative processing days. Measure starting with fiscal year 2009: % ≤ 35 days.[4/])	92.4%	94.86%	96.16%	92.75%	96.37%
I-A-6. The RRB makes a decision to pay or deny a railroad retirement employee or spouse initial annuity application within 60 days of the date the application was filed. (Measure for fiscal year 2008: % ≤ 60 adjudicative processing days. Measure starting with fiscal year 2009: % ≤ 60 days [4/])	96.1%	97.0%	96.9%	96.80%	98.1%
I-A-7. RRB makes a decision to pay, deny or transfer to SSA an initial annuity application for a railroad retirement survivor not already receiving a benefit within 60 days of the annuity beginning date or date filed (whichever is later). (Measure: % ≤ 60 days [5/])	92.9%	94.4%	96.1%	93.50%	95.98%
I-A-8. RRB makes a decision to pay, deny or transfer to SSA an initial annuity application for a railroad retirement survivor already receiving the benefits as a spouse within 30 days of the RRB's receipt of first notice of the employee's death. [5/] (Measure: % ≤ 30 days)	95.1%	95.4%	95.3%	95.20%	95.58%

Railroad Retirement Board FY 2011 Performance Budget	2008 Actual [1/] (At $101.9m)	2009 Actual [1/] (At $105.5m)	2010 Actual [1/] (At $109.1m)	2011 Projected [1/] (At $108.9m)	2011 Actual [1/] (At $108.9m)
I-A-9. RRB makes a decision to pay or deny a lump sum death benefit within 60 days of the date the application was filed. [5/] (Measure: % ≤ 60 days)	97.0%	97.43%	98.3%	97.10%	98.22%
I-A-10. RRB releases a UI claim form or letter of denial within 10 days of receiving an application for unemployment benefits. (Measure: % ≤ 10 processing days)	99.5%	99.50%	100%	99.50%	99.5%
I-A-11. RRB releases an SI claim form or letter of denial within 10 days of receiving an application for sickness insurance benefits. (Measure: % ≤ 10 processing days)	99.2%	99.34%	99.4%	99.20%	99.60%
I-A-12. RRB certifies a payment or releases a letter of denial of UI or SI benefits within 10 days of the date RRB receives the claim. (Measure: % ≤ 10 processing days)	99.7%	99.80%	99.9%	99.80%	99.9%
I-A-13. The RRB makes a decision to pay or deny a benefit for a disabled applicant or family member within 100 days of the date the application is filed. (Measure: % ≤ 100 days)	70.4%	62.5%	68.9%	70.00%	64.8%

Railroad Retirement Board FY 2011 Performance Budget	**2008 Actual [1/] (At $101.9m)**	**2009 Actual [1/] (At $105.5m)**	**2010 Actual [1/] (At $109.1m)**	**2011 Projected [1/] (At $108.9m)**	**2011 Actual [1/] (At $108.9m)**
I-A-14. Disabled applicant receives payment within 25 days of decision or earliest payment date (whichever is later). (Measure: % ≤ 20 processing days [6/])	94.8%				
Revised goal for 2009 and later I-A-14. The RRB makes a payment to a disabled applicant within 25 days of the date of decision or earliest payment date, whichever is later. (Measure: % ≤ 25 days [6/])		96.5%	96.2%	94.50%	95.5%
I-A-15. Reduce the number of days elapsed between the date the appeal is filed and a decision is rendered. (Measure: average elapsed days) [7/]	239 (Estimated)	231 (Estimated)	252	300	289
I-A-16. Achieve quality and accuracy of correspondence, publications, and voice communications. (Measure: surveys and reviews; number of valid challenges to published data) — (ACSI) surveys:	ACSI survey deferred	ACSI field work was completed by 9/17/09. The final report was received 10/13/09.			
Challenges to published data:	No challenges to published data	No challenges to published data	No challenges to published data	No more than two valid challenges to published data in 2011	No challenges to published data
I-A-17. Improve timeliness and efficiency in posting service and compensation data to agency records. (Measure through fiscal year 2009: % of service and compensation records posted by April 15)	67.5%	96.9%			
(Revised measure for fiscal year 2010 and later: % of service and compensation records posted by May 1)			99.51%	99.00%	99.14% (through 5/01/11)

Railroad Retirement Board FY 2011 Performance Budget	**2008 Actual [1/] (At $101.9m)**	**2009 Actual [1/] (At $105.5m)**	**2010 Actual [1/] (At $109.1m)**	**2011 Projected [1/] (At $108.9m)**	**2011 Actual [1/] (At $108.9m)**
I-A-18. Improve accuracy in posting service and compensation data to agency records. (Measure: % of service and compensation records posted accurately)	96.3%	98.8%	84.6%	98.00%	99%
I-A-19. Covered employer annual reports of employees filed electronically, or on magnetic media. (Measure: % of employee records filed electronically, or on magnetic media)	98.7%	98.8%	98.8%	99.00%	98.94% (through 5/01/11)
Performance Goal I-B: *Provide a range of choices in service delivery methods.*					
I-B-1. Offer electronic options to our customers, allowing them alternative ways to perform primary services via the Internet or interactive voice response systems. (Measure: # of services available through electronic media)	17 services available	18 services available	18 services available	20 services available	19 services available
I-B-2. Enable employers to use the Internet to conduct business with the RRB, in support of the Government Paperwork Elimination Act. (Measures: % of employers who use the on-line Employer Reporting System (ERS); # of services available through electronic media) — a) Employers using ERS:	69.0%	77.0%	81.2%	76.0%	82%
b) Internet services:	8 Internet services available	10 Internet services available	10 Internet services available	17 Internet services available	10 Internet services available

Railroad Retirement Board FY 2011 Performance Budget	2008 Actual 1/ (At $101.9m)	2009 Actual 1/ (At $105.5m)	2010 Actual 1/ (At $109.1m)	2011 Projected 1/ (At $108.9m)	2011 Actual 1/ (At $108.9m)
STRATEGIC GOAL II: Serve as Responsible Stewards for Our Customers' Trust Funds and Agency Resources.					
Performance Goal II-A: *Ensure that trust fund assets are projected, collected, recorded, and reported appropriately.*					
II-A-1. Debts will be collected through billing, offset, reclamation, referral to outside collection programs, and a variety of other collection efforts. (Measure: funds collected vs. total debts outstanding)	58%	56%	59%	55%	39%
II-A-2. Release quarterly and annual notices accurately and timely to employers regarding their experience rating based contributions. (Measure: Yes/No)	Yes	Yes	Yes	Yes	Yes
II-A-3. Complete compensation reconciliations at least one year before the statute of limitations expires. (Compensation reconciliations involve a comparison of compensation reported by railroad employers to RRB for benefit calculation purposes with compensation reported to IRS for tax purposes.) (Measure: % completed)	100% of the 2005 reconciliations by 2/26/08	100% of the 2006 reconciliations by 1/27/09	100% of the 2007 reconciliations by 2/05/10	100% of the 2008 reconciliations by 2/28/11	100% of the 2008 reconciliations were completed by 2/09/11.

Railroad Retirement Board FY 2011 Performance Budget	**2008 Actual [1/] (At $101.9m)**	**2009 Actual [1/] (At $105.5m)**	**2010 Actual [1/] (At $109.1m)**	**2011 Projected [1/] (At $108.9m)**	**2011 Actual [1/] (At $108.9m)**
II-A-4. Perform monthly reasonableness tests comparing railroad retirement taxes deposited electronically, which represent over 99% of all railroad retirement taxes, against tax receipts transferred to RRB trust funds by the Department of the Treasury (Treasury) to provide reasonable assurance RRB trust funds are receiving appropriate taxes. (Measure: reasonableness test performed and anomalies reconciled with Treasury (Yes/No))	Yes	Yes	Yes	Yes	Yes. As of 4/29/11, reasonableness tests had been updated through March 2011.
II-A-5. Prepare annual Performance and Accountability Reports (including audited financial statements and other financial and performance reports) by the required due dates. (Measure: Yes/No)	Yes. The 2007 P&AR was released on 11/15/07.	Yes. The 2008 P&AR was released on 11/17/08.	Yes. The 2009 P&AR was released on 11/16/09.	Yes. The 2010 P&AR was released on 11/15/10.	Yes. The 2010 P&AR was released on 11/15/10.
II-A-6. Take prompt corrective action on audit recommendations. (Measure: % of audit recommendations implemented by target date)	94.0%	95.0%	95.0%	90.0%	97%
Performance Goal II-B: *Ensure the integrity of benefit programs.*					
II-B-1. Achieve a return of at least $3.60 for each dollar spent on program integrity activities. (Measure: recoveries and savings per dollar spent) [8/]	$3.97 : $1.00	$4.20 : $1.00	$5.51 : $1.00	$3.60 : $1.00	Not available

Railroad Retirement Board FY 2011 Performance Budget	2008 Actual [1/] (At $101.9m)	2009 Actual [1/] (At $105.5m)	2010 Actual [1/] (At $109.1m)	2011 Projected [1/] (At $108.9m)	2011 Actual [1/] (At $108.9m)
Performance Goal II-C: *Ensure effectiveness, efficiency, and security of operations.*					
II-C-1. Continue succession planning by ensuring there is a cadre of highly skilled employees available for key positions. (Measure: structured succession planning activities are continuing – Yes/No)	Yes	Yes	Yes	Yes	Yes
II-C-2. Annually assess/update all computer security, disaster recovery, and business resumption plans for the agency. (Measure: Yes/No)	Yes. With contractor assistance, the certification and accreditation of the mainframe general support system and 5 of 6 major applications were completed. The was in progress at the end of the fiscal year. An assessment of agency-wide common controls was performed. Contingency planning was tested and disaster recovery training was conducted off-site.	Yes. Certification and accreditation of both RRB general support systems and all 6 major applications were completed. Updated disaster recovery information provided by agency business components was used to prepare the RFP for recompeting the alternate IT recovery site contract.	Yes. The contractor assisting with the certification & accreditation of the agency's consolidated general support system and with the continuous monitoring project began work on the project in June, and the project was completed in September. Two disaster recovery tests were also conducted at the alternate recovery site in fiscal year 2010.	Yes. The general support system and all major applications will be in the post-accreditation phase undergoing security control monitoring. IT disaster recovery planning will be updated to consider modern technology. Testing will continue at the alternate site.	Yes. The general support system and all major applications will be in the post-accreditation phase undergoing security control monitoring. IT disaster recovery planning will be updated to consider modern technology. Testing will continue at the alternate site.

Railroad Retirement Board FY 2011 Performance Budget	**2008 Actual 1/ (At $101.9m)**	**2009 Actual 1/ (At $105.5m)**	**2010 Actual 1/ (At $109.1m)**	**2011 Projected 1/ (At $108.9m)**	**2011 Actual 1/ (At $108.9m)**
II-C-3. Develop and implement new procedures for responding to and reporting computer security incidents. (Measure: Yes/No)	Yes. Components of the Core Intrusion Detection/ Prevention System were updated to improve the stability and uptime of back-end processes. As of 7/02/08, tuning of Network Access Control was completed. A Vulnerability Remediation Task Force was formed to improve the RRB's security incident response capability.				
Revised goal for 2009 and later II-C-3. Maintain an incident response program for responding to and reporting computer security incidents. (Measure: All cyber security incidents will be reported to US-CERT, Yes/No)		Yes	Yes	Yes	Yes

Railroad Retirement Board FY 2011 Performance Budget	**2008 Actual [1/] (At $101.9m)**	**2009 Actual [1/] (At $105.5m)**	**2010 Actual [1/] (At $109.1m)**	**2011 Projected [1/] (At $108.9m)**	**2011 Actual [1/] (At $108.9m)**
II-C-4. Assess computer security training requirements and implement an ongoing training program for agency staff. (Measure: Yes/No)	Yes. The annual RRB computer security awareness program was launched in March 2008. As of 7/02/08, the OPM GoLearn.gov role-based security training program was completed. Specialized technical education was approved for all training designated as critical or vital for achieving performance goals.	Yes. The annual FISMA computer security awareness training and specialized security training was completed. This training program had 100% participation with 1,013 employees and contractors accounted for.	Yes. The annual FISMA security awareness training was completed on June 30, 2010.	Yes. The annual FISMA computer security awareness training and specialized security training will be provided for all employees and contractors. Additional role-based technical training will be provided as required.	Yes. The annual FISMA computer security awareness training and specialized security training was provided for all employees and contractors during May 2011. Additional role-based technical training was also provided to designated employees during May 2011.
II-C-5. Implement a methodology to successfully estimate, track and monitor total costs and time schedules for information technology investments through the project life cycle, incorporating both web and mainframe investments. (Measure: Yes/No)	This objective was completed in fiscal year 2007.				
II-C-6. Assemble and publicize an annual inventory of RRB commercial activities on the RRB website. (Measure: Yes/No)	Yes	Yes	Yes	Yes	Yes

Railroad Retirement Board FY 2011 Performance Budget	2008 Actual [1/] (At $101.9m)	2009 Actual [1/] (At $105.5m)	2010 Actual [1/] (At $109.1m)	2011 Projected [1/] (At $108.9m)	2011 Actual [1/] (At $108.9m)
II-C-7. Meet government percentage goal for use of performance-based contracting techniques for eligible service contract funds. (Measure: Yes/No)	Yes	Yes	Yes	Yes	Yes
II-C-8. Support government-wide procurement of E-Government initiatives using the point of entry vehicle of .FedBizOpps. for all eligible actions. (Measure: Yes/No)	Yes	Yes	Yes	Yes	Yes
II-C-9. Complete migration from the agency's current mainframe database management system (IDMS) to DB2, and initiate efforts to optimize the performance of those databases and further reduce data redundancy. (Measure: Meet target dates for the migration. Yes/No)	This objective was completed in fiscal year 2007.				
II-C-10. Complete data optimization to optimize the performance of DB2 databases for future developmental efforts, and to further reduce and document the data. (Measure: Meet target dates for the project. Yes/No)	Yes	Yes. The project was completed by the revised target date of 2/28/09.			
II-C-11. Complete modernization of RRB processing systems in accordance with long-range planning goals. (Measure: Meet target dates for each phase of the project. Yes/No)	New indicator for fiscal year 2009	Yes. The project was in the analysis and planning phase and on schedule as anticipated.	Yes. The Medicare database was converted on 9/26/10.	Yes. We are currently working on the Railroad Unemployment Insurance Act (RUIA) database conversion.	Yes. We expect to finish the RUIA database conversion by 12/31/11.

Railroad Retirement Board FY 2011 Performance Budget	**2008 Actual [1/] (At $101.9m)**	**2009 Actual [1/] (At $105.5m)**	**2010 Actual [1/] (At $109.1m)**	**2011 Projected [1/] (At $108.9m)**	**2011 Actual [1/] (At $108.9m)**
II-C-12. Complete 16 corrective actions to correct the RRB's material weakness related to information security. (Measure: Meet target dates for the project. Yes/No)	Three corrective actions were completed.	As of 9/30/09, all 16 corrective actions were completed and sent to the OIG for review.	Fourteen of the recommendation s were completed, accepted by the OIG and closed.	The two remaining recommendation s are in the process of being resolved, and will be forwarded to the OIG for closure this year.	The two remaining recommendations are in the process of being resolved, and will be forwarded to the OIG for closure this year.
Performance Goal II-D: *Effectively carry out responsibilities with respect to the National Retirement Investment Trust.*					
II-D-1. Review monthly reports submitted by the Trust. (Measure: Yes/No)	Yes	Yes	Yes	Yes	Yes
II-D-2. Review annual management reports submitted by the Trust. (Measure: Yes/No)	Yes	Yes	Yes	Yes	Yes
II-D-3. Review annual audit reports of the Trust's financial statements. (Measure: Yes/No)	Yes	Yes	Yes	Yes	Yes

1/ Dollar amounts shown are funds appropriated for the fiscal year. Projected performance for fiscal year 2011 reflects the RRB's Fiscal Year 2011 Operating Plan, released on May 12, 2011. Actual results represent status as of March 31, 2011, unless otherwise noted.

2/ The payment accuracy rate is the percentage of **dollars** paid correctly as a result of adjudication actions performed. The case accuracy rate represents the percentage of **cases** that do not contain a material payment error. Case accuracy rates reflect only those errors that are detected as a result of reviewing award actions performed during the fiscal year being studied. (A material error is an incorrect payment of $5.00 or more at the point the error is identified; an incorrect payment of less than $5.00 totaling 1 percent or more of the monthly rate; or, any situation in which a non-entitled benefit is paid.)

3/ The quality review of post recurring payments was deferred in fiscal year 2010 because the accuracy rates have historically been very high, and the findings minimal. The return on measuring this area every year has diminished over time. Review has been deferred again in fiscal year 2011 to allow staff to complete work on a special quality assurance case review started in fiscal year 2010.

4/ In audit report 05-05, dated May 17, 2005, RRB's OIG found problems with the performance data for these indicators. One significant problem was resolved immediately, allowing us to report performance for 2005 and later. However, there were still some system limitations that prevented inclusion of all internal processing time in the performance data. Another program error caused a small number (less than 1 percent) of spouse applications to be calculated incorrectly. Effective October 1, 2008, these system problems were corrected. As a result of these system changes, beginning in fiscal year 2009, we measure timeliness by *calendar days* rather than *adjudicative processing days* as in previous years.

5/ This objective was restated as of April 2009, to more accurately describe how timeliness is measured. For objective I-A-9, the term "railroad retirement death benefit" was changed to "lump sum death benefit" to correspond with references to this benefit in the RRB's regulations.

6/ This indicator includes both employee and survivor disability payments. The employee payments were impacted by the system limitations identified in footnote 4 above. Effective October 1, 2008, these system problems were corrected.

7/ The figures for fiscal year 2008 and 2009 were stated as estimates due to problems with the computer program which produced them. Program corrections and testing were completed at the end of fiscal year 2010. The program allows retroactive recalculation for any prior year back to fiscal year 2004. The target for fiscal year 2011 was adjusted to reflect the new measurement system.

8/ In November 2010, we discovered that not all program integrity cost information was being used to compile the program integrity ratio – most significantly, the cost of a major monitoring activity was not being captured, even though the benefits of that process were included. As a result, we recomputed the program integrity ratios for fiscal years 2008 and 2009 using the updated cost amounts. The previously published amount for fiscal year 2007 was also incorrect; however, we have withdrawn that performance data, rather than recompute it. We have also adjusted the fiscal year 2011 target for this indicator from $5.48: $1.00, to an adjusted level of $3.60: $1.00, which is consistent with the initial statement of the objective.

Discussion of Unmet Performance Goals and Indicators for Fiscal Year 2010

INDICATOR	DISCUSSION OF VARIANCE
Performance indicator I-A-1(a). Achieve a railroad retirement benefit payment accuracy rate of at least 99% for initial recurring payments. (Measure: percent accuracy rate) Our goal for fiscal year 2010 was 99.75%, and the actual was 99.58%.	The performance goal was set at an approximate target level, and the deviation from that level is slight. There was no effect on overall program or activity performance.
Performance indicator I-A-3(a). Achieve a railroad retirement case accuracy rate of at least 94% for initial cases. (Measure: % accuracy rate) Our goal for fiscal year 2010 was 94.00%, and the actual was 91.6%.	Initial cases involve a certain level of manual activity, which can be prone to human error. System changes and improvements are pending which will address those errors caused by system limitations. In addition, initial claims examiner training classes for both retirement and survivor benefits ended in May 2010. As this staff becomes more proficient in handling the manual workloads, we expect the case accuracy rate to improve.
Performance indicator I-A-13. Make a decision to pay or deny a benefit for a disabled applicant or family member within 100 days of the date the application is filed. (Measure: % ≤ 100 days) Our fiscal year 2010 goal was 70.00%, and the actual was 68.9%.	Although fiscal year 2010 performance increased to 68.9%, from 62.5% in fiscal year 2009, performance was slightly lower than the target of 70%. Actions to further improve performance include continued monitoring of aging cases and overtime.
Performance indicator I-A-15. Reduce the number of days elapsed between the date the appeal is filed and a decision is rendered. (Measure: average elapsed days) Our fiscal year 2010 goal was 190 days, and the actual was 252 days.	As a result of staff turnover, during fiscal year 2010, four of the seven GS-14 hearings officers were leaving training, entering training, or acting as training instructors for new employees. The resulting workload shift resulted in higher caseloads for the remaining hearings officers and longer waiting times before the cases could be considered. In addition, the 2010 goal was set using a former, flawed computer program.

