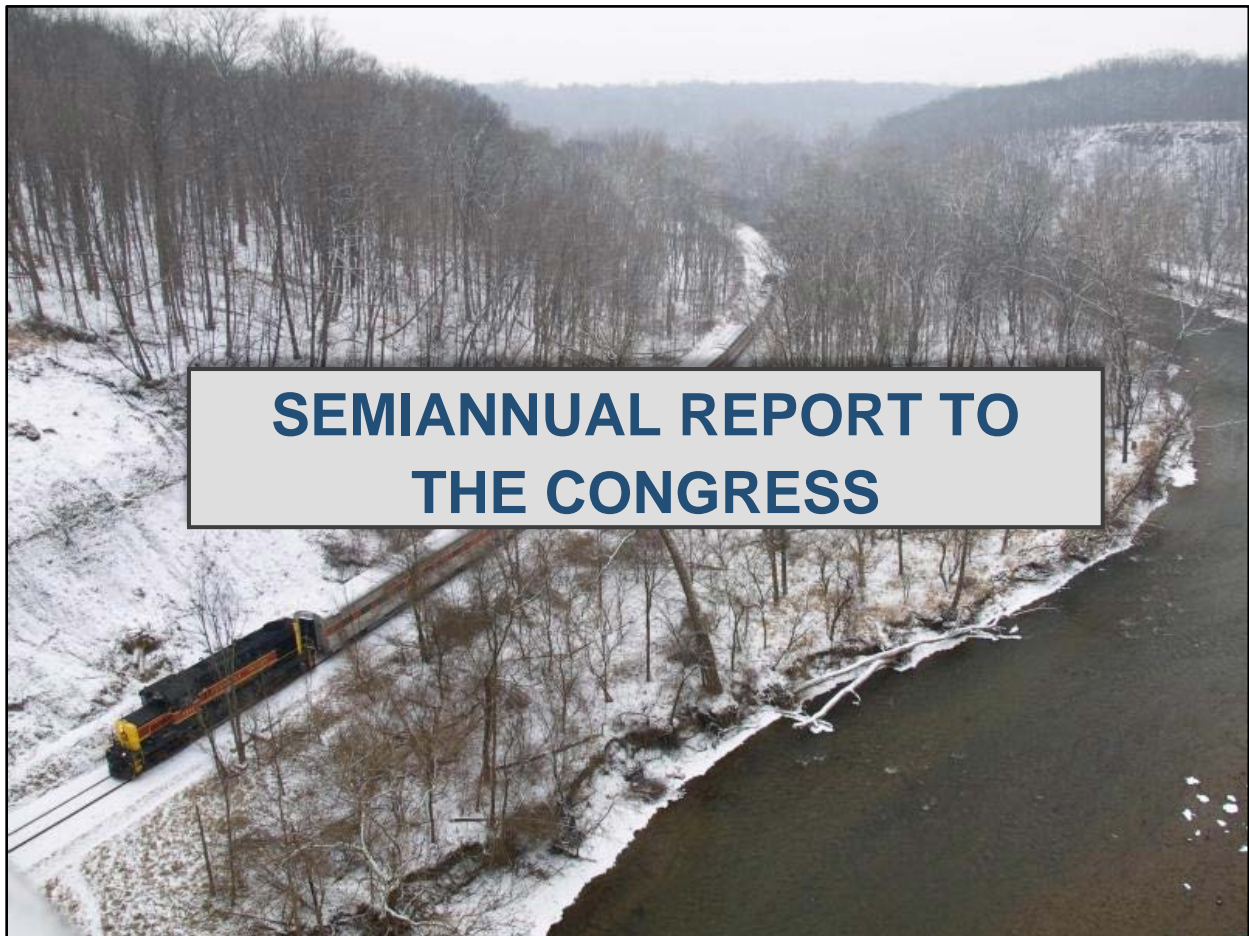


**OFFICE OF INSPECTOR GENERAL
FOR THE
U.S. RAILROAD RETIREMENT BOARD**



**SEMIANNUAL REPORT TO
THE CONGRESS**

OCTOBER 1, 2016 ▪ MARCH 31, 2017



UNITED STATES RAILROAD RETIREMENT BOARD

OFFICE OF INSPECTOR GENERAL

April 28, 2017

Office of the Chairman
Railroad Retirement Board
844 North Rush Street
Chicago, Illinois 60611-2092