INDICATOR	DISCUSSION OF VARIANCE
Performance indicator I-A-18. Improve accuracy in posting service and compensation data to agency records. (Measure: % of service and compensation records posted accurately) Our goal for fiscal year 2010 was 97.00%, and the actual was 84.6%.	The fiscal year 2010 performance decreased due to internal errors that occurred when a report from one of the largest covered employers was processed with errors. We reversed the posted transactions and resubmitted the corrected data. This resulted in over 90,000 record corrections that were handled before the form BA-6 certificates were released. This was an unusual situation, which will be closely monitored to ensure that this occurrence will not be repeated.
Performance indicator I-B-1. Offer electronic options to our customers, allowing them alternative ways to perform primary services via the Internet or interactive voice response systems. (Measure: number of services available through electronic media) Our fiscal year 2010 goal was 19 services, and the actual was 18 services.	Online sickness benefit claims were to be introduced by September 30, 2010, but implementation was delayed until October 2010, due to staff resources spending longer than anticipated on the Networx project earlier in the fiscal year. Under the GSA-Networx Universal contract, the RRB implemented upgrades to our data network and web host.
Performance indicator I-B-2 (b). Enable employers to use the Internet to conduct business with the RRB, in support of the Government Paperwork Elimination Act. (Measure: number of services available through electronic media) Our goal for fiscal year 2010 was 17 Internet services and the actual was 10 services.	During fiscal year 2010, we continued work on Phase 2 of the Employer Reporting System (ERS) project to convert the existing ERS forms from SAS to ASP.Net programming. This conversion project experienced extended delays due to the migration of all current Internet-based production systems to a new server as part of the GSA-Networx Universal contract the RRB implemented to upgrade and enhance our ability to host applications on our website. Phase 3 of the ERS project will introduce 7 new Internet services for rail employers. Both Phases 2 and 3 are now scheduled for implementation during fiscal year 2011.

PAGE INTENTIONALLY LEFT BLANK

FINANCIAL SECTION

PAGE INTENTIONALLY LEFT BLANK

Financial Section

Message from the Chief Financial Officer

I am pleased to present the RRB's Performance and Accountability Report for fiscal year 2011. This report incorporates the annual performance report under the Government Performance and Results Act of 1993, the internal control report under the Federal Managers' Financial Integrity Act, and audited consolidated financial statements under OMB guidance.

The RRB is committed to integrated and automated financial management systems that focus on the agency's mission and accountability. We strive to maintain an environment in which program and financial managers work in partnership to ensure the integrity of financial information and use that information to make decisions, measure performance, and monitor outcomes. In this environment, we envision integrated financial management systems with appropriate internal review and controls that provide agency managers with timely, accurate, and easily accessible information. We expect managers throughout the agency to use that information to achieve program objectives in a cost-effective manner and to ensure accountability.

The RRB continued to provide high quality financial management and financial reporting during fiscal year 2011.

- We achieved an unqualified, or clean, audit opinion on our consolidated financial statements for fiscal year 2011. We also continued to prepare unaudited quarterly financial statements and met the accelerated schedule of releasing these statements to OMB.

- We implemented audit recommendations as follows:

  At the beginning of fiscal year 2011, the agency's audit follow-up tracking system reported 153 audit recommendations as being open. During the fiscal year, audit reports containing another 88 recommendations were issued. As a result, the total number of open recommendations during the year was 241. At the same time, final action was completed on 50 audit recommendations and 4 audit recommendations were rejected, resulting in a balance at the end of the fiscal year of 187 open recommendations. Additionally, the status of the OIG-identified material weaknesses and planned corrective action are presented in the Management's Discussion and Analysis' Management Assurances section.

In fiscal year 2010, the RRB contracted for an assessment of our core financial system. In fiscal year 2011, the agency took the next step towards the recommended solution to migrate to a designated shared service provider. The agency, with contractual assistance, completed an OMB Exhibit 300 (Capital Asset Plan and Business Case Summary) for submission with its fiscal year 2013 budget request to secure the Development/Modernization Enhancement (DME) funding required for migration. In addition, fiscal year 2011 funds were used to retain contractual services for pre-migration activities.

The RRB will continue to provide financial information that is timely, accurate and useful in the coming years. We are committed to continuing our tradition of providing high quality financial services to agency management, the Congress, OMB, and the constituents we serve.

Original signed by:

George V. Govan
Chief Financial Officer

RAILROAD RETIREMENT BOARD
CONSOLIDATED BALANCE SHEET
AS OF SEPTEMBER 30, 2011 AND 2010
(in dollars)

	FY 2011	FY 2010
ASSETS		
Intragovernmental:		
Fund Balance with Treasury (Note 3)	$229,770,395	$228,131,547
Investments (Note 4)	1,494,224,312	1,299,906,411
Accounts Receivable (Note 6)	4,286,650,547	4,447,414,607
Total Intragovernmental	**6,010,645,254**	**5,975,452,565**
NRRIT Net Assets (Note 5)	22,146,037,531	23,787,084,273
Accounts Receivable, Net (Note 6)	42,865,125	37,513,155
Inventory and Related Property, Net (Note 7)	101,450	97,502
General Property, Plant and Equipment, Net (Note 8)	1,498,480	1,573,748
Other	52,366	84,694
TOTAL ASSETS	**$28,201,200,206**	**$29,801,805,937**
LIABILITIES (Note 9)		
Intragovernmental:		
Accounts Payable	$513,563,639	$492,712,858
Debt	3,536,280,762	3,534,828,185
Other	1,033,794	1,589,752
Total Intragovernmental	**4,050,878,195**	**4,029,130,795**
Accounts Payable	376,347	745,815
Benefits Due and Payable	958,400,783	938,590,685
Other	155,829,406	120,892,879
TOTAL LIABILITIES	**5,165,484,731**	**5,089,360,174**
COMMITMENTS AND CONTINGENCIES (Note 10)		
NET POSITION		
Unexpended Appropriations - Earmarked Funds (Note 17)	21,045,822	546,185
Unexpended Appropriations - Other Funds	171,324,503	177,907,363
Cumulative Results of Operations - Earmarked Funds (Note 17)	22,842,686,914	24,533,250,962
Cumulative Results of Operations - Other Funds	658,236	741,253
TOTAL NET POSITION	**23,035,715,475**	**24,712,445,763**
TOTAL LIABILITIES AND NET POSITION	**$28,201,200,206**	**$29,801,805,937**

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

RAILROAD RETIREMENT BOARD
CONSOLIDATED STATEMENT OF NET COST
FOR THE YEARS ENDED SEPTEMBER 30, 2011 AND 2010
(in dollars)

	FY 2011	FY 2010
Program Costs:		
Railroad Retirement Program		
Gross Costs (Note 11)	$11,216,536,778	$11,058,111,229
Less: Earned Revenue	11,092,913	11,276,432
Net Program Costs	11,205,443,865	11,046,834,797
Railroad Unemployment and Sickness Insurance Program		
Gross Costs (Note 11)	138,253,996	197,125,864
Less: Earned Revenue	21,885,559	22,294,403
Net Program Costs	116,368,437	174,831,461
Costs Not Assigned to Programs	0	0
Less: Earned Revenues Not Attributed to Programs	30,628	156,637
NET COST OF OPERATIONS	**$11,321,781,674**	**$11,221,509,621**

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

RAILROAD RETIREMENT BOARD
CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION
FOR THE YEAR ENDED SEPTEMBER 30, 2011
(in dollars)

FY 2011

	Earmarked Funds	All Other Funds	Eliminations	Consolidated Total
Cumulative Results of Operations:				
Beginning Balances	$24,533,250,962	$741,253		$24,533,992,215
Budgetary Financing Sources:				
Appropriations Used	698,086,236	62,464,682		760,550,918
Non-Exchange Revenue	5,607,764,685	51,592	$ (699,116,647)	4,908,699,630
Transfers in from NRRIT (Note 12)	1,744,000,000			1,744,000,000
Transfers in/out Without Reimbursement	3,885,574,000			3,885,574,000
Other Financing Sources (Non-Exchange):				
Imputed Financing	11,246,803			11,246,803
Change in NRRIT Assets	(1,641,046,742)			(1,641,046,742)
Loss Contingency	(37,890,000)			(37,890,000)
Total Financing Sources	10,267,734,982	62,516,274	(699,116,647)	9,631,134,609
Net Cost Of Operations	11,958,299,030	62,599,291	(699,116,647)	11,321,781,674
Net Change	**(1,690,564,048)**	**(83,017)**		**(1,690,647,065)**
Cumulative Results of Operations	**22,842,686,914**	**658,236**		**22,843,345,150**
Unexpended Appropriations:				
Beginning Balances	546,185	177,907,363		178,453,548
Budgetary Financing Sources:				
Appropriations Received	718,650,000	57,000,000		775,650,000
Other Adjustments	(64,127)	(1,118,178)		(1,182,305)
Appropriations Used	(698,086,236)	(62,464,682)		(760,550,918)
Total Budgetary Financing Sources	20,499,637	(6,582,860)		13,916,777
Total Unexpended Appropriations	**21,045,822**	**171,324,503**		**192,370,325**
Net Position	**$22,863,732,736**	**$171,982,739**		**$23,035,715,475**

The accompanying notes are an integral part of these financial statements

RAILROAD RETIREMENT BOARD
CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION
FOR THE YEAR ENDED SEPTEMBER 30, 2010
(in dollars)

FY 2010

	Earmarked Funds	All Other Funds	Eliminations	Consolidated Total
Cumulative Results of Operations:				
Beginning Balances	$24,019,150,744	$921,728		$24,020,072,472
Budgetary Financing Sources:				
Appropriations Used	467,052,092	83,458,693		550,510,785
Non-Exchange Revenue	5,250,263,573	6,910	$ (467,929,635)	4,782,340,848
Transfers in from NRRIT (Note 12)	1,989,000,000			1,989,000,000
Transfers in/out Without Reimbursement	3,964,929,000		(807,000)	3,964,122,000
Other Financing Sources (Non-Exchange):				
Imputed Financing	8,839,732			8,839,732
Change in NRRIT Assets	441,515,999			441,515,999
Loss Contingency	(900,000)			(900,000)
Total Financing Sources	12,120,700,396	83,465,603	(468,736,635)	11,735,429,364
Net Cost Of Operations	11,606,600,178	83,646,078	(468,736,635)	11,221,509,621
Net Change	**514,100,218**	**(180,475)**		**513,919,743**
Cumulative Results of Operations	**24,533,250,962**	**741,253**		**24,533,992,215**
Unexpended Appropriations:				
Beginning Balances	522,250	22,376,577		22,898,827
Budgetary Financing Sources:				
Appropriations Received	467,150,000	239,807,000		706,957,000
Other Adjustments	(73,973)	(817,521)		(891,494)
Appropriations Used	(467,052,092)	(83,458,693)		(550,510,785)
Total Budgetary Financing Sources	23,935	155,530,786		155,554,721
Total Unexpended Appropriations	**546,185**	**177,907,363**		**178,453,548**
Net Position	**$24,533,797,147**	**$178,648,616**		**$24,712,445,763**

The accompanying notes are an integral part of these financial statements

RAILROAD RETIREMENT BOARD
COMBINED STATEMENT OF BUDGETARY RESOURCES
FOR THE YEARS ENDED SEPTEMBER 30, 2011 AND 2010
(in dollars)

	FY 2011	FY 2010
BUDGETARY RESOURCES		
Unobligated balance, brought forward, October 1	$183,033,165	$31,025,871
Recoveries of prior year unpaid obligations	859,130	1,279,499
Budget authority		
Appropriation	12,612,204,994	12,568,495,728
Borrowing authority (Note 19 and Note 20)	3,820,500,000	3,819,100,000
Spending authority from offsetting collections		
Earned		
Collected	34,101,424	34,705,908
Change in receivables from Federal sources	(1,693)	1,693
Expenditure transfers from trust funds	117,967,209	118,066,000
Subtotal	16,584,771,934	16,540,369,329
Nonexpenditure transfers, net, anticipated and actual	(76,702)	(178,053)
Temporarily not available pursuant to Public Law	(599,906,043)	(863,453,827)
Permanently not available	(3,813,554,424)	(3,694,178,976)
TOTAL BUDGETARY RESOURCES	**$12,355,127,060**	**$12,014,863,843**
STATUS OF BUDGETARY RESOURCES		
Obligations incurred (Note 18)		
Direct	$12,154,506,188	$11,821,158,053
Reimbursable	10,232,295	10,672,625
Subtotal	12,164,738,483	11,831,830,678
Unobligated balance		
Apportioned	149,132,322	122,786,746
Unobligated balance not available	41,256,255	60,246,419
TOTAL STATUS OF BUDGETARY RESOURCES	**$12,355,127,060**	**$12,014,863,843**
CHANGE IN OBLIGATED BALANCE		
Obligated balance, net		
Unpaid obligations, brought forward, October 1	$975,707,985	$971,829,238
Uncollected customer payments from Federal sources, brought forward, October 1	(253,812)	(2,773,591)
Total unpaid obligated balance, net	**975,454,173**	**969,055,647**
Obligations incurred, net	12,164,738,483	11,831,830,678
Gross outlays	(12,152,845,706)	(11,826,672,432)
Recoveries of prior year unpaid obligations, actual	(859,130)	(1,279,499)
Change in uncollected customer payments from Federal sources	1,693	2,519,779
Obligated balance, net, end of period		
Unpaid obligations (Note 13)	986,741,632	975,707,985
Uncollected customer payments from Federal sources	(252,119)	(253,812)
Total, unpaid obligated balance, net, end of period	**$986,489,513**	**$975,454,173**
NET OUTLAYS (Note 14)		
Gross outlays	$12,152,845,706	$11,826,672,432
Offsetting collections	(152,068,633)	(155,293,380)
Distributed offsetting receipts	(4,584,640,447)	(4,431,122,000)
Net Outlays	**$7,416,136,626**	**$7,240,257,052**

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

Statement of Social Insurance (Note 15, Note 16)

Actuarial Surplus or (Deficiency)

75-year Projection as of January 1, 2011

(Present values in billions of dollars)

	1/1/2011	1/1/2010	1/1/2009	1/1/2008	1/1/2007
Current participants who have attained retirement age:					
Contributions and earmarked taxes	$73.1	$70.3	$69.0	$66.2	$63.4
Expenditures for scheduled future benefits	109.3	104.8	102.1	97.0	92.8
Present Value of future revenue less future expenditures	(36.2)	(34.6)	(33.1)	(30.8)	(29.4)
Current participants not yet having attained retirement age:					
Contributions and earmarked taxes	71.7	72.9	75.9	69.6	66.7
Expenditures for scheduled future benefits	86.2	88.0	91.2	88.4	86.0
Present Value of future revenue less future expenditures	(14.6)	(15.0)	(15.3)	(18.8)	(19.2)
Net present value of future revenue less future expenditures for current participants (closed group measure)	(50.8)	(49.6)	(48.5)	(49.6)	(48.6)
Plus: Treasury securities and assets held by the program	26.3	24.9	21.8	33.2	32.0
Closed group surplus/(unfunded obligation)	($24.6)	($24.7)	($26.6)	($16.4)	($16.7)
Future participants:					
Contributions and earmarked taxes	$53.2	$53.2	$57.2	$43.3	$43.1
Expenditures for scheduled future benefits	27.6	27.4	29.5	26.0	25.5
Present Value of future revenue less future expenditures	25.6	25.8	27.7	17.3	17.6
Net present value of future revenue less future expenditures for current and future participants (open group measure)	(25.2)	(23.8)	(20.7)	(32.3)	(31.1)
Plus: Treasury securities and assets held by the program	26.3	24.9	21.8	33.2	32.0
Open group surplus/(unfunded obligation)	$1.0	$1.0	$1.1	$0.9	$0.9

Statement of Changes in Social Insurance Amounts

Open Group Measure

For the Year Ended December 31, 2010

(in billions of dollars)

Net present value(NPV) of future revenue less future expenditures for current and future participants (the "open group") over the next 75 years, beginning of the year	$ (23.8)
Reasons for changes in the NPV during the year:	
Changes in valuation period	0.2
Changes in demographic data and assumptions[1]	0
Changes in economic data and assumptions[2]	(1.6)
Changes in law or policy[3]	NA
Changes in methodology and programmatic data[4]	NA
Other changes	NA
Net change in open group measure	(1.4)
Open group measure, end of year	$ (25.2)

1. Demographic assumptions were not changed between 2010 and 2011. Changes in demographic data had a minimal effect (less than 0.1 billion) on the open group measure.

2. Ultimate economic assumptions were not changed from last year's report, but the select economic assumptions were. The actual COLA of 0.0% was used for 2011 in place of the 0.5% COLA assumed for 2011 in last year's report. A wage increase rate of 2.4% was used for 2010 rather than the assumed 4% wage increase rate used for 2010 in last year's report. Also, the actual 2010 investment return of 14.4% was higher than the assumed 7.5% investment rate used for 2010 in last year's report. The fund balance increased from about $24.9 billion on December 31, 2009 to about $26.3 billion on December 31, 2010. Economic data and assumptions had the greatest effect on the open group measure, resulting in a change of about $1.6 billion.

3. There were no changes in law or policy.

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

<u>Notes to the Financial Statements</u>: Fiscal Years Ended September 30, 2011 and 2010

1. <u>Summary of Significant Accounting Policies</u>

A. Basis of Presentation

Public Law 107-289, the Accountability of Tax Dollars Act of 2002, added the Railroad Retirement Board (RRB) as an agency required to prepare audited financial statements for fiscal year 2003, and subsequent years. Office of Management and Budget (OMB) guidance requires that Performance and Accountability Reports (P&AR) for fiscal year 2011 are to be submitted to the President, the Congress, and the Director of OMB by November 15, 2011. As required by law, OMB has also prescribed the form and content of financial statements under OMB Circular A-136. The RRB's financial statements were prepared in accordance with the form and content prescribed by OMB and with generally accepted accounting principles and standards prescribed by the Federal Accounting Standards Advisory Board (FASAB).

The principal statements (prepared on a consolidated basis, except for the Statement of Budgetary Resources which was prepared on a combined basis, and eliminating all significant interfund balances and transactions) are comprised of the Balance Sheet and Statements of Net Cost, Changes in Net Position, Budgetary Resources, and Social Insurance. These statements are different from the financial reports, also prepared by the RRB pursuant to OMB directives, used to monitor and control the RRB's use of budgetary resources.

B. Reporting Entity

The railroad retirement and the railroad unemployment and sickness insurance programs are financed through the following accounts:

- Railroad Retirement (RR) Account, 60X8011, funds retirement, survivor, and disability benefits in excess of social security equivalent benefits from payroll taxes on employers and employees and other income sources. Account 60X8011 is considered an earmarked fund. Our authority to use these collections is 45 United States Code (USC) §231(F)(c)(1).

- Social Security Equivalent Benefit (SSEB) Account, 60X8010, funds the portion of railroad retirement benefits equivalent to a social security benefit from various income sources related to these benefits. Account 60X8010 is considered an earmarked fund. Our authority to use these collections is 45 USC §231N-1(c)(1).

- Dual Benefits Payments (DBP) Account, 60 0111, funds the phase-out costs of certain vested dual benefits from general appropriations. Account 60 0111 is considered a general fund. Our authority to use these collections is 45 USC §231(N)(d).

- Federal Payments to the Railroad Retirement Accounts, 60X0113, was established by OMB, not by legislation, and is used as a conduit for transferring certain income taxes on benefits; receiving credit for the interest portion of uncashed check transfers; and funds provided by the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010. Account 60X0113 is considered an earmarked fund. This account has no basis in law.

- Limitation on Administration Account, 60 8237, pays salaries and expenses to administer the railroad retirement program and the railroad unemployment and sickness insurance program. This account is financed by the RR Account, the SSEB Account, and the Railroad Unemployment Insurance Trust Fund, Administrative Expenses. Account 60 8237 is considered an earmarked fund. Our authority to use these collections is 45 USC §231N-1(c) and 45 USC §231N-(H).

- Limitation on Administration Account, 60X8237, Public Law 107-217, Sec. 121(d)(3), authorizes Federal agencies to retain indefinitely as "no-year money" any unexpended portion of the fiscal year appropriated funds, up to the estimated cost of the operation and maintenance (O&M) of the delegated properties. Funds carried over may only be expended for O&M and repair of the facility. In addition, this fund contains the Limitation on Administration funds for extended unemployment benefits provided under Public Law 111-92. Account 60X8237 is considered an earmarked fund.

- Railroad Unemployment Insurance Trust Fund, Benefit Payments, 60X8051.001, funds railroad unemployment and sickness insurance benefits from contributions by railroad employers. Account 60X8051.001 is considered an earmarked fund. Our authority to use these collections is 45 USC §360.

- Railroad Unemployment Insurance Trust Fund, Administrative Expenses, 60X8051.002, was established to pay salaries and expenses to administer the program. Account 60X8051.002 is considered an earmarked fund. This fund is financed by contributions from railroad employers. Monies are transferred from this fund, based on cost accounting estimates and records, to the Limitation on Administration Account (60 8237) from which salaries and expenses are paid for both the railroad retirement program and the railroad unemployment and sickness insurance program. Our authority to use these collections is 45 USC §361.

- Limitation on the Office of Inspector General, 60 8018, was established to fund the administration of the Inspector General's Office. Account 60 8018 is considered an earmarked fund. Our authority to use these collections is Public Law 112-10.

- City and State Taxes (6275) was established as a holding account for amounts withheld from employees' salaries but not yet paid to the appropriate institutions.

- Railroad Unemployment Insurance Extended Benefit Payments – Recovery Act, 60X0114: Funds provided under Public Law 111-5, American Recovery and Reinvestment Act of 2009.

- Economic Recovery Payments – Recovery Act, 60 0115: Funds provided under Public Law 111-5, American Recovery and Reinvestment Act of 2009.

- Administrative Expenses – Recovery Act, 60X0116: Funds provided under Public Law 111-5, American Recovery and Reinvestment Act of 2009.

- Administrative Expenses – Recovery Act, 60 0116: Funds provided under Public Law 111-5, American Recovery and Reinvestment Act of 2009.

- Limitation on Administration – Recovery Act, 60X8262: Funds provided under Public Law 111-5, American Recovery and Reinvestment Act of 2009.

- Limitation on Administration – Recovery Act, 60 8262: Funds provided under Public Law 111-5, American Recovery and Reinvestment Act of 2009.

- Railroad Unemployment Insurance Extended Benefit Payments, for Limitation Account – 60X0118: Funds provided under Public Law 111-92, Worker, Homeownership, and Business Assistance Act of 2009.

- Railroad Unemployment Insurance Extended Benefit Payments – 60X0117: Funds provided under Public Law 111-92, Worker, Homeownership, and Business Assistance Act of 2009.

C. Budgets and Budgetary Accounting

Budget requests are prepared and submitted by the RRB in accordance with OMB Circular A-11 and other specific guidance issued by OMB. The RRB prepares and submits to OMB Apportionment and Reapportionment Requests (SF-132) in accordance with OMB Circular A-11 for all funds appropriated by the Congress or permanently appropriated. Although OMB may apportion funds by category, time period, or object class of expense, the RRB controls and allocates all apportioned funds by three-digit object class codes of expense. For budgetary accounting, all receipts are recorded on a cash basis of accounting and obligations are recorded against the object class codes when they are incurred, regardless of when the resources acquired are to be consumed. Obligations are amounts of orders placed, contracts awarded, services received, and similar transactions during a given period that will require payments during the same or a future period. Quarterly, the RRB prepares and submits Reports on Budget Execution (SF-133) to OMB, reporting all obligations incurred against the amounts apportioned.

D. Basis of Accounting

As required by law, the DBP Account is on a cash basis of accounting. Payroll taxes and unemployment contributions are recorded on a modified cash basis in accordance with Statement of Federal Financial Accounting Standards (SFFAS) No. 7. All other transactions are recorded on an accrual basis of accounting and a budgetary basis. Under the accrual method, revenues (except payroll taxes and unemployment contributions which are on a modified cash basis) are recognized when earned and expenses are recognized when a liability is incurred. For budgetary accounting, financial transactions are recorded when obligations are incurred, regardless of when the resources acquired are to be consumed.

The accompanying consolidated financial statements of the RRB include all funds maintained by the RRB, after elimination of all significant interfund balances and transactions.

E. Concepts

The Fund Balance with Treasury (FBWT) is the aggregate amount of funds on deposit with the Department of the Treasury (Treasury), excluding seized cash deposited. The FBWT is increased by (1) receiving appropriations, reappropriations, continuing resolutions, appropriation restorations, and allocations; and (2) receiving transfers and reimbursements from other agencies. It also is increased by amounts borrowed from the Bureau of the Public Debt (BPD), the Federal Financing Bank, or other entities, and amounts collected and credited to appropriation or fund accounts. The FBWT is reduced by (1) disbursements made to pay liabilities or to purchase assets, goods, and services; (2) investments in U.S. securities (securities issued by BPD or other Federal Government agencies); (3) cancellation of expired appropriations; (4) transfers and reimbursements to other entities or to the General Fund of the Treasury; and, (5) sequestration or rescission of appropriations.

F. Earmarked Funds

SFFAS No. 27, Identifying and Reporting Earmarked Funds, requires separate presentation and disclosure of earmarked funds balances in the financial statements. Earmarked funds are financed by specifically identified revenues, often supplemented by other financing sources, which remain available over time. Earmarked funds meet the following criteria:

- A statute committing the Federal Government to use specifically-identified revenues and other financing sources only for designated activities, benefits, or purposes;
- Explicit authority for the earmarked fund to retain revenues and other financing sources not used in the current period for future use to finance the designated activities, benefits, or purposes; and
- A requirement to account for and report on the receipt, use, and retention of the revenues and other financing sources that distinguishes the earmarked funds from the Government's general revenues.

Refer to Note 17, Earmarked Funds, for additional information.

G. Application of Critical Accounting Estimates

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

2. <u>Related Parties</u>

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

- Treasury collects payroll taxes from the railroads on behalf of the RRB. The taxes collected are credited by Treasury to the RRB's trust fund account via an appropriation warrant. In fiscal years 2011 and 2010, net payroll taxes transferred to the RRB by Treasury were $4.7 billion and $4.6 billion, respectively.

  Treasury provides payment services to Federal agencies and operates collections and deposit systems. The RRB invests in government account securities through BPD. In fiscal years 2011 and 2010, investments, including accrued interest, totaled $1.5 billion and $1.3 billion, respectively. In addition, Treasury advances funds to the RRB for the financial interchange which are repaid annually. The amount paid by the RRB to Treasury in fiscal year 2011 due to the financial interchange advances during fiscal year 2010 included principal of $3.8 billion and interest of $134 million. The amount paid by the RRB to Treasury in fiscal year 2010 due to the financial interchange advances during fiscal year 2009 included principal of $3.7 billion and interest of $144 million.

- The Social Security Administration (SSA) and RRB participate in an annual financial interchange. The financial interchange is intended to place the social security trust funds in the same position in which they would have been had railroad employment been covered by the Social Security Act and Federal Insurance Contributions Act (FICA). In fiscal year 2011, the RRB trust funds realized $4.6 billion through the financial interchange.

Under Section 7(b)(2) of the Railroad Retirement Act of 1974, the RRB is required to pay certain individuals, described in this section, monthly social security benefits on behalf of SSA. SSA reimburses the RRB for benefits paid on behalf of SSA. The amounts reimbursed were $1.4 billion for fiscal year 2011 and $1.3 billion for fiscal year 2010.

- The Centers for Medicare & Medicaid Services (CMS) participates in the annual financial interchange in the same manner as described for SSA. The RRB transferred $477 million and $535 million to CMS in fiscal years 2011 and 2010, respectively. In addition to the financial interchange transactions, CMS reimburses the RRB for certain expenses it incurs associated with administering the Medicare program. The amounts reimbursed in fiscal years 2011 and 2010 were $10.9 million and $11.0 million, respectively.

- The General Services Administration (GSA) provides payroll processing and human resources services to the RRB. In addition, the RRB paid rent to GSA in the amount of $3.3 million for fiscal year 2010 and $3.4 million for fiscal year 2011.

- The Department of Labor (DOL) invests Railroad Unemployment Insurance Act (RUIA) contributions. Accounts receivable with the DOL amounted to $55 million and $30 million for fiscal years 2011 and 2010, respectively.

- The National Railroad Retirement Investment Trust (NRRIT) transfers funds to the RRB for payment of railroad retirement benefits. During fiscal years 2011 and 2010, the NRRIT transferred $1,744 million and $1,989 million, respectively, to the RR Account. The NRRIT holds and invests funds not immediately needed to pay benefits under the RRA. The net assets of the NRRIT are reported on the RRB's balance sheet as a non-governmental investment. The RRB reports this information based on information provided by the NRRIT for that purpose.

3. Fund Balances with Treasury

Fund balances with Treasury at September 30 consisted of:

	2011	2010
A. Fund Balances:		
(1) Trust Funds	$ 38,858,214	$ 49,681,373
(2) General Funds	190,912,181	178,450,174
(3) Other Fund Types	0	0
Total	$229,770,395	$228,131,547
B. Status of Fund Balance with Treasury (FBWT)		
(1) Unobligated Balance		
(a) Available	$149,132,322	$122,786,746
(b) Unavailable	41,256,255	60,246,419
(2) Obligated Balance not yet Disbursed	39,381,818	45,098,382
(3) Non-Budgetary FBWT	0	0
Total	$229,770,395	$228,131,547

C. Other Information: The above represents cash held in Treasury. Unobligated and obligated funds not held in cash are invested in Treasury securities.

4. Investments

The investments in Treasury securities represent the investments of two of the RRB's earmarked funds, the RR and the SSEB Accounts.

	Amounts for Balance Sheet Reporting		
	Cost	Interest Receivable	Investments Net
Intragovernmental Securities:			
Non Marketable Par Value 2011	$1,491,827,000	$2,397,312	$1,494,224,312
Non Marketable Par Value 2010	$1,297,808,000	$2,098,411	$1,299,906,411

The balance on September 30, 2011, consisted of investments in 3.000 percent par value specials (with market value equal to face value) maturing on October 3, 2011. The balance on September 30, 2010, consisted of investments in 3.000 percent par value specials (with market value equal to face value) maturing on October 1, 2010. Par value specials mature on the first working day of the month following the month of issue and have a yield based on the average yield of marketable Treasury notes with maturity dates at least 3 years away.

The Federal Government does not set aside assets to pay future benefits or other expenditures associated with the RR and SSEB Accounts. The cash receipts from the railroads for the RR and SSEB Accounts are deposited in the Treasury, which uses the cash for general government purposes. Treasury securities are issued to the RRB as evidence of its receipts. Treasury securities are an asset to the RRB and a liability to the Treasury. Because the RRB and the Treasury are both parts of the Federal Government, these assets and liabilities offset each other from the standpoint of the government as a whole. For this reason, they do not represent an asset or a liability in the U.S. government-wide financial statements.

Treasury securities provide the RRB with authority to draw upon the Treasury to make future benefit payments or other expenditures. When the RRB requires redemption of these securities to make expenditures, the government finances those expenditures out of accumulated cash balances, by raising taxes or other receipts, by borrowing from the public or repaying less debt, or by curtailing other expenditures. This is the same way that the Federal Government finances all other expenditures.

5. NRRIT Net Assets

The balance sheet amounts represent the net asset value of NRRIT assets, at fair value, as of September 30, 2011 and 2010. These figures were provided to the RRB by the NRRIT for the fiscal years ended September 30, 2011 and 2010.

Readers of these financial statements should be aware that the Railroad Retirement and Survivors' Improvement Act of 2001 authorizes the NRRIT to invest railroad retirement assets in a diversified investment portfolio in the same manner as those of private sector retirement plans.

6. Accounts Receivable

- *Intragovernmental*

Accounts receivable - Intragovernmental at September 30 consisted of:

	2011	2010
Financial Interchange – Principal	$4,084,400,000	$4,275,900,000
Financial Interchange – Interest	142,600,000	141,600,000
Department of Labor	55,081,547	29,629,643
CMS – Refund of Medicare Part B Premiums	169,000	169,000
Social Security Administration - OASI/DI Benefits (Old Age and Survivors Insurance/Disability Insurance)	0	115,964
Treasury General Fund – HIRE Act (Tier I)	4,400,000	0
Total	$4,286,650,547	$4,447,414,607

- *Accounts Receivable, Net*

Accounts receivable, net at September 30 consisted of:

	2011	2010
Accounts receivable - Benefit overpayments	$54,925,842	$47,195,476
Accounts receivable – Past due RUI contributions and taxes	592,478	572,713
Accounts receivable – Interest, penalty & administrative costs	409,477	349,632
Total	$55,927,797	$48,117,821
Less: Allowances for doubtful accounts	13,062,672	10,604,666
Net Total	$42,865,125	$37,513,155

The RRB's September 30, 2011, accounts receivable balance (after deducting currently not collectible (CNC) receivables but prior to the application of the allowance for doubtful accounts) of $55,927,797 includes $44,653,660 (80%) in railroad retirement program receivables and $11,274,137 (20%) in railroad unemployment insurance program receivables. The total allowance for doubtful accounts is $13,062,672. This includes $9,502,299 (73%) for the railroad retirement program and $3,560,373 (27%) for the unemployment insurance program receivables.

The allowance for doubtful accounts for the railroad retirement program was calculated, excluding debts classified as CNC, as follows: (1) categorizing the accounts receivable by cause and age, (2) analyzing each category using historical data, (3) determining the percentage of amounts due the RRB that would probably not be collected, and (4) applying the determined percentages against accounts receivable.

7. Inventory and Related Property

Operating materials and supplies are valued on the cost basis. The recorded values are adjusted for the results of physical inventories taken periodically. Expenditures are recorded when inventories are consumed.

8. General Property, Plant and Equipment

These assets are stated at cost less accumulated depreciation/amortization. Acquisitions are capitalized if the cost is $5,000 or more and the service life is 2 years or greater. Depreciation/amortization is computed on the straight-line method. These assets consisted of:

		At September 30, 2011		
Classes of Fixed Assets	Service Lives	Cost	Accumulated Depreciation	Net Book Value
Structures, facilities and leasehold improvements	15 years	$ 2,723,731	$ 2,673,319	$ 50,412
ADP software	5 years	19,615,921	19,602,513	13,408
Equipment	5-10 years	4,809,548	4,623,124	186,424
Internal-Use Software in Development		1,248,235	0	1,248,235
		$28,397,435	$26,898,956	$1,498,479

		At September 30, 2010		
Classes of Fixed Assets	Service Lives	Cost	Accumulated Depreciation	Net Book Value
Structures, facilities and leasehold improvements	15 years	$ 2,723,731	$ 2,658,367	$ 65,364
ADP software	5 years	19,615,921	19,589,866	26,055
Equipment	5-10 years	4,844,244	4,610,150	234,094
Internal-Use Software in Development		1,248,235	0	1,248,235
		$28,432,131	$26,858,383	$1,573,748

9. Liabilities

Liabilities at September 30 consisted of:

	2011	2010
Intragovernmental:		
Other – Unfunded Federal Employees' Compensation Act (FECA) Liability	$ 670,677	$ 605,928
Public:		
Other – Accrued Unfunded Leave	$ 7,186,594	$ 7,272,293
Total Liabilities Not Covered by Budgetary Resources	$ 7,857,271	$ 7,878,221
Total Liabilities Covered by Budgetary Resources	5,157,627,460	5,081,481,953
Total Liabilities	$5,165,484,731	$5,089,360,174

• *Debt*

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

	2011	2010
Beginning Balance, Principal	$3,480,500,000	$3,359,200,000
New Borrowing	3,815,800,000	3,814,500,000
Repayments	(3,812,300,000)	(3,693,200,000)
Ending Balance, Principal	3,484,000,000	3,480,500,000
Accrued Interest	52,280,762	54,328,185
Total	$3,536,280,762	$3,534,828,185

• *Benefits Due and Payable*

Benefits due and payable are accrued for all benefits to which recipients are entitled for the month of September, which, by statute, are not paid until October. Also, liabilities are accrued on benefits for past periods that have not completed processing, such as benefit payments due but not paid. The amounts include uncashed checks of $12,410,998 and $12,003,999, at September 30, 2011 and 2010, respectively. Under Public Law 100-86, the amount of RRB benefits represented by checks which remain uncashed for 12 months after the check issue date are credited (including interest thereon) to the accounts from which the checks were drawn. The principal amount of uncashed checks must remain in a liability account until the RRB determines that entitlement no longer exists or another check is issued to the beneficiary. A special workload of approximately 14,000 benefit cases, estimated at $7 million, has been identified and will be processed over the next few years.

• *Other Liabilities*

Other liabilities at September 30 consisted of:

	Non-Current	Current	2011 Total
Intragovernmental:			
Employer Contributions & Payroll Taxes Payable	$ 0	$ 363,117	$ 363,117
Unfunded FECA Liability	0	670,677	670,677
Total Intragovernmental	0	1,033,794	1,033,794
Accrued Unfunded Liabilities	0	7,186,594	7,186,594
Accrued Payroll	0	1,540,178	1,540,178
Accrued RRB Contributions – Thrift Savings Plan	0	41,757	41,757
Withholdings Payable	0	82,523	82,523
Contingent Liability (see Note 10 for details)	105,000,000	38,790,000	143,790,000
Capital Lease Liability	0	0	0
Other	0	3,188,354	3,188,354
Total Other Liabilities	$105,000,000	$51,863,200	$156,863,200

	Non-Current	Current	2010 Total
Intragovernmental:			
Employer Contributions & Payroll Taxes Payable	$ 0	$ 983,824	$ 983,824
Unfunded FECA Liability	0	605,928	605,928
Total Intragovernmental	0	1,589,752	1,589,752
Accrued Unfunded Liabilities	0	7,272,293	7,272,293
Accrued Payroll	0	4,422,873	4,422,873
Accrued RRB Contributions – Thrift Savings Plan	0	112,536	112,536
Withholdings Payable	0	42,273	42,273
Contingent Liability (see Note 10 for details)	105,000,000	900,000	105,900,000
Capital Lease Liability	0	0	0
Other	0	3,142,904	3,142,904
Total Other Liabilities	$105,000,000	$17,482,631	$122,482,631

10. Commitments and Contingencies

The RRB is involved in the following actions:

- Several railroads have filed suits claiming a refund of Railroad Retirement Tax Act or FICA taxes paid on moving expenses and interest on supplemental annuity taxes. The RRB's legal counsel has determined that it is probable that the RR Account is contingently liable for an estimated amount of $8.39 million. Another railroad filed suit requests refund of approximately $20 million (not including interest) representing the employer's share of taxes previously paid with respect to moving and relocation expenses and with respect to stock purchased by current and former employees under non-qualified stock options. The likelihood of loss of taxes paid on moving expense allowances and employee stock options is reasonably possible. Reflected on the Balance Sheet under other liabilities, an amount of $5 million was recorded in fiscal year 2009, and $3.39 million was recorded this year.

- In fiscal year 2005, we recorded a contingent liability in the amount of $100,000,000, for an estimated forthcoming adjustment to the financial interchange for military service credits due the SSA. An additional amount of $35.4 million for military service credits was recorded this year.

The total fiscal year 2011 contingent liability recorded is $143,790,000.

- Several Class 1 railroads have filed claims for refund of taxes with the Internal Revenue Service (IRS). Of the $2.7 billion in claims, the RRB's legal counsel has determined that it is reasonably possible that the RR and SSEB Accounts are contingently liable for an estimated amount of $1.3 billion, and the $1.4 billion is remote. Under the anti-disclosure provision of the IRS code, we are not permitted to disclose any details related to these claims. No provision has been made in the accompanying financial statements regarding these claims other than this disclosure.

As of September 30, 2011, the RRB had contractual arrangements which may result in future financial obligations of $29.7 million.

11. Intragovernmental Costs and Exchange Revenue

	2011	2010
Railroad Retirement (RR) Act Program		
Intragovernmental Costs	$ 165,144,079	$ 170,861,847
Public Costs	11,051,392,699	10,887,249,382
Total RR Act Program Costs	$11,216,536,778	$11,058,111,229
Intragovernmental Earned Revenue	$ 11,092,913	$ 11,276,432
Public Earned Revenue	0	0
Total RR Act Program Earned Revenue	$ 11,092,913	$ 11,276,432
Railroad Unemployment Insurance (RUI) Act Program		
Intragovernmental Costs	$ 4,743,469	$ 4,504,732
Public Costs	133,510,527	192,621,132
Total RUI Act Program Costs	$ 138,253,996	$ 197,125,864
Intragovernmental Earned Revenue	$ 0	$ 0
Public Earned Revenue	21,885,559	22,294,403
Total RUI Act Program Earned Revenue	$ 21,885,559	$ 22,294,403

These totals do not include $30,628 and $156,637 of earned revenues not attributable to either program for fiscal years 2011 and 2010, respectively.

Intragovernmental costs (exchange transactions made between two reporting entities within the Federal Government) are being reported separately from costs with the public (exchange transactions made between the reporting entity and a non-Federal entity). Intragovernmental exchange revenues (exchange transactions made between two reporting entities within the Federal Government) are reported separately from exchange revenues with the public (exchange transactions made between the reporting entity and a non-Federal entity). Intragovernmental expenses relate to the source of goods and services purchased by the reporting entity, not to the classification of related revenue.

12. Transfers To/From NRRIT

The RRB received a total of $1,744 million and $1,989 million from the NRRIT during fiscal years 2011 and 2010, respectively. These funds were received into the RR Account. Transfers were to fund the payment of benefits.

13. Undelivered Orders at the End of the Period

	2011	2010
Undelivered Orders	$8,201,017	$8,028,743

14. Explanation of Differences Between the Combined Statement of Budgetary Resources and the Budget of the United States Government

A reconciliation was completed of budgetary resources, obligations incurred, distributed offsetting receipts, and outlays, as presented in the Statement of Budgetary Resources for the year ended September 30, 2010, to amounts included in the Budget of the United States Government. A reconciliation was not performed for the period ended September 30, 2011, since the RRB's Performance and Accountability Report is published in November 2011, and OMB's MAX system will not have actual budget data available until mid-December 2011.

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

		Fiscal Year 2010 (in millions)			
		Budgetary Resources	Obligations Incurred	Distributed Offsetting Receipts	Net Outlays
1.	Combined Statement of Budgetary Resources – September 30, 2010	12,015	11,832	4,431	7,240
2.	Expenditure Transfers from Trust Funds	(118)			
3.	Unobligated Balance, Brought Forward October 1, 2009	(31)			
4.	Recoveries of Prior Year Unpaid Obligations	(1)			
5.	Sickness Insurance Benefit Recoveries	(23)			
6.	Administrative Expense Reimbursement	(12)			
7.	Cancelled Authority	1			
8.	Interfund Transfers: Federal Payment Obligations – Income Taxes Collected on Benefits (0113)	(467)			
9.	Intrafund Transfers: Receipts from the Old-Age and Survivors Insurance (OASI) Trust Fund	(3,930)			
10.	Intrafund Transfers: Receipts from the Disability Insurance (DI) Trust Fund	(462)			
	Financial Interchange				
11.	Accrued Receipts from the OASI and DI Trust Funds			(108)	108
12.	RRB Transfers to the Federal Hospital Insurance Trust Fund			536	(536)
	NRRIT				
13.	NRRIT Obligations / Outlays	2,060	2,060		2,060
14.	Intrafund Transfers: NRRIT Transfer to RRA	(1,989)		1,989	(1,989)
15.	Proprietary Receipts: NRRIT – Gains and Losses	(1,995)		1,995	(1,995)
16.	Proprietary Receipts: NRRIT – Interest and Dividends	(435)		435	(435)
17.	Rounding	2	(2)		
18.	Budget of the United States Government FY 2010 Actuals	4,615	13,890	9,278	4,453

15. Social Insurance

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

- Estimated future revenue includes tier 1 taxes, tier 2 taxes, income taxes on benefits, and financial interchange income, where financial interchange income consists of financial interchange transfers plus financial interchange advances from general revenues less repayment of financial interchange advances from general revenues.

- Estimated future expenditures include benefit and administrative costs.

- Detail may not add to totals due to rounding. Employee and beneficiary status are determined as of 1/1/2010, whereas present values are as of 1/1/2011.

- The figures in the Statement of Social Insurance, rounded to millions of dollars prior to 2008, have been rounded to tenths of billions. The practice of displaying the figures in the Statement of Social Insurance in millions of dollars implies a degree of accuracy that 75-year projections do not possess.

Treasury Securities and Assets Held by the Program

The January 1, 2007, Treasury securities and assets do not include less than $0.1 billion of accrued interest and dividends and miscellaneous adjustments related primarily to operating expenses of the NRRIT.

Higher Treasury securities and assets result in lower tax rates and consequently lower future tax income and lower Treasury securities and assets result in higher rates and income.

Subsequent Event Note Disclosure for the Statement of Social Insurance

From January 1, 2011, the valuation date of the Statement of Social Insurance, to September 30, 2011, the balance sheet date, there was a decline in the value of the NRRIT assets. If a change in the trust fund balance is not excessively large, then we would expect the effect of the change to be offset by a corresponding change in the present value of future taxes due to the operation of the Account Benefits Ratio on future tax rates. Given the extent of the decline in the NRRIT assets from January 1 to September 30, we believe that there would be little effect on the net surplus position. The decline in the line item “Treasury securities and assets held by the program” would be expected to be largely offset by increases in the line items “Contributions and earmarked taxes,” resulting in relatively little change to the final line item “Open group surplus/(unfunded obligation).”

16. Significant Assumptions

The estimates used in the Statement of Social Insurance and Required Supplementary Information are based on the assumption that the program will continue as presently constructed. The calculations assume that all future transfers required by current law under the financial interchange will be made.

The estimates are also based on various economic, employment, and other actuarial assumptions. The ultimate economic assumptions are a 7.5 percent investment return, a 3 percent annual increase in the cost of living, and a 4 percent annual wage increase.

The employment assumption for the Statement of Social Insurance is employment assumption II, the intermediate employment assumption, as used in the 2011 Section 502 Report. Under employment assumption II, starting with an average 2010 employment of 221,000, (1) railroad passenger employment is assumed to remain level at 44,000, and (2) the employment base, excluding passenger employment, is assumed to decline at a constant annual rate of 2.0 percent for 25 years, at a reducing rate over the next 25 years, and remain level thereafter.

Actuarial assumptions are those published in the Technical Supplement to the "Twenty-Fourth Actuarial Valuation of the Assets and Liabilities Under the Railroad Retirement Acts as of December 31, 2007." This may be found on the RRB's website, www.rrb.gov.

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

Table S-1.	2007 RRB Annuitants Mortality Table
Table S-2.	2007 RRB Disabled Mortality Table for Annuitants with Disability Freeze
Table S-3.	2007 RRB Disabled Mortality Table for Annuitants without Disability Freeze
Table S-4.	2003 RRB Active Service Mortality Table
Table S-5.	2007 RRB Spouse Total Termination Table
Table S-6.	Probability of a retired employee having a spouse eligible for railroad retirement benefits
Table S-7.	1995 RRB Mortality Table for Widows
Table S-8.	1997 RRB Remarriage Table
Table S-9.	2004 RRB Total Termination Table for Disabled Children
Table S-10.	Calendar year rates of immediate age retirement
Table S-11.	Rates of immediate disability retirement and of eligibility for disability freeze
Table S-12.	Calendar year rates of final withdrawal
Table S-13.	Service months and salary scales
Table S-14.	Family characteristics of railroad employees assumed for the valuation of survivor benefits

Note 17 Earmarked Funds

	8010 SSEB	8011 RRA	8051.001 RUIA Benefit Payments	0113 Federal Payments to RR Accounts	8237 Limitation on Administration	8051.002 RUIA Admin Expenses	8018 Limitation on OIG	Eliminations	Total Earmarked Funds
Balance Sheet as of September 30,2011									
Assets									
Fund Balance with Treasury	$12,343,119	$10,221,234	$3,355,602	$21,045,822	$10,843,825	$257,614	$1,178,582		59,245,798
Investments	796,827,566	697,396,746							1,494,224,312
NRRIT Net Invested Assets		22,146,037,531							22,146,037,531
Taxes and Interest Receivable	4,231,400,000	35,320,360	49,812,785		683,878	11,525,380	75,000	(758,878)	4,328,058,525
Other Assets					1,429,061		223,235		1,652,296
Total Assets	5,040,570,685	22,888,975,871	53,168,387	21,045,822	12,956,764	11,782,994	1,476,817	(758,878)	28,029,218,462
Liabilities Due and Payable	4,585,222,195	410,750,046	12,893,902		422,449	82,918	9,897	(758,878)	5,008,622,529
Other Liabilities	135,400,000	11,578,351			9,187,048		697,798		156,863,197
Total Liabilities	4,720,622,195	422,328,397	12,893,902		9,609,497	82,918	707,695	(758,878)	5,165,485,726
Unexpended Appropriations				21,045,822					21,045,822
Cumulative Results of Operations	319,948,490	22,466,647,474	40,274,485		3,347,267	11,700,076	769,122		22,842,686,914
Total Liabilities and Net Position	$5,040,570,685	$22,888,975,871	$53,168,387	$21,045,822	$12,956,764	$11,782,994	$1,476,817	($758,878)	28,029,218,462
Statement of Net Cost for the Period Ended September 30,2011									
Gross Program Costs	$6,517,069,440	$4,523,014,465	$114,311,968	$698,086,236	$129,123,565		$10,127,455	($699,540,256)	11,292,192,873
Less Earned Revenues			21,885,559		10,199,716		1,318,197	(425,000)	32,978,472
Net Program Costs	6,517,069,440	4,523,014,465	92,426,409	698,086,236	118,923,849		8,809,258	(699,115,256)	11,259,214,401
Costs Not Attributable to Program Costs Less Earned Revenues Not Attributable to Program Costs					30,620		8		30,628
Net Cost of Operations	$6,517,069,440	$4,523,014,465	$92,426,409	$698,086,236	$118,893,229		$8,809,250	($699,115,256)	11,259,183,773
Statement of Changes in Net Position for the Period Ended September 30,2011									
Net Position Beginning of Period	$564,943,363	$23,981,000,165	($25,394,052)	$546,185	$3,617,351	$8,249,301	$834,834		24,533,797,147
Appropriations Received				718,650,000					718,650,000
Expended Appropriations				698,086,236					698,086,236
Other Adjustments				(64,127)					(64,127)
Appropriations Used				(698,086,236)					(698,086,236)
Taxes and Non-Exchange Revenue	2,706,368,270	2,726,425,076	151,248,872			23,722,467		(699,115,256)	4,908,649,429
Other Financing Sources	3,565,706,297	179,283,440	6,846,074		118,623,145	(20,271,692)	8,743,538		3,858,930,802
Transfers In From NRRIT		1,744,000,000							1,744,000,000
Change in NRRIT Assets		(1,641,046,742)							(1,641,046,742)
Net Cost of Operations	(6,517,069,440)	(4,523,014,465)	(92,426,409)	(698,086,236)	(118,893,229)		(8,809,250)	699,115,256	(11,259,183,773)
Change in Net Position	(244,994,873)	(1,514,352,691)	65,668,537	20,499,637	(270,084)	3,450,775	(65,712)		(1,670,064,411)
Net Position End of Period	319,948,490	22,466,647,474	40,274,485	21,045,822	3,347,267	11,700,076	769,122		22,863,732,736

Note 17 Earmarked Funds

	8010 SSEB	8011 RRA	8051.001 RUIA Benefit Payments	0113 Federal Payments to RR Accounts	8237 Limitation on Administration	8051.002 RUIA Admin Expenses	8018 Limitation on OIG	Eliminations	Total Earmarked Funds
Balance Sheet as of September 30, 2010									
Assets									
Fund Balance with Treasury	$12,155,964	$13,061,198	$7,438,179	$546,185	$14,298,263	$628,985	$1,357,529		$49,486,303
Investments	793,129,608	506,776,803							1,299,906,411
NRRIT Net Invested Assets		23,787,084,273							23,787,084,273
Taxes and Interest Receivable	4,417,500,000	81,240,170	25,510,980		1,270,148	7,791,623	118,091	(48,765,992)	4,484,665,020
Other Assets					1,494,268		261,678		1,755,946
Total Assets	5,222,785,572	24,388,162,444	32,949,159	546,185	17,062,679	8,420,608	1,737,298	(48,765,992)	29,622,897,953
Liabilities Due and Payable	4,557,842,209	398,119,375	58,343,211		908,065	171,307		(48,765,992)	4,966,618,175
Other Liabilities	100,000,000	9,042,904			12,537,263		902,464		122,482,631
Total Liabilities	4,657,842,209	407,162,279	58,343,211		13,445,328	171,307	902,464	(48,765,992)	5,089,100,806
Unexpended Appropriations				546,185					546,185
Cumulative Results of Operations	564,943,363	23,981,000,165	(25,394,052)		3,617,351	8,249,301	834,834		24,533,250,962
Total Liabilities and Net Position	$5,222,785,572	$24,388,162,444	$32,949,159	$546,185	$17,062,679	$8,420,608	$1,737,298	($48,765,992)	$29,622,897,953
Statement of Net Cost for the Period Ended September 30, 2010									
Gross Program Costs	$6,402,023,545	$4,473,555,198	$159,652,531	$467,052,092	$128,281,137		$10,188,147	($468,353,213)	$11,172,399,437
Less Earned Revenues		0	22,294,403		10,517,680		1,183,752	(425,000)	33,570,835
Net Program Costs	6,402,023,545	4,473,555,198	137,358,128	467,052,092	117,763,457		9,004,395	(467,928,213)	11,138,828,602
Costs Not Attributable to Program Costs									
Less Earned Revenues Not Attributable to Program Costs					156,638				156,638
Net Cost of Operations	$6,402,023,545	$4,473,555,198	$137,358,128	$467,052,092	$117,606,819		$9,004,395	($467,928,213)	$11,138,671,964
Statement of Changes in Net Position for the Period Ended September 30, 2010									
Net Position Beginning of Period	$577,549,999	$23,399,638,829	$27,800,176	$522,250	$4,162,486	$8,728,103	$1,271,151		$24,019,672,994
Appropriations Received				467,150,000					467,150,000
Expended Appropriations				467,052,092					467,052,092
Other Adjustments				(73,973)					(73,973)
Appropriations Used				(467,052,092)					(467,052,092)
Taxes and Non-Exchange Revenue	2,538,856,249	2,611,435,441	76,982,064			22,989,818		(467,928,213)	4,782,335,359
Other Financing Sources	3,850,560,660	12,965,094	7,181,836		117,061,684	(23,468,620)	8,568,078		3,972,868,732
Transfers In From NRRIT		1,989,000,000							1,989,000,000
Change in NRRIT Assets		441,515,999							441,515,999
Net Cost of Operations	(6,402,023,545)	(4,473,555,198)	(137,358,128)	(467,052,092)	(117,606,819)		(9,004,395)	467,928,213	(11,138,671,964)
Change in Net Position	(12,606,636)	581,361,336	(53,194,228)	23,935	(545,135)	(478,802)	(436,317)		514,124,153
Net Position End of Period	$564,943,363	$23,981,000,165	($25,394,052)	$546,185	$3,617,351	$8,249,301	$834,834		$24,533,797,147

18. Apportionment Categories of Obligations Incurred: Direct vs. Reimbursable Obligations

All RRB direct and reimbursable obligations are incurred against Category B apportionments. There are no RRB direct or reimbursable obligations incurred against Categories A or Exempt apportionments.

The amounts of Category B direct and reimbursable obligations are reported on the face of the Statement of Budgetary Resources for fiscal years 2011 and 2010.

This disclosure agrees with the aggregate of RRB direct and reimbursable obligations as reported on the RRB's fiscal year 2011 year-end SF-133, *Report on Budget Execution and Budgetary Resources*, and lines 8A and 8B in the Statement of Budgetary Resources.

19. Terms of Borrowing Authority Used

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

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

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

Section 7(c)(4) of the 1974 Railroad Retirement Act (RRA) as amended provides the rules for repayment of the financial interchange advances and references Section 7(c)(3) for the interest rate to be used.

The interest rate on the repayment of the advances is the same as that used in the actual financial interchange determination from the close of the prior fiscal year until the date of the transfer.

20. Available Borrowing Authority, End of the Period

The amount of RRB available borrowing authority at the end of the period associated with financial interchange advances is $3,812,300,000.

21. Legal Arrangements Affecting Use of Unobligated Balances

The portion of RRB trust fund receipts collected in the current fiscal year that exceed the amount needed to pay benefits or other valid obligations remain in the RRB trust funds as unobligated balances. These receipts can become available in the current year if needed for valid obligations. RRB receipts are assets of the trust fund and available for obligation as needed in the future.

22. Subsequent Events

Other than the decline of $2.8 billion in NRRIT net assets from the SOSI, January 1, 2011 valuation date and the September 30, 2011 balance sheet date, discussed in Note 15, no material events or transactions have occurred subsequent to September 30, 2011, that we are aware of. We have evaluated subsequent events through November 15, 2011, the date the financial statements were released.

Note 23 Reconciliation of Net Cost of Operations to Budget
For the Years Ended September 30, 2011 and 2010
(in dollars)

	2011	2010
Resources Used to Finance Activities:		
Budgetary Resources Obligated		
Obligations Incurred	$12,164,738,483	$11,831,830,678
Less: Spending Authority from Offsetting Collections and Recoveries	(152,926,070)	(154,053,100)
Obligations Net of Offsetting Collections and Recoveries	12,011,812,413	11,677,777,578
Less: Offsetting Receipts	(4,584,640,447)	(4,431,122,000)
Net Obligations	**7,427,171,966**	**7,246,655,578**
Other Resources		
Imputed Financing from Costs Absorbed by Others	11,246,803	8,839,732
Other	(1,678,936,742)	440,615,999
Net Other Resources Used to Finance Activities	**(1,667,689,939)**	**449,455,731**
Total Resources Used to Finance Activities	**5,759,482,027**	**7,696,111,309**
Resources Used to Finance Items Not Part of the Net Cost of Operations:		
Change in Budgetary Resources Obligated for Goods, Services & Benefits Ordered but not yet Provided	(592,642)	1,104,745
Resources That Fund Expenses Recognized in Prior Periods	(877,543)	0
Budgetary Offsetting Collections & Receipts That Do Not Affect Net Cost of Operations	(788,135)	503,689
Resources That Finance the Acquisition of Assets	1,640,604,217	(442,077,934)
Other Resources or Adjustments to Net Obligated Resources That Do Not Affect Net Cost of Operations	3,885,574,000	3,964,122,000
Total Resources Used to Finance Items Not Part of the Net Cost of Operations	**5,523,919,897**	**3,523,652,500**
Total Resources Used to Finance the Net Cost of Operations	**11,283,401,924**	**11,219,763,809**
Components of the Net Cost of Operations That Will Not Require or Generate Resources in the Current Period:		
Components Requiring or Generating Resources in Future Periods:		
Increase in Annual Leave Liability	(85,699)	71,625
Other	38,354,804	1,547,945
Total Components of Net Cost of Operations That Will Require or Generate Resources in Future Periods	**38,269,105**	**1,619,570**
Components Not Requiring or Generating Resources:		
Depreciation and Amortization	110,645	126,242
Total Components of Net Cost of Operations That Will Not Require or Generate Resources	**110,645**	**126,242**
Total Components of Net Cost of Operations That Will Not Require or Generate Resources in the Current Period	**38,379,750**	**1,745,812**
Net Cost of Operations	**$11,321,781,674**	**$11,221,509,621**

Required Supplementary Information

Social Insurance

Program Financing

Payroll taxes paid by railroad employers and their employees are the primary source of funding for the railroad retirement-survivor benefit programs. Railroad retirement taxes, which have historically been higher than social security taxes, are calculated, like benefit payments, on a two-tier basis. Railroad retirement tier 1 payroll taxes are coordinated with social security taxes so that employees and employers pay tier 1 taxes at the same rate as social security taxes. In addition, both employees and employers pay tier 2 taxes that are used to finance railroad retirement benefit payments over and above social security levels. The tier 2 tax rate is based on the ratio of certain asset balances to the sum of benefit payments and administrative expenses.

Revenues in excess of benefit payments are invested to provide additional trust fund income. The NRRIT oversees most investments, including all investments in non-governmental assets.

Additional trust fund income is derived from the financial interchange (FI) with the social security trust funds, revenues from Federal income taxes on railroad retirement benefits, and appropriations from general treasury revenues provided after 1974 as part of a phase-out of certain vested dual benefits.

The financial interchange between the railroad retirement and social security systems is intended to put the Social Security Administration (SSA) Federal Old-Age, Survivors, and Disability Insurance (FOASI/DI) trust funds and the Centers for Medicare and Medicaid Services (CMS) Federal Hospital Insurance (FHI) trust fund in the same position they would have been had railroad employment been covered under the Social Security and Federal Insurance Contributions Acts. It follows that all computations under the FI are performed according to social security law. The amount of benefits payable under the RRA has no effect on the results.

Placing the social security trust funds in the same position they would have been had railroad employment been covered under social security since its inception involves computing the amount of social security payroll and income taxes relating to railroad employment and computing the amount of additional benefits which social security would have paid to railroad retirement beneficiaries during the same fiscal year. In the computation of the latter amount, credit is given for any social security benefits actually paid to railroad retirement beneficiaries. When benefit reimbursements exceed payroll and income taxes, the difference, with an allowance for interest and administrative expenses, is transferred from the social security trust funds to the SSEB Account. If taxes exceed benefit reimbursements, a transfer would be made in favor of the social security trust funds.

On a present value basis, funds provided through the FI are expected to equal $80.8 billion, or 40.8% of the estimated future income of $198.0 billion.

Benefits

Full age annuities are payable at age 60 to workers with 30 years of service. For those with less than 30 years of service, reduced annuities are payable at age 62 and unreduced annuities are payable at full retirement age, which is gradually rising from 65 to 67, depending on year of birth. Disability annuities can be paid on the basis of total or occupational disability. Annuities are also payable to spouses and divorced spouses of retired workers and to widow(er)s, surviving divorced spouses, partitioned surviving spouses, partitioned surviving divorced spouses, divorced widow(er)s, remarried widow(er)s, children, and parents of deceased railroad workers. Qualified railroad retirement beneficiaries are covered by Medicare in the same way as social security beneficiaries.

Jurisdiction over the payment of retirement and survivor benefits is shared by the RRB and SSA. The RRB has jurisdiction over the payment of retirement benefits if the employee had at least 10 years of railroad service, or five years if performed after 1995; for survivor benefits, there is an additional requirement that the employee's last regular employment before retirement or death was in the railroad industry. If a railroad employee or his or her survivors do not qualify for railroad retirement benefits, the RRB transfers the employee's railroad retirement credits to SSA, where they are treated as social security credits.

Program Finances and Sustainability

The RRB must submit to the President and the Congress a report on the actuarial status of the railroad retirement system. Projections are made of the various components of income and outgo under three employment assumptions.

The Statement of Social Insurance presents an actuarial analysis of the financial position of the railroad retirement system as of January 1, 2011. The figures in the table are based on the 2011 Section 502 Report extended through calendar year 2085. The present values in the table are based on estimates of income and expenditures through the year 2085. The estimates include income and expenditures related to future participants as well as to former and present railroad employees. The present values are computed on the basis of economic and demographic assumptions and employment assumption II, the intermediate employment assumption, as used in the 2011 Section 502 Report. Under employment assumption II, starting with an average 2010 employment of 221,000, (1) railroad passenger employment is assumed to remain level at 44,000, and (2) the employment base, excluding passenger employment, is assumed to decline at a constant annual rate of 2.0 percent for 25 years, at a reducing rate over the next 25 years, and remain level thereafter.

Actuarial Estimates: Actuarial estimates of the long-range financial condition of the railroad retirement program are presented here. Throughout this section, the following terms will generally be used as indicated:

- Income: sources of income are payroll taxes, income taxes, investment income, and financial interchange transfers.
- Income excluding interest[a]**:** income, as defined above, excluding the investment income from assets of the trust fund.
- Expenditures**:** benefit payments and administrative expenses.

[a] References to interest income in this section may be considered as referring to total investment income including dividends and capital gains.

- Cashflow**:** either (1) income excluding interest or (2) expenditures, depending on the context, expressed in nominal dollars.

- Net Cashflow**:** income excluding interest less expenditures, expressed in nominal dollars.

The Statement of Social Insurance and the required supplementary information are based on actuarial and economic assumptions used in the 2011 Section 502 Report extended through calendar year 2085, the RRA, and the Railroad Retirement Tax Act. This information includes:

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

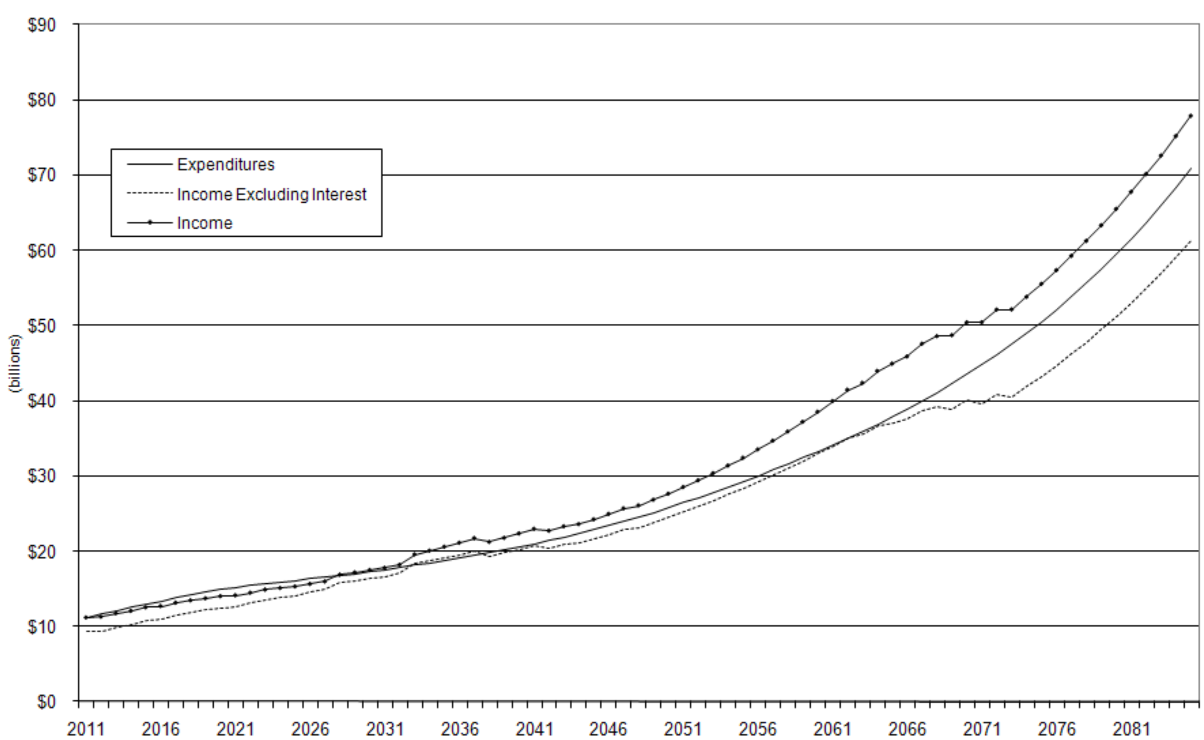
(2) estimated annual income excluding interest and expenditures in nominal dollars and as a percentage of taxable payroll;

(3) the ratio of estimated annuitants to estimated full-time employees, showing the relationship between the program's benefit recipients and taxpayers; and

(4) an analysis of the sensitivity of the projections to changes in selected assumptions, which is included in recognition of the inherent uncertainty of those assumptions.

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

Chart 1: Estimated Income and Expenditures



Cashflow Projections – Chart 1 shows actuarial estimates of railroad retirement annual income, income excluding interest, and expenditures for 2011-2085 in nominal dollars. The estimates are for the open-group population, which includes all persons projected to participate in the railroad retirement program as railroad workers or beneficiaries during the period. Thus, the estimates include payments from, and on behalf of, those who will be employed by the railroads during the period as well as those already employed at the beginning of the period. They also include expenditures made to, and on behalf of, such workers during that period.

As Chart 1 shows, annual expenditures exceed annual income through 2027. By 2028, income is greater than expenditures. This remains true throughout the remainder of the projection period. Without investment income, however, annual expenditures are generally greater than annual income although this is not true in 2033 through 2037 and in 2062. Reasons for this pattern include participant demographics, the assumed drop in railroad employment, and the automatic tier 2 tax rate adjustment mechanism. The combined balance of the NRRIT, RR Account, and SSEB Account never becomes negative largely because (i) a sufficient balance exists at the beginning of the projection period and (ii) tier 2 tax rates respond automatically to changing account balances.

Percentage of Taxable Payroll – Chart 2 shows estimated annual income excluding interest and expenditures for the railroad retirement program expressed as percentages of taxable payroll. Expenditures as a percentage of payroll increase from 2011 through 2019 primarily due to the anticipated retirement of a large percentage of the current workforce combined with the projected decline in railroad employment. Except for the income from tier 1 payroll taxes, the sources of income vary as a percentage of payroll.

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

<u>Sensitivity Analysis</u> – The projections of the future financial status of the railroad retirement program depend on many economic and demographic assumptions including rail employment, inflation, wage increase, investment return, age retirement, disability retirement, withdrawal, active service mortality, beneficiary mortality, total termination, probability of spouse, remarriage, family composition, disability freeze, service patterns, and salary scales. Because perfect long-range projections are impossible, this section is included to illustrate the sensitivity of the long-range projections to changes in certain key assumptions that have the greatest impact on the results. All present values are calculated as of January 1, 2011, and are based on estimates of income and expenditures during the projection period 2011-2085.

Employment: Average employment in the railroad industry has generally been in decline for some years. This decline is expected to continue. Since employment is a key consideration, projections of income and expenditures using three different employment assumptions have been made. The Statement of Social Insurance uses employment assumption II, the intermediate assumption, but this section compares results under the three assumptions. For all three cases, the average employment for the year 2010 is equal to 221,000. Employment assumptions I and II, based on a model developed by the Association of American Railroads, assume that (1) passenger employment will remain at the level of 44,000, and (2) the employment base, excluding passenger employment, will decline at a constant annual rate (0.5 percent for assumption I and 2.0 percent for assumption II) for 25 years, at a reducing rate over the next 25 years, and remain level thereafter. Employment assumption III differs from employment assumptions I and II by assuming that (1) passenger employment will decline by 500 per year until a level of 35,000 is reached and then remain level, and (2) the employment base, excluding passenger employment, will decline at a constant annual rate of 3.5 percent for 25 years, at a reducing rate over the next 25 years, and remain level thereafter. Employment assumptions I, II, and III are intended to provide an optimistic, moderate, and pessimistic outlook, respectively.

Under employment assumptions I and II, no cashflow problems occur throughout the entire period. Under employment assumption III, the combined balance of the RR Account, the NRRIT, and the SSEB Account becomes negative in 2034 and remains so through the rest of the 75-year period. Table 1 shows the excess of assets and the present value of income over the present value of expenditures for the three employment assumptions.

Table 1
Excess of Assets and Present Value of Income over Present Value of Expenditures for Three Employment Assumptions, 2011-2085
(in billions)

Employment Assumption	I	II	III
Present Value	$1.4	$1.0	$(0.2)
Average Tier 2 tax rate[a]	16.3%	18.8%	21.4%

[a]Average combined employer/employee tier 2 tax rate is calculated by dividing the present value of tier 2 taxes by the present value of tier 2 payroll.

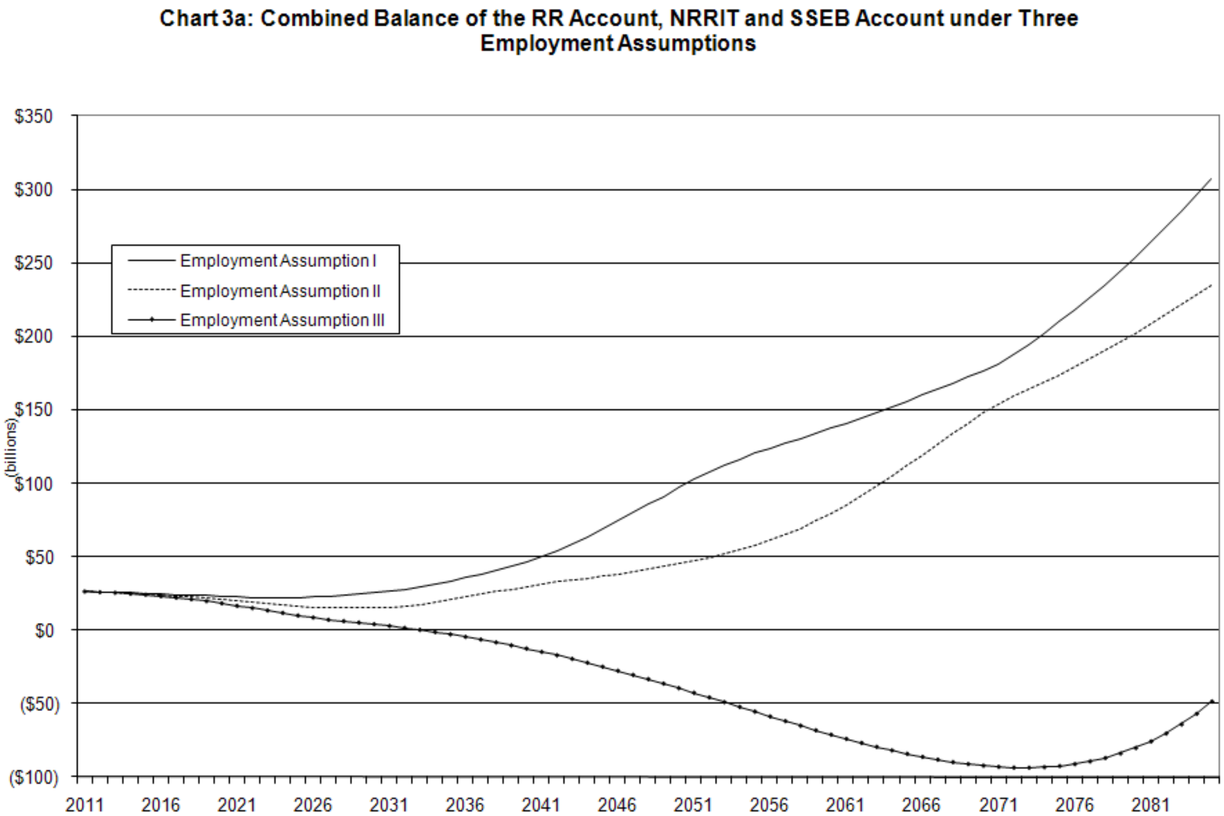
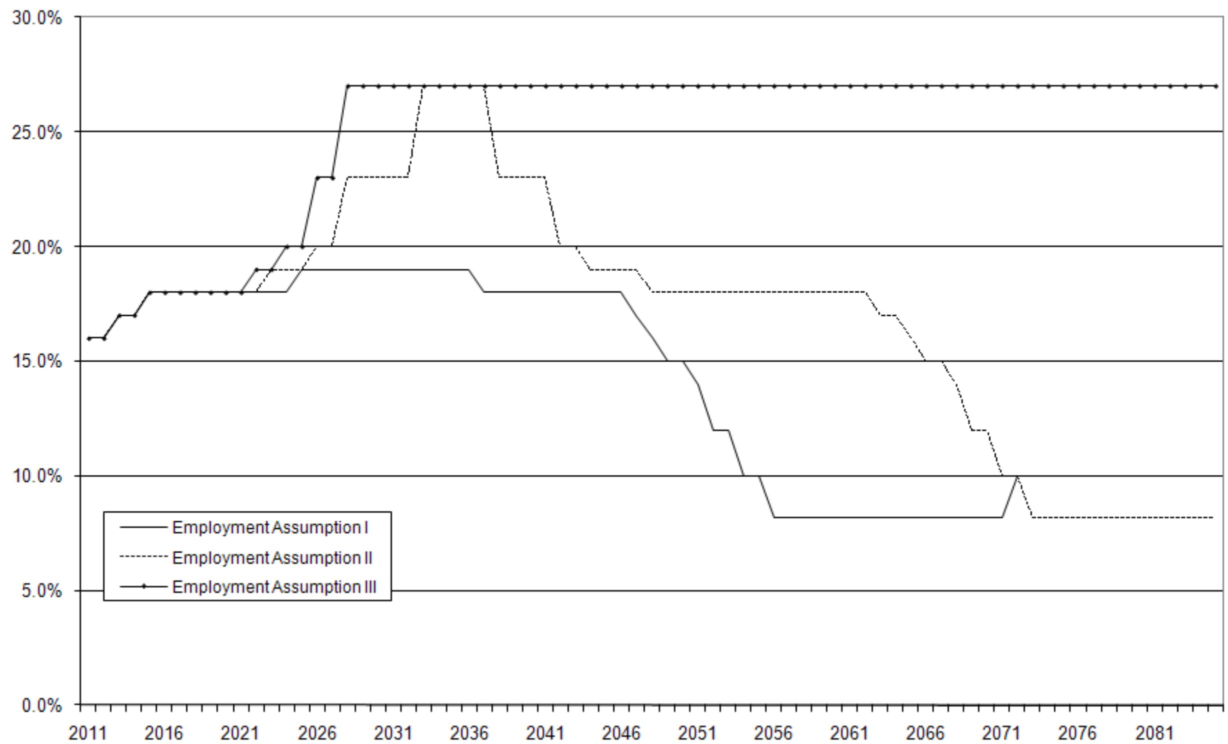


Chart 3a shows the combined balance of the accounts under each of the three employment assumptions. Note that the combined account balance is positive throughout the entire period for assumptions I and II but goes negative in 2034 for assumption III and remains so through the remainder of the 75-year period.

Chart 3b shows the tier 2 tax rate under these employment assumptions. The tax rate reaches the minimum in 2056 under employment assumption I but then increases again slightly in 2072 and remains level through 2085. The tax rate does not reach the minimum until 2073 under employment assumption II. Under employment assumption III, the tax rate reaches the maximum in 2028, remaining at that level through the remainder of the 75-year period.

Chart 3b: Tier 2 Tax Rate under Three Employment Assumptions



The tier 2 tax rate for each year is determined by the average account benefits ratio, which is the average for the ten most recent fiscal years of the ratio of fair market value of assets in the RR Account and NRRIT (and for years before 2002, the SSEB Account) to the total benefits and administrative expenses paid from the RR Account and the NRRIT. Therefore, the tier 2 tax rate will be affected by employment assumption. The tier 2 tax rate adjustment mechanism promotes but does not guarantee solvency. The tier 1 tax rate does not vary by employment assumption.

Investment return: Since investments may include non-governmental assets such as equity and debt securities as well as governmental securities, it is worthwhile to examine the effects of future rates of investment return. In addition to the investment return of 7.5 percent used for our projections, we show the effect on the combined accounts of an investment return of 4 percent and an investment return of 11 percent. Table 2 shows the excess of assets and the present value of income over the present value of expenditures for the three investment return assumptions. If the tier 2 tax rate were fixed, the actuarial surplus would increase with increasing investment return. However, the tier 2 tax rate adjusts to changing account balances, resulting in the highest average tax rate under the 4 percent scenario and the lowest average tax rate under the 11 percent scenario. Under the 7.5 percent scenario, the tax rate adjustment mechanism keeps the system in close actuarial balance. Under the 11 percent scenario, the tax rate is limited to a minimum value. Under the 4 percent scenario, the tax rate reaches a maximum value and then remains at that value longer than is needed, resulting in the highest actuarial surplus.

The tier 2 tax rate remains at the maximum longer than is needed largely because of the 10-year average in the Average Account Benefits Ratio, as required by law. Use of the 10-year averaging effectively sacrifices some responsiveness for the sake of stability and smoothness.

Table 2
Excess of Assets and Present Value of Income over Present Value of Expenditures for Three Investment Return Assumptions, 2011-2085
(in billions)

Investment Return Assumption	4%	7.5%	11%
Present Value	$10.2	$1.0	$1.7
Average Tier 2 tax rate	21.1%	18.8%	16.0%

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

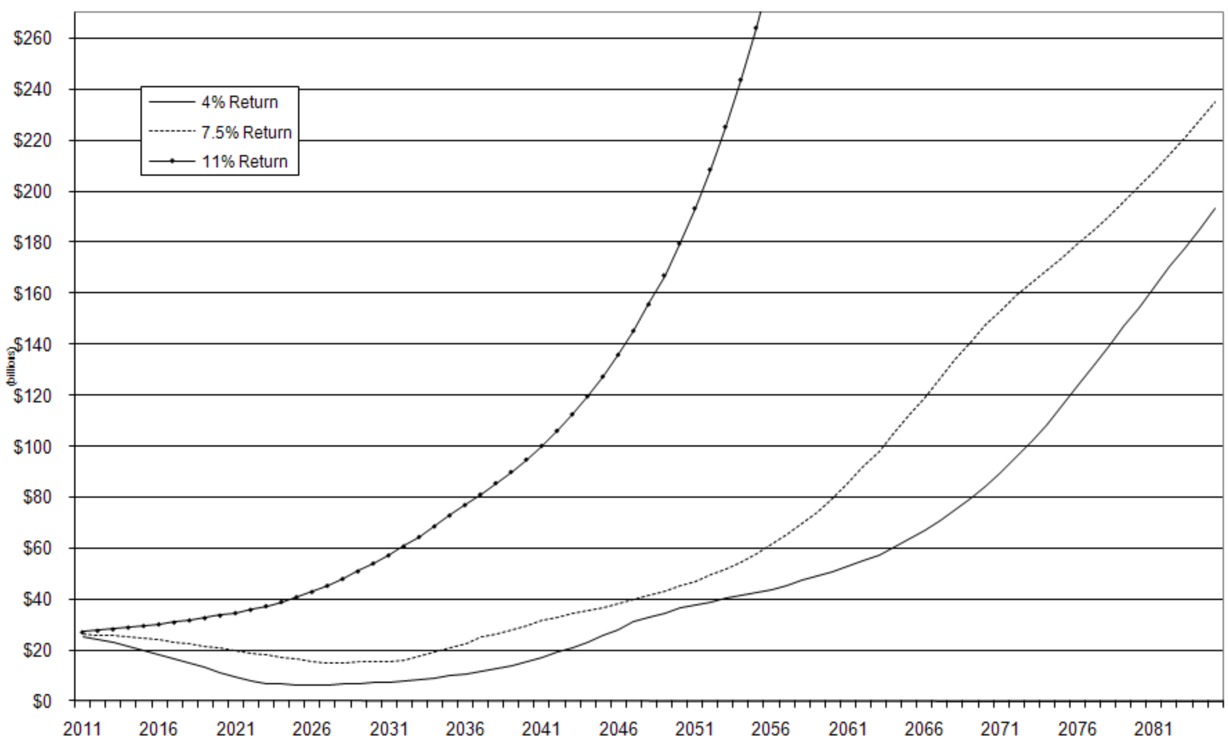
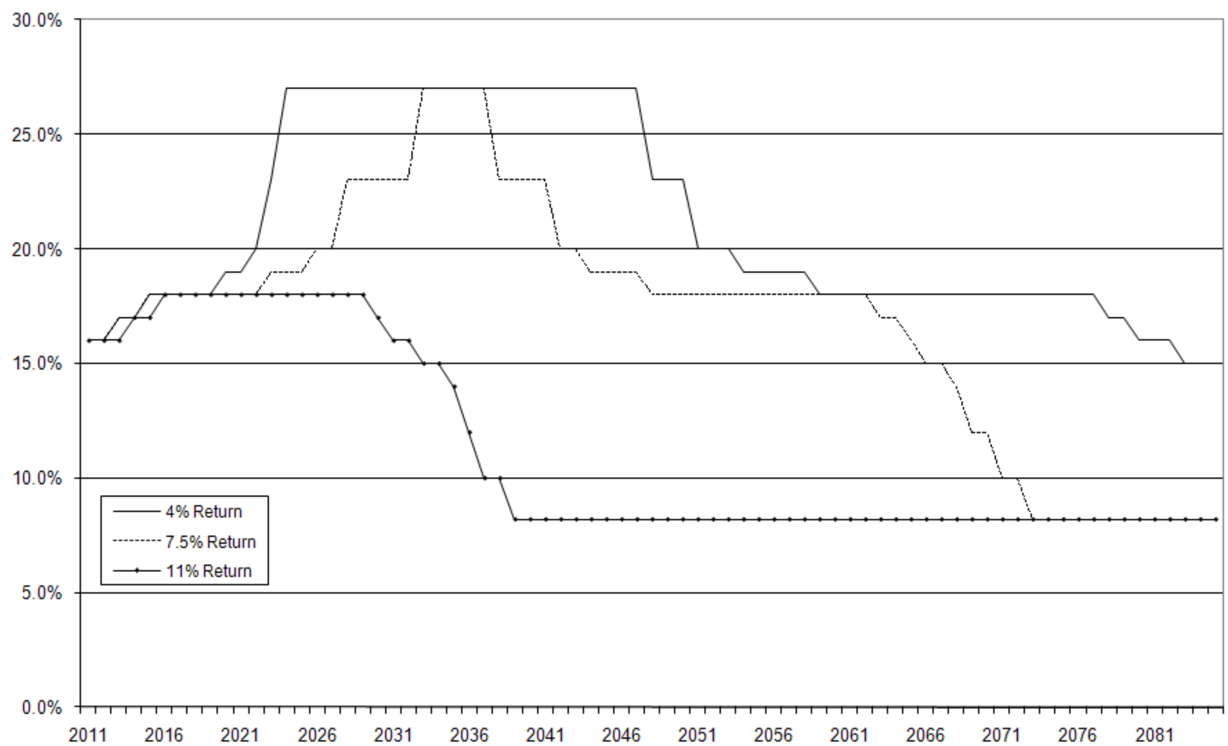


Chart 4a shows the combined account balance under the three investment return assumptions for the projection period. At a 4 percent investment return, the account balance reaches its lowest value in 2026, although it never becomes negative. After that it continues to increase. With a 7.5 percent investment return, the account balance decreases through 2027 and increases thereafter. An 11 percent investment return results in a combined balance that increases throughout the projection period. Although the 4 percent scenario shows the lowest account balance at the end of the projection period, the concurrent use of a 4 percent discount rate results in the highest surplus on January 1, 2011.

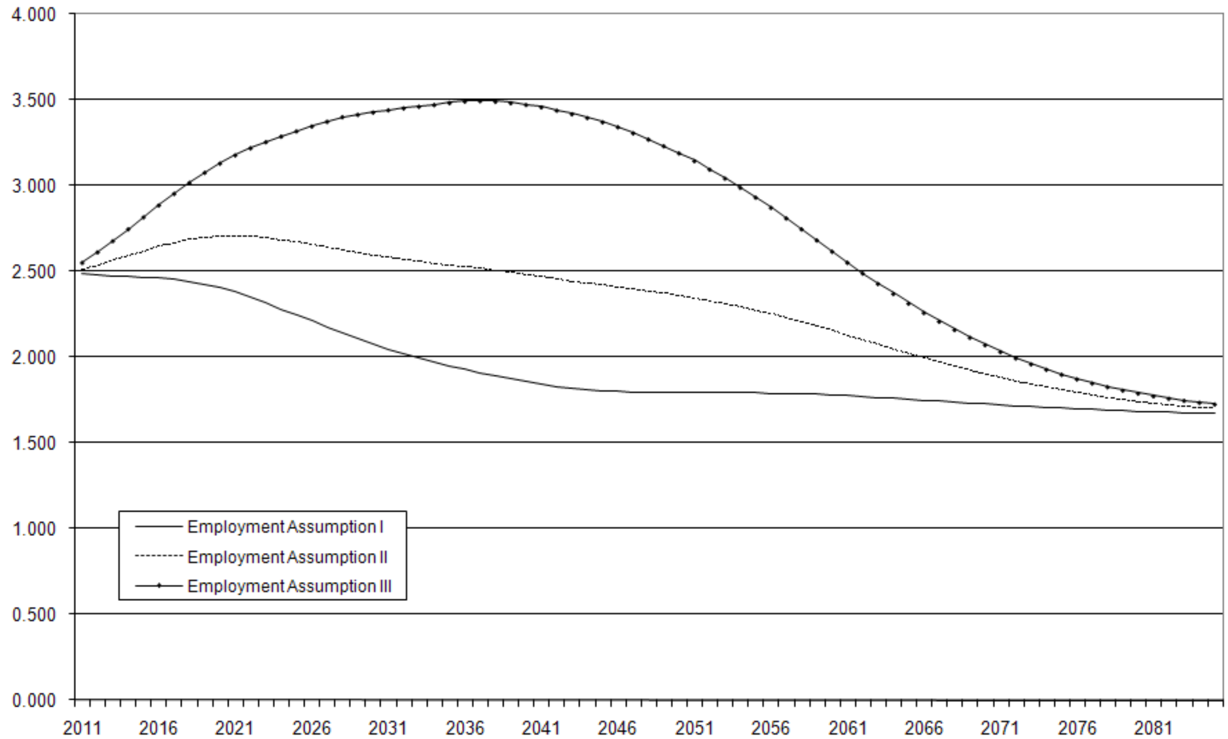
Chart 4b shows the tier 2 tax rate under the same three investment return assumptions. With a 4 percent investment return, the maximum tier 2 tax rate applies from 2024 through 2047. With the 7.5 percent investment return, the maximum tax rate applies from 2033 through 2037, and the minimum tax rate is paid starting in 2073. With an 11 percent investment return, the maximum tax rate is never applicable, and the minimum tax rate is paid beginning in 2039. As mentioned above, the tier 2 tax rate is determined based on the ratios of asset values to benefits and administrative expenses, so it will be affected by investment return, but tier 1 tax rates will not.

Chart 4b: Tier 2 Tax Rate under Three Investment Return Assumptions



Ratio of Beneficiaries to Workers: Chart 5 shows the estimated number of annuitants per full-time employee under all three employment assumptions. The average number of annuitants per employee for employment assumption I is highest in 2011. For assumptions II and III, the ratio is highest in 2021 and 2037, respectively. For all three employment assumptions, the average number of annuitants per employee declines to around 1.7 by the end of the projection period. The convergence in number of annuitants per employee at the end of the projection period results primarily from level employment projected in the latter years under all three employment assumptions.

Chart 5: Average Number of Annuitants per Full-Time Employee



RAILROAD RETIREMENT BOARD
DISAGGREGATE OF BUDGETARY RESOURCES
FOR THE YEAR ENDED SEPTEMBER 30, 2011
(In dollars)

BUDGETARY RESOURCES	COMBINED RAILROAD RETIREMENT PROGRAM	COMBINED RAILROAD UNEMPLOYMENT AND SICKNESS INSURANCE PROGRAM	LIMITATION ON THE OFFICE OF INSPECTOR GENERAL	COMBINED TOTALS
Unobligated balance, brought forward, October 1	$17,972,263	$164,571,737	$489,165	$183,033,165
Recoveries of prior year unpaid obligations	802,895	0	56,235	859,130
Budget authority				
Appropriation	12,409,444,867	202,760,127	0	12,612,204,994
Borrowing authority	3,820,500,000	0	0	3,820,500,000
Spending authority from offsetting collections				
Earned				
Collected	10,464,042	22,319,178	1,318,204	34,101,424
Change in receivables from Federal sources	(1,693)	0	0	(1,693)
Expenditure transfers from trust funds	108,854,854	942,727	8,169,628	117,967,209
Subtotal	16,349,262,070	226,022,032	9,487,832	16,584,771,934
Nonexpenditure transfers, net, anticipated and actual	46,412,762	(46,443,108)	(46,356)	(76,702)
Temporarily not available pursuant to Public Law	(453,624,385)	(146,295,732)	14,074	(599,906,043)
Permanently not available	(3,813,554,424)	0	0	(3,813,554,424)
TOTAL BUDGETARY RESOURCES	**$12,147,271,181**	**$197,854,929**	**$10,000,950**	**$12,355,127,060**
STATUS OF BUDGETARY RESOURCES				
Obligations incurred				
Direct	$12,006,792,696	$138,409,337	$9,304,155	$12,154,506,188
Reimbursable	10,232,295	0	0	10,232,295
Subtotal	12,017,024,991	138,409,337	9,304,155	12,164,738,483
Unobligated balance				
Apportioned	119,922,914	29,145,592	63,816	149,132,322
Unobligated balance not available	10,323,276	30,300,000	632,979	41,256,255
TOTAL STATUS OF BUDGETARY RESOURCES	**$12,147,271,181**	**$197,854,929**	**$10,000,950**	**$12,355,127,060**
CHANGE IN OBLIGATED BALANCE				
Obligated balance, net				
Unpaid obligations, brought forward, October 1	$965,465,042	$9,270,563	$972,380	$975,707,985
Uncollected customer payments from Federal sources, brought forward, October 1	(253,812)	0	0	(253,812)
Total unpaid obligated balance, net	**$965,211,230**	**$9,270,563**	**$972,380**	**$975,454,173**
Obligations incurred, net	$12,017,024,990	$138,409,337	$9,304,156	$12,164,738,483
Gross outlays	(12,004,238,450)	(138,943,742)	(9,663,514)	(12,152,845,706)
Recoveries of prior year unpaid obligations, actual	(802,895)	0	(56,235)	(859,130)
Change in uncollected customer payments from Federal sources	1,693	0	0	1,693
Obligated balance, net, end of period				
Unpaid obligations	$977,448,687	$8,736,158	$556,787	$986,741,632
Uncollected customer payments from Federal sources	(252,119)	0	0	(252,119)
Total, unpaid obligated balance, net, end of period	**$977,196,568**	**$8,736,158**	**$556,787**	**$986,489,513**
NET OUTLAYS				
Gross outlays	$12,004,238,450	$138,943,742	$9,663,514	$12,152,845,706
Offsetting collections	(119,318,896)	(23,261,905)	(9,487,832)	(152,068,633)
Distributed offsetting receipts	(4,584,640,447)	0	0	(4,584,640,447)
Net Outlays	**$7,300,279,107**	**$115,681,837**	**$175,682**	**$7,416,136,626**

To the Board Members:

The following report presents the results of the Office of Inspector General's (OIG) audits of the financial statements of the Railroad Retirement Board (RRB) as of and for the fiscal years ended September 30, 2011 and 2010.

OPINION ON THE FINANCIAL STATEMENTS

We have audited the accompanying balance sheet of the RRB as of September 30, 2011 and 2010; the related statements of net cost, changes in net position, and budgetary resources for the years then ended; and the statements of social insurance as of January 1, 2011, 2010, 2009, 2008, and 2007 and the statement of changes in social insurance amounts for the year ended December 31, 2010.

We did not audit the financial statements of the National Railroad Retirement Investment Trust (NRRIT). The net assets of the NRRIT represent approximately 79% of the total assets reported by the RRB for fiscal year (FY) 2011 and 80% of the total assets reported for FY 2010. NRRIT assets represent approximately 95% and 94% of the Treasury securities and assets held by the program as of January 1, 2011 and 2010. Related changes in the net value of investments held by the NRRIT are reported as a source of financing which contributed a net loss of \$1.6 billion during FY 2011 and a net gain of approximately \$442 million during FY 2010.

Pursuant to the Railroad Retirement and Survivors' Improvement Act of 2001, the NRRIT retains the services of an independent auditor to opine on its financial statements. With respect to the assets of the NRRIT as of September 30, 2011 and 2010; and January 1, 2011, 2010, 2009, 2008, and 2007, the financial statements of the NRRIT were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for the NRRIT, is based solely on the report of the other auditors.

In our opinion, the financial statements of the RRB referred to above, including the accompanying notes, present fairly, in all material respects, in conformity with U.S. generally accepted accounting principles, the financial position of the RRB, its consolidated net cost of operations and changes in net position, and combined budgetary resources as of and for the fiscal years ended September 30, 2011, and 2010; and the financial condition of the Railroad Retirement program as of January 1, 2011, 2010, 2009, 2008, and 2007 and changes in the financial condition of the program for the year ended December 31, 2010.

However, misstatements may nevertheless occur in other financial information reported by the RRB and may not be detected as a result of internal control deficiencies described later in this report.

CONSISTENCY OF OTHER INFORMATION

The RRB's required supplementary information is included, to which we have applied limited procedures in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to the auditor's inquiries, the basic financial statements and other knowledge the auditor obtained during the audit of the basic financial statements. We do not express an opinion or provide any assurance on this information because the limited procedures do not provide sufficient evidence to express an opinion or provide assurance.

Social Insurance

As described in the statement and related notes, the statement of social insurance presents the actuarial present value of the future income to be received, and expenditures to be paid to or on behalf of participants in the Railroad Retirement program during a period sufficient to illustrate the program's long-term sustainability. In preparing the statement of social insurance, management considers and selects assumptions and data that it believes provide a reasonable basis for the assertions in the statement. However, because of the large number of factors that affect the statement of social insurance and the fact that future events and circumstances cannot be known with certainty, there will be differences between the estimates in the statement of social insurance and the actual results, and those differences may be material.

The statement of changes in social insurance amounts reconciles the beginning and ending net present values of future revenue less future expenditures for current and future participants (the "open group measure") and presents the components of the changes in the open group measure from the end of the previous reporting period. The significant components of the change include: changes in the valuation period; changes in demographic and economic data and assumptions; and changes in law, regulation, and policy, as applicable.

Emphasis of Matters

NRRIT

Pursuant to the Railroad Retirement and Survivors' Improvement Act of 2001, the NRRIT is authorized to invest railroad retirement assets in a diversified investment portfolio. As of September 30, 2011, the reported value of the net assets of the NRRIT was approximately $1.6 billion lower than reported at September 30, 2010.

The RRB discusses its relationship with the NRRIT in Note 2 and Note 5 to the financial statements, and describes the impact of changes in the Treasury Securities and Assets held by the Program on social insurance actuarial projections in Note 15.

Financial Interchange

The RRB discloses transactions with related parties in Note 2 to the financial statements. The RRB, Social Security Administration and Centers for Medicare and Medicaid Services are parties to a financing arrangement described as a financial interchange. Under this arrangement, transfers-in from the Social Security Administration's Old-Age and Survivors Insurance and Disability Insurance trust funds and transfers-out to the Federal Health Insurance trust fund represented approximately $4 billion (net), or about 40% of the financing sources reported on the RRB's statement of changes in net position for FY 2011 before considering the change in the reported value of NRRIT net assets. For FY 2010, financial interchange transfers of $4 billion (net) represented about 35% of the financing sources reported before considering the reduction in the reported value of NRRIT assets.

CONSIDERATION OF INTERNAL CONTROL

In planning and performing our audit, we considered the RRB's internal control over financial reporting and compliance.[1] We did this to determine our procedures for auditing the financial statements and to comply with OMB audit guidance, and not to express an opinion on internal control. Accordingly, we do not express an opinion on internal control over financial reporting and compliance or on management's assertion on internal control included in Management's Discussion and Analysis.

With respect to previously reported control deficiencies, the RRB has made progress in strengthening its information security program but this effort is not yet complete and remains an area of material weakness.[2] The previously reported material weakness for internal controls over non-integrated subsystems continues to exist because agency actions are not yet sufficient.

Our internal control work would not necessarily disclose all deficiencies in internal control that might be material weaknesses or other significant deficiencies. Although not considered to be material weaknesses or significant

---

[1] The definition of internal control as it relates to the basic financial statements is presented in the footnotes on page 6.

[2] A <u>material weakness</u> is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A <u>significant deficiency</u> is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

deficiencies, we will report other matters involving internal control and its operation to RRB management in a separate letter.

Material Weaknesses

Information Technology Security – Risk Management Framework

During FY 2011 the OIG evaluated the RRB's information security program pursuant to the provisions of the Federal Information Security Management Act of 2002 (FISMA). OIG auditors found that weaknesses regarding the review of contractor deliverables associated with the risk management framework continue to be found.[3] Although agency managers are working to strengthen controls, management action had either not been completed as of the end of the current reporting period, or had not been in place long enough to permit evaluation.

Information Technology Security – Applications and Services

During FY 2011, the OIG also identified a material weakness regarding information technology security application services because the RRB continues to use an unsupported server, Windows 2000, as the operating system for some major applications. Although the agency has moved some of the Windows 2000 servers to the virtual environment, this action does not alleviate the problems associated with processing data in an unsupported environment. Uncertainties exist in determining the timeframe in which this situation will be corrected as well as the necessary resources for completion.

Internal Control Over Non-Integrated Subsystems

The RRB's financial reporting control structure is not comprehensive with respect to the reconciliation of the general ledger to non-integrated subsystems. The OIG previously reported this issue as a result of its audits of the agency's financial statements.

The agency has taken action to address this material weakness by performing reconciliations of the various non-integrated subsystems that support financial accounting. Although this shows that progress is being made to address this material weakness, the agency's progress is not yet sufficient to ensure that all of the reconciliations are properly designed and effective.

RRB managers are working to address this weakness.

---

[3] "Inspection of the Railroad Retirement Board's Agency Enterprise General Information Support System Certification and Accreditation," OIG Report 11-10, September 28, 2011.
"Inspection of the Railroad Retirement Board's Financial Management System's Continuous Monitoring Program," OIG Report 11-11, September 28, 2011.
"Evaluation of the Railroad Retirement Board's Benefit and Payment Operations System Continuous Monitoring," OIG Report 11-12, September 29, 2011.

Budgetary Reporting

The Bureau of Fiscal Operations (BFO) is responsible for preparing agency financial statements, which includes the Statement of Budgetary Resources (SBR). During our fiscal year 2011 audit, we found significant unexplained variances in the September 30, 2011 SBR which resulted in the discovery of material errors of more than $2 billion, which were corrected by BFO prior to the publication of the statement. We also discovered a $170 million error in the June 30, 2011 SBR, which was subsequently corrected. In addition, the OIG also identified other numerous instances of ineffective controls for budgetary transactions. As a result of these errors, the OIG has determined that BFO's internal controls over budgetary reporting are insufficient to ensure that a material misstatement would be prevented, detected and corrected on a timely basis.

Management within the Bureau of Fiscal Operations is working to address these weaknesses.

Significant Deficiency

Railroad Audits

The agency conducts external audits of railroad employers to ensure compliance under the Railroad Retirement and Unemployment Insurance Acts and verifies the accuracy and timeliness of reported compensation and contributions. Although the RRB does not have the authority to audit taxes under the Railroad Retirement Tax Act, agency staff reviews compensation amounts on which these payroll taxes are based. Creditable compensation paid by railroad employers impacts railroad unemployment insurance act contributions, which finances the railroad unemployment and sickness insurance programs. Consequently, audit findings could impact the RRB's trust funds, which are recorded in the agency's financial statements.

As a result of our review of the organizational unit that conducts the external audits, the OIG reported that the unit lacked comprehensive policies and procedures for conducting, reporting and documenting audits to ensure that compensation is reported in accordance with the law.[4] A weak quality control system, the practice of not verifying all employer information with the Internal Revenue Service, and not issuing audit reports in a timely manner increases the risk that railroad reporting errors could remain undetected.

Management in the Bureau of Fiscal Operations is working to address these deficiencies.

[4] "Review of the Railroad Retirement Board's Audit and Compliance Division," OIG Report 11-04, February 1, 2011.

COMPLIANCE WITH LAWS AND REGULATIONS

Our tests of the RRB's compliance with selected provisions of laws and regulations for FY 2011 disclosed no instances of non-compliance that are reportable under U.S. generally accepted government auditing standards or OMB guidance. However, the objective of our audit was not to provide an opinion on overall compliance with laws and regulations. Accordingly, we do not express such an opinion.

OBJECTIVES, SCOPE, AND METHODOLOGY

RRB management is responsible for (1) preparing the financial statements in conformity with U.S. generally accepted accounting principles, (2) establishing, maintaining, and assessing internal control to provide reasonable assurance that the broad control objectives of the Federal Managers' Financial Integrity Act (FMFIA) are met, and (3) complying with applicable laws and regulations.[5]

We are responsible for obtaining reasonable assurance about whether the financial statements are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles. We are also responsible for (1) obtaining a sufficient understanding of internal control over financial reporting and compliance to plan the audit, (2) testing compliance with selected provisions of laws and regulations that have a direct and material effect on the financial statements, and laws for which OMB audit guidance requires testing; and (3) performing limited procedures with respect to certain other information appearing in the RRB's Performance and Accountability Report. In order to fulfill these responsibilities, we:

- examined, on a test basis, evidence supporting the amounts and disclosures in the proprietary and budgetary financial statements;
- assessed the accounting principles used and significant estimates made by RRB management in preparing the proprietary and budgetary financial statements;
- assessed the factors, data, assumptions and model used by RRB management to prepare the long-term actuarial projections presented in the statement of social insurance;

[5]**Internal Control** as it relates to the financial statements is a process, affected by the agency's management and other personnel, designed to provide reasonable assurance that the following objectives are met: (1) Reliability of financial reporting - transactions are properly recorded, processed, and summarized to permit the preparation of the Basic Statements in accordance with generally accepted accounting principles, and assets are safeguarded against loss from unauthorized acquisition, use, or disposition; and (2) Compliance with applicable laws, regulations, and government-wide policies - transactions are executed in accordance with laws governing the use of budget authority, government-wide policies, and laws identified by OMB, and other laws and regulations that could have a *direct and material effect on the Basic Statements.*

- assessed the reconciliation of the beginning and ending open group measure including the significant components of the change presented in the statement of changes in social insurance amounts;
- evaluated the overall presentation of the financial statements;
- obtained an understanding of the entity and its operations, including its internal control related to financial reporting, compliance with laws and regulations (including execution of transactions in accordance with budget authority);
- tested relevant internal controls over financial reporting and compliance, and evaluated the design and operating effectiveness of internal control;
- considered the design of the process for evaluating and reporting on internal control and financial management systems under the FMFIA; and
- performed tests of compliance with selected provisions of laws and regulations, including laws governing the use of budget authority, and other laws and regulations that could have a direct and material effect on the RRB's basic financial statements:
    - Anti-Deficiency Act, as amended;
    - provisions of the Railroad Retirement Act governing financing and the payment of benefits;
    - provisions of the Railroad Unemployment Insurance Act governing financing and the payment of benefits; and
    - provisions of the Social Security Act that provide for certification of benefits to the RRB for payment (42 U.S.C. § 405(i)).

We considered the material weaknesses identified above in determining the nature, timing, and extent of our audit procedures on the FY 2011 financial statements.

We did not evaluate all internal controls relevant to operating objectives as broadly defined by the FMFIA, such as controls relevant to preparing statistical reports and ensuring efficient operations. We limited our internal control testing to controls over financial reporting and compliance. Because of inherent limitations in internal control, misstatements due to error or fraud, losses, or noncompliance may nevertheless occur and not be detected by our audit. We also caution that projecting our evaluation to future periods is subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with controls may deteriorate. We also caution that our internal control testing may not be sufficient for other purposes.

We did not test compliance with all laws and regulations applicable to the RRB. We limited our tests of compliance to selected provisions of laws and regulations that have a direct and material effect on the RRB's financial statements and those required by OMB audit guidance that we deemed applicable to the RRB's financial statements for the fiscal year ended September 30, 2011. We caution that noncompliance may occur and not be detected by these tests and that such testing may not be sufficient for other purposes.

The NRRIT was established pursuant to the Railroad Retirement and Survivors' Improvement Act of 2001 (Public Law 107-90). Under that law, the NRRIT is not a department, agency or instrumentality of the Government of the United States. In addition, the law specifically exempts the NRRIT from compliance with Title 31, United States Code which governs the monetary and financial operations of the Federal government. The law also provides that the NRRIT annually engage an independent, qualified public accountant to audit the financial statements of the NRRIT. Accordingly, the OIG has not audited the books and records of the NRRIT, nor had any input into the selection of the independent accountant retained by the NRRIT, nor provided oversight to that firm in the execution of their responsibilities. Our opinion on the RRB's financial statements, insofar as it relates to the amounts included for the NRRIT, is based solely on the report of the auditor retained by the NRRIT, and our assessments of internal control and compliance do not extend to the operations of the NRRIT.

Except to the extent that the foregoing arrangement may have affected the planning and execution of our audit, we performed our work in accordance with U.S. generally accepted government auditing standards and OMB audit guidance.

RRB MANAGEMENT'S COMMENTS

RRB management thanked the OIG audit staff for their close cooperative effort in meeting this year's reporting deadline. With respect to the material weaknesses described in this report, management cited their ongoing effort to correct the weaknesses and to implement solutions.

The full text of management's response follows as an attachment to this report. We did not perform audit procedures on the RRB's written response to the material weaknesses and, accordingly, we express no opinion on the response.

Original signed by:

Martin J. Dickman
Inspector General

November 8, 2011, except for matters relating to the fair value of the net assets of the NRRIT as of September 30, 2011, as to which the date is November 15, 2011.

UNITED STATES GOVERNMENT

FORM G-115f (1-92)

MEMORANDUM

RAILROAD RETIREMENT BOARD

NOV 14 2011

TO : Diana Kruel
Assistant Inspector General for Audit

FROM : George V. Govan (Original signed by)
Chief Financial Officer

SUBJECT: FY 2011 Financial Statement Audit – Auditor's Report;
Re: Your memorandum dated November 8, 2011

My office, and those of the Board Members, have reviewed the Office of Inspector General's draft report. We will continue our efforts to pay benefits to the right people, in the right amounts, in a timely manner, and will take appropriate action to safeguard our customers' trust funds. Although material weaknesses were identified, we have devoted substantial resources to correct agency weaknesses and will continue to implement solutions. We again thank you and your staff for working closely and cooperatively with us these past few months to help ensure that the RRB will be able to meet this year's reporting deadline of November 15, 2011.

cc: The Board
Executive Committee

PAGE INTENTIONALLY LEFT BLANK

OTHER ACCOMPANYING INFORMATION

PAGE INTENTIONALLY LEFT BLANK

UNITED STATES RAILROAD RETIREMENT BOARD

OFFICE OF INSPECTOR GENERAL

MANAGEMENT AND PERFORMANCE CHALLENGES FACING THE RAILROAD RETIREMENT BOARD

This statement has been prepared pursuant to the Reports Consolidation Act of 2000 and the requirements of Office of Management and Budget Circular A-136 which require that the Inspectors General identify what they consider to be the most serious management challenges facing their respective agency and briefly assess the agency's progress in addressing those challenges.

Congress created the railroad retirement system 75 years ago. The Railroad Retirement Act (RRA) created a nationwide retirement system for railroad workers to provide income security in old age. Over the years the program has been expanded to include disabled workers, elderly spouses and widow(er)s, children, and parents of young children. In 1938, Congress added a nationwide system of unemployment insurance and later a program of sickness insurance benefits. During fiscal year (FY) 2010, the Railroad Retirement Board (RRB) paid about $10.8 billion for retirement and survivor benefits to approximately 582,000 beneficiaries and roughly $160 million in net unemployment and sickness insurance benefits to some 38,000 claimants.

Our identification of challenges facing RRB management is based on recent audits and evaluations; new congressional directives to prevent improper payments and fraud in government programs; and continued lack of audit oversight for the National Railroad Retirement Investment Trust (NRRIT), a multi-billion dollar investment enterprise. The following challenges were identified during FY 2011:

- Oversight and transparency of invested program assets;
- Disability and Railroad Medicare program integrity;
- Information technology security;
- Controls over non-integrated subsystems;
- Human capital management; and
- Preventing and detecting improper payments.

Providing Oversight of Invested Assets of the Railroad Retirement Act Program

The Railroad Retirement and Survivor's Improvement Act of 2001 (RRSIA) created the NRRIT, independent of the RRB, to manage and invest railroad retirement assets in a diversified investment portfolio in the same manner as those of private sector retirement plans.[1] Although the RRB maintains a reserve

[1] Public Law 107-90, December 21, 2001, codified in 45 U.S.C. § 231n(j)

to pay benefits as they come due, approximately 80% of the agency's total assets, $23.8 billion, were entrusted to the NRRIT at the end of FY 2010.

Currently, the interagency Memorandum of Understanding between the RRB, the Department of Treasury, Office of Management and Budget, and the NRRIT is being revised to require additional financial information for the annual audit of the NRRIT financial statements. However, the proposed revisions do not alleviate the OIG's concerns about the effectiveness of oversight for the NRRIT, a multi-billion dollar investment enterprise.

Agency management has concluded that the RRB has sufficient information to carry out its responsibilities under the RRSIA. In response to the OIG's concerns regarding performance audits, the RRB states that an audit of the NRRIT's operational matters was released in December 2009; yet, the effectiveness of the NRRIT's internal controls was not sufficiently tested and the potential for fraud, waste, and abuse was not addressed during this audit.

During FY 2011, the OIG conducted a special review to identify the RRB's current weaknesses and the ways in which they could be addressed. We reported that since its inception, the NRRIT's administrative expenses have risen and increased the overall RRB cost structure by more than 70%.[2] This increase can be partially explained by the number of fund management staff that would be needed to manage increasingly complex risk based investment strategies and transactions. However, minimal information is released publically to justify the recurrent increases in administrative expenses.

To ensure the integrity, economy, and long-term viability of the NRRIT, RRB management must establish performance audit requirements that will effectively strengthen administrative and financial oversight while ensuring trust fund transparency.

Disability Automation and Program Integrity

Automation of the RRB's disability program continues to be a challenge for the agency. The Office of Programs stated that operational efficiency can be further enhanced through automation of the RRB's disability program. As such, a migration to paperless disability program processing has been identified as a future automation goal. An electronic method of processing disability claims would also provide a means for real-time detection and prevention of disability fraud, and enable the use of data mining techniques that will assist the agency's program integrity activities.

[2] The cost structure increase of 70% is computed as the ratio of reported NRRIT administrative expenses to RRB appropriations as of FY 2010 ($77,165,000/$109,073,000).

Electronic records and paperless processing allow multiple users to access and work with the same data simultaneously. In addition, RRB customers can access electronic data and records online to answer self-inquiries without contacting the RRB's field service. Electronic records also support data analytics initiatives that can address fraud within the benefit payment environment.

The necessary funding for this initiative has not been requested and will be difficult to obtain during our current economic climate.

Recently, the Office of Management and Budget approved the use of RRB form G-252, *Self-Employment/Corporate Officer Work and Earnings Monitor.* Form G- 252 is intended to enhance program integrity activities by capturing additional information from disability annuitants who are self-employed or serving as corporate officers.

While we applaud the RRB's development of this form, we believe that the RRB's procedures regarding this new form do not go far enough to prevent improper payments. On two separate occasions we submitted recommendations to augment these program integrity efforts, but they were not included in the final form. If the RRB cannot implement all of our prior recommendations, they should require all current and new disability annuitants to complete form G-252.

The OIG is looking at recommending additional ways the agency can change the way they do business and more effectively fulfill its responsibilities as stewards of the RRB's trust fund.

Railroad Medicare Program Integrity

The Government Accountability Office (GAO) continues to cite Medicare as a high risk area because of its size, complexity, and vulnerability to mismanagement and improper payments. GAO estimated that nearly $48 billion in improper Medicare payments had been paid during FY 2010. This represented more than 9% of the total Medicare benefits paid during the reported year. The Railroad Medicare program is not immune to the types of fraud, waste, and abuse found in the Medicare program.

The RRB has administrative responsibilities for certain benefit payments under the Social Security Act and the Medicare program for eligible RRB beneficiaries. In addition, the RRB contracts with a separate carrier to process Railroad Medicare Part B claims for qualified railroad retirement beneficiaries. The imminent establishment of a new Railroad Medicare contract, with updated provisions and requirements will create an environment of uncertainty in the short term.

As of September 30, 2010, there were about 458,800 beneficiaries enrolled in the Railroad Medicare Part B program. During FY 2010, the Medicare Part B carrier paid over $870 million in medical insurance benefits.

The RRB has recently assumed responsibility for withholding and collecting premiums for Railroad Medicare Part C and Part D. These additional Medicare responsibilities have increased the agency's workload and generated significant backlogs. Increased intra-governmental coordination is also needed between the Centers for Medicare & Medicaid Services and the RRB to affect the appropriate transfer of funds between the agencies.

During FY 2011, our audit of Railroad Medicare contract cost controls found that the controls for both the RRB and its contracted carrier were not fully effective, the carrier's records of work performed were insufficient to support amounts billed, and the RRB's oversight and contract management procedures are inadequate to fully ensure the integrity of Railroad Medicare cost reimbursements. Recommendations for corrective action are pending.

Information Technology Security

During FY 2011, the OIG evaluated information security pursuant to the provisions of the Federal Information Security Management Act of 2002 (FISMA) and concluded that the RRB has not yet achieved an effective FISMA-compliant security program. A material weakness for information security will continue to be reported as continued internal control deficiencies exist over the review of contractor deliverables associated with the risk management framework.[3]

Although agency managers are working to strengthen controls, management action in response to internal control over the risk management framework had either not been completed as of the end of the current reporting period, or had not been in place long enough to permit evaluation. Once completed, the risk management process will help to ensure that the RRB complies with FISMA requirements.

[3] In prior years, the risk management framework process was referred to as certification and accreditation.

Internal Control Over Non-Integrated Subsystems

In connection with its audit of the RRB's FY 2009 financial statements, the OIG identified internal control over non-integrated subsystems as a material weakness. The RRB's financial reporting structure relies on an automated general ledger which receives information electronically from both integrated and non-integrated subsystems that support transaction processing. The control structure is not comprehensive with respect to the reconciliation of the general ledger to the non-integrated subsystems, and does not ensure the completeness of transactions originating in non-integrated subsystems.

During FY 2011, agency management reported that it had established general ledger reconciliations for most of its non-integrated subsystems and submitted documentation supporting resolution of the material weakness for our review. Although progress has been made, the agency's progress is not yet sufficient to ensure that all of the reconciliations are properly designed and effective.

Human Capital Management

Demographically, the RRB has a very mature workforce with a significant number of its employees becoming eligible to retire in the near future. The most recent projections indicate that over the next five years approximately 50% of the agency's employees will become eligible for retirement. In the Bureau of Information Services, the percentage of employees eligible for retirement will approach 70% by the end of FY 2016. Recent recoveries in the value of Thrift Savings Plan retirement accounts may encourage more of these eligible employees to retire. These attrition-based workforce changes will impact every facet of the agency's operations including senior level management.

The RRB has identified staff attrition as an ongoing concern and has developed internal and external sources for recruitment. The current high levels of unemployment have resulted in an unusually large volume of applicants for many of the recent job postings. However, this surplus of potential recruits may not continue indefinitely and critical positions may become more difficult to fill as more Federal workers opt for retirement.

The RRB's Human Capital Management Plan and Succession Management Plan could be employed to address rapid staff turnover; however, the plan is presently unfunded which creates a risk for the agency. The RRB's plan recognizes the agency's need to maintain and replace agency staff, but does not consider the impact of a scaled decline in financial resources or other budgetary risk scenarios.

In addition, the RRB has not established a long-term service delivery plan that can efficiently respond to its declining customer base. An analysis of the RRB's future customer service workload and the dynamic level of full time equivalent positions needed to support an optimal level of customer service within the agency's budgetary limits have not been performed.

Preventing and Detecting Improper Payments

The Improper Payments Information Act of 2002 (IPIA) established requirements for measuring and reporting improper payments in Federal programs. Appendix C, Part I of OMB Circular A-123, *Management's Responsibility for Internal Controls,* provides guidance to agencies implementing IPIA requirements. On July 22, 2010, the President signed new legislation known as the Improper Payments Elimination and Recovery Act of 2010 which amends the prior law.

Pursuant to the amended law, the RRB reports annually on agency progress in reducing improper payments, and has reported a reduction in the rate of RRA improper payments (as compared with outlays) dropping from 1.64% in FY 2004 to .64% in FY 2010. During FY 2010, the RRB recognized more than $53 million in new overpayments in its retirement, survivor and disability benefit operations of which nearly 75% were associated with routine events such as the death of an annuitant or the administrative coordination of benefits with the Social Security Administration.

Monitoring and reducing improper payments is inherently challenging in an environment where errors result from external changes. As such, the agency must work harder to obtain current and accurate information and process it as quickly as possible. The reduction in the improper payment rates reflects the agency's commitment to reducing improper payments. However, as the agency moves forward, they must continue to identify opportunities for improvement.

Original signed by:

Martin J. Dickman
Inspector General

October 14, 2011

Management's Comments

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

Providing Oversight of Invested Assets of the Railroad Retirement Act Program

In the Statement on Management and Performance Challenges issued October 14, 2011, the RRB's Office of Inspector General expressed its concern with what it believes to be a lack of oversight of the National Railroad Retirement Investment Trust and its investment activities carried out pursuant to the Railroad Retirement and Survivors' Improvement Act of 2001.

The Railroad Retirement and Survivors' Improvement Act of 2001 (RRSIA) authorized the establishment of the National Railroad Retirement Investment Trust (NRRIT) to handle investment of railroad retirement funds in securities including stocks and bonds. The NRRIT by statute is not a Federal agency or entity and is separate and apart from the RRB. The NRRIT is headed by a seven member Board of Trustees comprised of representatives appointed by rail carriers, rail labor, and a seventh member selected by the six members representing rail carriers and rail labor who have the fiduciary responsibility to prudently invest and manage the assets held in trust by NRRIT. In enacting the RRSIA, Congress was concerned about too much control over the NRRIT and its investment activities by the Federal government. As such, responsibility for managing the assets of NRRIT was given to its seven trustees, but the legislation authorizes the RRB to bring legal action against the NRRIT or NRRIT officials to compel compliance with the provisions of the Railroad Retirement Act.

The RRB is fulfilling its responsibilities under the RRSIA. The RRB's Board Members meet with the Board of Trustees twice each year to discuss the activities of the NRRIT, and the agency's General Counsel participates in telephone conference calls nearly every month with the Chief Executive Officer/Chief Investment Officer and Counsel to the NRRIT to discuss the business conducted by the Board of Trustees at their periodic meetings. In addition, staff from the RRB's Bureau of Fiscal Operations and Bureau of the Actuary communicate on a regular basis with NRRIT staff as well as review various reports concerning investment activities and performance prepared by the NRRIT.

With respect to the OIG's recommendation that the RRB establish requirements for performance audits concerning NRRIT activities, it should be noted that pursuant to recommendations by the Audit Committee of the NRRIT, the NRRIT has conducted three external audits of its activities. The most recent audit was conducted in 2009 by Independent Fiduciary Services, Inc. The report on this audit, which was issued November 19, 2009, covered the review of the following areas: investment performance reporting; due diligence procedures; non-traditional investment practices; trust and custody arrangements; and investment account and operations. The audit was a very thorough review of these areas. In view of the willingness of the NRRIT to conduct performance audits on its own initiative, we don't see any need to impose any requirements for such audits at this time.

The OIG, in a review conducted in fiscal year 2011, found that the NRRIT's administrative expenses have risen steadily since the inception of the Trust. The OIG is correct that administrative costs of the NRRIT have risen since its inception, however, this increase in costs is attributable to the increasing use of investment management firms to actively manage the investment of railroad retirement trust funds. Investments by the NRRIT in the first few years of its existence were made in index funds. Costs associated with these investments were relatively minor. In recent years, investments have been moved from index funds to actively managed investments by investment managers. The NRRIT now has over 70 investment managers handling investments. The fees charged by the investment managers comprise more than 84 percent of the total of the administrative costs reported by the NRRIT. Although administrative costs have risen since the beginning of the NRRIT, the costs have remained relatively constant for the past four years as the NRRIT has moved the majority of its investments from index funds to actively managed investments. In addition, the total number of employees of the organization grew from two in 2002 to approximately 20 in 2007, and has since remained at that level. Overall administrative costs reported by the NRRIT are very reasonable considering the size of the portfolio and compare favorably with costs of other pension funds of similar investment complexity.

Finally, although the OIG states that the administrative costs of the NRRIT have increased the RRB cost structure, it needs to be noted that the administrative costs of the NRRIT are borne by the funds in the portfolio and do not come out of the funds appropriated to the RRB for administration of the Railroad Retirement Act.

Disability Automation and Program Integrity

In 2010, the Board directed the establishment of a Disability Working Group to analyze and evaluate ways to reduce fraud related to earnings and self-employment in the disability program. In its report (issued in September 2010), the Disability Working Group identified opportunities to strengthen program integrity in the disability program by building on existing processes and developing new initiatives for the prevention and detection of disability fraud. In January 2011, an Action Plan was finalized that outlined specific action steps and time frames for pursuing the identified improvements. Over the past summer, the first action item was completed. This involved the development and delivery of fraud awareness training for all staff who have any involvement in the adjudication of disability claims. The training was provided for approximately 300 field and headquarters employees. Work is continuing on additional case reviews needed to complete the next steps identified in the Action Plan.

RRB staff has also begun work on evaluating the resources that would be needed to implement an electronic imaging system for the disability program, but as the Inspector General noted, we anticipate that funding may be difficult to obtain in the near term for such a major undertaking.

Railroad Medicare Program Integrity

The RRB is authorized to contract with a carrier to process the Medicare Part B claims of its annuitants. The RRB is currently soliciting for a new Railroad Part B Medicare Administrative Contract (MAC). Centers for Medicare Services (CMS) MAC contract requirements, including those related to benefit integrity and quality review, are included in the RRB contract. The selected contractor will be required to meet the contract standards and requirements which include the appropriate program internal controls. The RRB Medicare solicitation team is coordinating contracting activity with CMS staff to ensure that we comply with all MAC contract requirements.

With respect to agency Medicare information systems, the RRB completed updating its premium withholding system upgrades at a cost of about $900,000. These upgrades will allow faster and more efficient processing of beneficiary premium withholding requests for Medicare Parts C and D selections. The RRB is also updating its Medicare systems dealing with income-related adjustments under Part D at a cost of about $600,000. The RRB continues to work with CMS to implement this phase of the project, which is expected to be completed during fiscal year 2013.

We also are responsible for premium collection for Medicare Parts B, C and D. As the Inspector General noted, we did have significant backlogs due to the new responsibilities related to Parts C and D. However, with the recent increase in staff in the Medicare Section and the use of available overtime funds, we reduced these workloads to more manageable levels during fiscal year 2011. By September 30, 2011, both the Medicare Enrollments workload and the Medicare Premium Collection workload were within the acceptable range and met their internal performance targets. The Medicare Maintenance workload was cut in half over the past year, and is still dropping. We expect it to be within the acceptable range during fiscal year 2012.

Information Security

Agency management plans to resolve this weakness by implementing an information security program in accord with the guidelines set forth in the Risk Management Framework. This will include developing procedures that will guide agency management in defining the contractor deliverables for the security authorization and continuous monitoring process and management review of the resulting documentation. This will ensure that the information system owner will be able to fulfill their responsibilities in this process. FISMA-complaint training will be provided to staff involved with the risk management process to enhance understanding of the Risk Management Framework and management responsibilities. Additionally, we are monitoring the material weakness identified for Applications and Services and implementing corrective actions.

Internal Control over Non-Integrated Subsystems

RRB financial managers worked with Executive Committee (EC) representatives to prepare an inventory of non-integrated subsystems during fiscal year 2010. In fiscal year 2011, the new and existing financial reconciliations for the identified non-integrated subsystems were established and performed. Progress was made to develop documentation for the non-integrated subsystems reconciliations. In addition, the agency is taking the next steps toward migrating its financial system to a designated shared service provider. As part of pre-migration activities for fiscal year 2011, the agency is working with an outside contractor to define its financial system requirements including areas of concern such as non-integrated subsystems. It is anticipated that the remaining OIG recommendation regarding internal control over non-integrated subsystems will be fully addressed in fiscal year 2012, and we will then ask the OIG for closure of that recommendation.

Human Capital Management

The agency Human Capital Plan is updated annually and submitted to the Office of Personnel Management for review and approval. This plan includes a three-year workforce projection that estimates the number of hires and separations for the agency. In aggregate, the numbers are fairly accurate when they represent overall agency human capital activity, but it is very difficult to precisely predict turnover for specific positions. In addition to the workforce projection table, the Executive Committee prepares an annual hiring plan that allows agency management to specifically target critical human capital needs during each fiscal year that reflect budget and position vacancy realities. This has been a highly effective approach to maximize our use of human resources as financial resources decline. As a small agency, this has proved to be an effective approach to managing an average turnover rate of about 4 to 6 positions per month.

The RRB has made significant progress in terms of hiring for entry-level positions. This is consistent with the agency's human capital and succession planning documents. Given limited funding levels, the agency has managed to accomplish this by relying on attrition and retirements to bring new people into the workforce and position the agency to continue providing outstanding customer service into the future. In the past two years, training classes were held for new claims examiners in the area of initial applications for retirement and survivor benefits, and two for new unemployment and sickness insurance claims examiners. Two training programs were also conducted for new post-adjudication examiners in both retirement and survivor claims. Another training program implemented for Medicare claims examiners will help our customers receive Medicare benefits in a more timely and efficient manner. Finally, the RRB completed training for new claims representatives in its field service, and refresher training for experienced representatives, to enable our employees who have direct customer contact to provide the highest possible level of service.

In fiscal year 2011, the RRB's Bureau of Human Resources began using the USA Staffing software which allows our staffing specialists to better utilize the USA Jobs website. The software will shorten the time necessary to electronically post job announcements, receive applications, screen candidates and ultimately fill vacant positions. In fiscal year 2012, we will add e-QIP software to speed up security clearances for on boarding employees.

Preventing and Detecting Improper Payments

Over the years, the agency has concentrated its efforts towards monitoring and reducing improper payments, as evidenced by the continued reductions in our improper payment rate. The current rate of .58 percent reflects the high priority placed on accuracy and compliance throughout the RRA claims process. Approximately 93 percent of payment errors result from changes coming from outside the agency, such as changes in the beneficiary's status which affects entitlement or eligibility and changes in service and compensation due to work. As recognized by the Inspector General, the RRB's challenge is to obtain current and accurate information and process it as quickly as possible. The RRB will continue to devote significant resources to prevent or minimize these errors.

<u>Improper Payments Information Act (IPIA) Reporting Details</u>

<u>(as amended by IPERA)</u>

I. Risk Assessment. Briefly describe the risk assessment(s) performed subsequent to completing a full program inventory. List the risk-susceptible programs (i.e., programs that have a significant risk of improper payments based on OMB guidance thresholds) identified by the agency risk assessments. Include any programs previously identified in the former Section 57 of OMB Circular No. A-11. Highlight any changes to the risk assessment methodology or results that occurred since the last report.

The RRB administers two benefit payment programs: Railroad Retirement Act (RRA) retirement and survivor benefits, and Railroad Unemployment Insurance Act (RUIA) benefits. Both were designated as "high risk" under the former Section 57 of Circular A-11. Therefore, in previous reports, we had been measuring and reporting the level of improper payments for both programs in our Performance and Accountability Reports.

In January 2009, the Office of Management and Budget granted relief from reporting the RUIA program improper payments due to the consistently low level of error over several years. Barring any unexpected changes to the program or the rate, the next RUIA program improper payments report will be included in the RRB's Fiscal Year 2012 Performance and Accountability Report.

The agency used the process described below to calculate the amount of RRA improper payments made in fiscal year 2010.

Results of Fiscal Year 2010 Improper Payment Review

Program	Improper Payment Amt. >$10 million	Improper Payment Rate >2.5%	Action Plan or Targets Needed?
RRA	**Yes**	**No**	**No**

II. Statistical Sampling. Briefly describe the statistical sampling process conducted to estimate the improper payment rate for each program identified. Please highlight any changes to the statistical sampling process that have occurred since the last report.

The agency has an established methodology for identifying improper payments in the RRA benefit payment program. It is based on determining both the known overpayments and underpayments, which have since been recovered or paid out, and estimating those which result from adjudicative error, but have not been identified or corrected. It also uses information from quality assurance reviews. These reviews employ statistical sampling to study railroad retirement awards. Also included in the estimated amounts are projections of improper payments from audits, special studies, and estimates of manual work based on pending workload referrals.

III. Corrective Actions. Describe the corrective action plans for:

a. Reducing the estimated improper payment rate and amount for each type of root cause identified. Agencies shall report root cause information based on the following three categories: Administrative and Documentation errors; Authentication and Medical Necessity errors; and Verification errors. This discussion must include the corrective action(s), planned or taken, most likely to significantly reduce future improper payments due to each type of error an agency identifies, the planned or actual completion date of these actions, and the results of the actions taken to address these root causes. If efforts are ongoing, it is appropriate to include that information in this section, and to highlight current efforts, including key milestones. Agencies may also report root cause information based on additional categories, or sub-categories of the three categories listed above, if available.

The root causes of error in the RRA program are summarized according to OMB's root causes in the table below.

Root Cause of Error	Estimated Rate	Estimated Amount
Administrative and Documentation	**5.3%**	**3,304,081**
Authentication and Medical Necessity	**2.1%**	**1,321,740**
Verification and Local Administration	**92.6%**	**57,690,246**
Total	**100%**	**62,316,067**

Corrective Actions:

Administrative and Documentation: These errors result from improper handling by the agency's automated systems or its personnel. Planned corrective actions include:

- development of an enhanced automated retirement payment system to replace the current legacy system that processes Retirement Applications, planned for calendar year 2012,
- development of an interface between systems to ensure accurate use of military service in the calculation of benefits, tentatively scheduled for completion in calendar year 2012,
- expansion of a Medicare premium collection database, targeted for completion in fiscal year 2013, to include Part B premium withholding history, and
- changes to ORCS (Overpayment Recovery Correspondence System), which is used to prepare overpayment notices and to upload overpayment data to other related agency systems (Program Accounts Receivable and Automated System to Recover Overpayments). ORCS is being automated to interact with mainframe programs to insure that the most current data is retrieved and used in the development of RRA overpayment recovery. Current plans are to complete this automation initiative by the end of calendar year 2011.

Authentication and Medical Necessity: Very few of the agency's improper payments fall into this category. There are no planned corrective/preventative actions.

Verification and Local Administration: These errors result from changes coming from outside the agency, particularly changes in the beneficiary's status which affect entitlement or eligibility either temporarily or permanently, and changes in service and compensation typically due to work. Our challenge is to obtain the information and process it as quickly as possible.

The initiatives to minimize this specific group of improper payments are:

- The RESCUE (Recalculate for Service and Compensation Updated to EDMA) system evaluates employer-reported changes to employee service and compensation records and adjusts annuities, if needed. RESCUE was implemented in fiscal year 2006 and evaluated record changes posted in January 2006. In fiscal year 2007, the system evaluated adjustments posted prior to January 2006 and identified specific RRA improper underpayments and paid out additional benefits due, resolving many of the improper payments that were included in previous years' estimates. However, a significant manual workload resulted from this initiative. As of September 30, 2010, 14,404 of these referrals (11,577 for active cases and 2,827 for terminated cases) were on hand. These backlogged cases are handled whenever any other work needs to be done on the case. RESCUE referrals are also processed using overtime funds as resources permit.
- RESCUE is currently run several times a year so that annuity adjustments for service and compensation changes are made timely and properly for those records that can be handled automatically. Those that cannot be processed by RESCUE are referred for manual handling and are included in the current workload. As of September 30, 2010, there were 13,632 of these current referrals. The agency also uses overtime funding in the short term for this workload.
- The RRB is also addressing the RESCUE backlog by hiring and training claims examiner staff who will eventually be able to handle these complex referrals. This is a long-term process which will take several years before we see a significant impact on these workloads.
- SPEED (System Processing Excess Earnings Data), an automation initiative designed to process post-entitlement annuity adjustments in both retirement and survivor cases that result from excess earnings and work deductions. SPEED allows the RRB to adjust annuity payments for earnings on a timely basis, which minimizes any underpayments or overpayments that may result from changes in earnings. SPEED Phases 1 through 5 are currently in production (Phase 5 was completed in March 2011). Phase 6 is divided into two parts; Retirement Processing and Survivor Processing, to be worked simultaneously. Phase 6 Retirement is expected to initiate or adjust regular and/or Last Person Employment (LPE) work deductions when an estimated work report is entered. Phase 6 Survivor is expected to download survivor current year earnings estimates from the survivor payments system, create an estimate report, suspend annuity (if necessary), calculate withholding, establish a reinstatement call-up and release a notification letter to the annuitant. Current plans are to complete these next two phases in early calendar year 2013.

b. Grant-making agencies with risk-susceptible grant programs shall briefly discuss what the agency has accomplished in the area of funds stewardship past the primary recipient. Discussion shall include the status of projects and results of any reviews.

Not applicable to RRB.

IV. a) and b) Program improper payment reporting.

The table below is required for each reporting agency.

Improper Payment (IP) Reduction Outlook FY 2009 – FY 2014
($ in millions)

Program	FY 09 $ Outlays (actual)	FY 09 IP %	FY 09 IP $	FY 10 $ Outlays (actual)	FY 10 IP %	FY 10 IP $	FY 11 $ Outlays (estimated)	FY 11 IP %	FY 11 IP $
RRA	$10,519.4	0.69	$73.1	**$10,780.2**	**0.58**	**$62.3**	$10,959.1	0.58	$63.4

Program	FY 12 $ Outlays (estimated)	FY 12 IP %	FY 12 IP $	FY 13 $ Outlays (estimated)	FY 13 IP %	FY 13 IP $	FY 14 $ Outlays (estimated)	FY14 IP %	FY 14 IP $
RRA	$11,171.2	0.58	$64.6	$11,487.9	0.58	$66.4	$ 11,825.9	0.58	$68.4

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

At the time this report was prepared, the latest actual data available was for fiscal year 2010 (shown in **bold** in the chart). For fiscal year 2010, actual overpayments were $51,110,197 and actual underpayments were $11,205,870.

The estimates for fiscal year 2011 through 2014 are based on the December 2010 OMB budget review estimates.

V. Recapture of Improper Payments Reporting.

a. An agency shall discuss payment recapture audit (or recovery auditing) efforts, if applicable. The discussion should describe: the agency's payment recapture audit program; the actions and methods used by the agency to recoup overpayments; a justification of any overpayments that have been determined not to be collectable; and any conditions giving rise to improper payments and how those conditions are being resolved (e.g., the business process changes and internal controls instituted and/or strengthened to prevent further occurrences). If the agency has excluded any programs or activities from review under its payment recapture auditing program (including any programs or activities where the agency has determined a payment recapture audit program is not cost-effective), the agency should list those programs and activities excluded from the review and the justification for doing so. Include in your discussion the dollar amount of cumulative recoveries collected beginning with FY 2004.

It is not feasible for the RRB to implement a formal payment recapture audit program. We do have a robust, multi-faceted review process in place that is an effective approach for evaluating payment accuracy in the RRA and RUIA programs and identifying and preventing improper payments. Taken as a whole, our full range of current activities constitutes *an effective alternative to* a formal payment recapture program.

However, despite all the agency's best efforts to prevent improper payments, some will always occur, due to lack of timely information, etc. In overpayment situations, the agency is diligent in its recovery efforts. The RRB's account receivable balance for the RRA program at the end of fiscal year 2010 was $49,404,689. This balance includes debts classified as currently not collectible. We estimate that approximately 77.2 percent of these receivables will be collected and that the remaining 22.8 percent will eventually be closed as uncollectible. The RRB's collection program is in full compliance with the Debt Collection Improvement Act of 1996. For the period of fiscal years 2004 through 2010, the RRB established $311,112,748 in new RRA program receivables and recovered $272,834,403. Recoveries are made through offset of benefits, recovery of erroneous benefit payments paid after death from the receiving financial institution, and direct payment from debtors. Fraudulent payments are referred to the OIG for prosecution through the Department of Justice. Delinquent accounts are referred to Treasury for cross-servicing and offset of Federal payments.

d. Table 6
Overpayments Recaptured Outside of Payment Recapture Audits

($ in millions)

Agency Source	**Amount Identified FY 10***	**Amount Recovered FY 10****	**Amount Identified FY 09***	**Amount Recovered FY 09****	**Cumulative Amount Identified FY 04 – FY 10***	**Cumulative Amount Recovered FY 04 – FY10****
Various, including post payment quality reviews, special evaluations OIG reviews/audits, reports from the public, monitoring programs, and agency-identified errors. No breakdown between these sources is available.	**$45.3**	**$40.9**	**$46.7**	**$37.9**	**$311.1**	**$272.8**

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

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

VI. Accountability. Describe the steps the agency has taken and plans to take (including timeline) to ensure that agency managers, accountable officers (including the agency head), programs, and where appropriate States and localities, are held accountable for reducing and recovering improper payments. Specifically, they should be held accountable for meeting applicable improper payments reduction targets and establishing and maintaining sufficient internal controls (including an appropriate control environment) that effectively prevents improper payments from being made and promptly detects and recovers any improper payments that are made.

Paying benefits accurately and timely, and providing prudent stewardship over agency trust funds are the agency's two strategic goals. Agency managers have links to those goals in their performance plans. In addition, we are adding two new goals, one aimed at minimizing improper payments and the other focused on maximizing recovery efforts, to our fiscal year 2012 performance plan with the submission of the fiscal year 2013 budget.

VII. Agency information systems and other infrastructure.

a. Describe whether the agency has the internal controls, human capital, and information systems and other infrastructure it needs to reduce improper payments to the levels the agency has targeted.

The agency has established effective internal controls aimed at minimizing improper payments.

Although the agency has limited staff and expects further attrition of experienced personnel, the RRB has been able to meet the challenge of keeping the improper payment rate below the 2.5% threshold.

In order to prevent and reduce the already low levels of improper payments the RRA program generates, information systems need to be developed or modified as described in the project initiatives discussed in section III.a above.

b. If the agency does not have such internal controls, human capital, and information systems and other infrastructure, describe the resources the agency requested in its most recent budget submission to Congress to establish and maintain the necessary internal controls, human capital, and information systems and other infrastructure.

Since fiscal year 2010, the agency has requested funding for the agency's System Modernization effort. System Modernization is a multi-year effort to modernize the agency's automation systems, both hardware and software. System Modernization, when complete, will contribute to achieving the agency's target information technology architecture and meet its performance goals, including improved accuracy of benefit payments and stewardship of the trust funds. Modernization will help reduce redundancy, improve processing accuracy and speed, and transition our computing environment to more modern technology platform and methodologies.

VIII. Barriers. Describe any statutory or regulatory barriers, which may limit the agencies' corrective actions in reducing improper payments and actions taken by the agency to mitigate the barriers' effects.

None.

IX. Additional Comments. Discuss any additional comments, if any, on overall agency efforts, specific programs, best practices, or common challenges identified, as a result of IPIA implementation.

The RRB has made concerted efforts to reduce improper payments over the years. Payment accuracy rates are at consistently high levels and the return on investment for program integrity activities has been high as well. Both have been set as annual performance goals and reported each year since the Government Performance and Results Act has been in effect. The agency monitors progress on implementing recommendations from the quality assurance process, and is vigilant about pursuing OIG recommendations which impact the quality and timeliness of payments. The agency has also worked closely with the OIG in referring potential fraud cases for its investigation and prosecution. However, continued loss of experienced staff and the long lead time to hire and train staff to handle the complicated manual work generated as a result of systems limitations presents an ongoing challenge to making further significant reductions in the levels of improper RRA payments. The agency hopes to be able to maintain adequate staffing so that it can continue this important effort.

Summaries of Financial Statement Audit and Management Assurances

Summary of Financial Statement Audit

Audit Opinion	Unqualified
Restatement	No

Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Ending Balance
Information Security – Risk Management	1				1
Information Security – Applications and Services		1			1
Non-Integrated Subsystems	1				1
Budgetary Reporting		1			1
Total Material Weaknesses	2	2			4

Summary of Management Assurances

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

Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Information Security – Risk Management	1					1
Information Security – Applications and Services		1				1
Non-Integrated Subsystems	1					1
Budgetary Reporting		1				1
Total Material Weaknesses	2	2				4

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

APPENDICES

PAGE INTENTIONALLY LEFT BLANK

Appendices

Glossary of Acronyms and Abbreviations

A

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

B

BPD	Bureau of the Public Debt

C

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

D

DBP Account	Dual Benefits Payments Account
DOL	Department of Labor

E

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

F

FACTS II	Federal Agencies' Centralized Trial-Balance System
FASAB	Federal Accounting Standards Advisory Board
FBWT	Fund Balance With Treasury
FECA	Federal Employees' Compensation Act
FFS	Federal Financial System
FHI	Federal Hospital Insurance
FI	Financial Interchange
FICA	Federal Insurance Contributions Act
FISMA	Federal Information Security Management Act
FMFIA	Federal Managers' Financial Integrity Act
FY	Fiscal Year
FOASI/DI	Federal Old-Age and Survivors Insurance/Disability Insurance

G

GPRA	Government Performance and Results Act

I

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

L

LAN	Local Area Network
LPE	Last Person Employment

M

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

N

NRRIT	National Railroad Retirement Investment Trust

O

OIG	Office of Inspector General
OMB	Office of Management and Budget
OPM	Office of Personnel Management

P

P&AR	Performance and Accountability Report
PII	Personally Identifiable Information
POA&M	Plan of Action and Milestones

R

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

S

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

T

Treasury	Department of the Treasury
Trust	National Railroad Retirement Investment Trust

U

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

V

VoIP	Voice over Internet Protocol

W

WHBAA	Worker, Homeownership and Business Assistance Act of 2009

Railroad Retirement Board
Board Members, Inspector General, and Executive Committee

Board Members

Chairman	Michael S. Schwartz
Labor Member	Walter A. Barrows
Management Member	Jerome F. Kever

Office of Inspector General

Inspector General	Martin J. Dickman

Executive Committee

Director of Administration/Senior Executive Officer	Henry M. Valiulis
General Counsel	Steven A. Bartholow
Chief Financial Officer	George V. Govan
Director of Programs	Dorothy A. Isherwood
Chief Information Officer	Terri S. Morgan
Chief Actuary	Frank J. Buzzi

For additional copies of this report, please contact:

Railroad Retirement Board
Bureau of Fiscal Operations
844 North Rush Street, 5th Floor
Chicago, Illinois 60611-2092
Telephone: (312) 751-4590
Fax: 312-751-7171
Available on the Internet at: www.rrb.gov