Dear Office of the Chairman,

I am pleased to submit our *Semiannual Report to the Congress*. This report provides a descriptive summary of our activities and accomplishments during the period of October 1, 2016 through March 31, 2017. This report is submitted in accordance with Section 5 of the Inspector General Act of 1978, as amended. It also includes a number of new reporting requirements pursuant to the Inspector General Empowerment Act of 2016. The Act requires that you transmit this report, along with any comments you may wish to make, to the appropriate Congressional committees and subcommittees within 30 days.

During this reporting period, the Office of Audit:

- completed its annual mandated audit of the RRB's comparative financial statements for the fiscal years ended September 30, 2015 and 2016 along with the related reports on internal control and compliance;
- prepared and issued the Inspector General's statement of *Management and Performance Challenges Facing the Railroad Retirement Board*; and
- published its "Letter to Management" detailing matters related to internal control identified during the financial statement audit.

Our criminal investigators achieved 1 arrest, 19 criminal convictions, 11 indictments and informations, 6 civil judgments, and more than \$124 million in financial accomplishments resulting from OI's investigative work, including joint investigations.

We appreciate the ongoing assistance extended to our staff during the performance of their duties.

Sincerely,

Original Signed by,

Martin J. Dickman
Inspector General



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INTRODUCTION

Railroad Retirement Board

The Railroad Retirement Board (RRB) is an independent agency in the executive branch of the Federal government. The RRB administers comprehensive disability, retirement-survivor, and unemployment-sickness insurance benefit programs for the nation's railroad workers and their families. These programs are codified under the Railroad Retirement Act (RRA) and the Railroad Unemployment Insurance Act (RUIA), respectively. During fiscal year 2016, railroad retirement and survivor benefit payments totaled \$12.5 billion, net of recoveries and offsetting collections. Railroad unemployment and sickness insurance benefit payments totaled \$132.3 million, net of recoveries and offsetting collections. The RRB also paid benefits on behalf of the Social Security Administration (SSA) (for which the RRB is reimbursed) amounting to \$1.5 billion to about 111,000 beneficiaries.

Additionally, the RRB has administrative responsibilities for certain benefit payments under the Social Security Act, including the administration of Medicare benefits for qualifying railroad workers and dependents. Pursuant to statutory authority, the RRB, in consultation with the Centers for Medicare and Medicaid Services (CMS), awards and monitors a single nationwide Railroad Medicare Part B Services contract. The RRB's Medicare Contractor, Palmetto, processed over 8.7 million claims and paid approximately \$829 million in Medicare Part B benefits for fiscal year 2015.

Board Members

The RRB's Board consists of three members who are appointed, with the advice and consent of the Senate, by the President of the United States. One member is appointed upon the recommendation of railroad employers; another member is appointed upon the recommendation of representatives of railroad employees; and the third, who is the Chairman, shall be appointed without recommendation by either employers or employees and shall not be in the employment of or be pecuniarily or otherwise interested in any employer or organization of employees. Board Members' terms are five years in length and expire in staggered years. The Chairman position has been vacant since August 2015.



Semiannual Report to the Congress

Office of Inspector General

The Railroad Retirement Solvency Act of 1983 amended the RRA to provide for an Office of Inspector General (OIG) for the RRB. The 1988 amendments to the Inspector General Act added the RRB to the list of covered agencies. The RRB's Inspector General is a Presidential Appointee, with Senate confirmation, who serves as an independent and objective voice to the RRB Board Members and the Congress. It is the Inspector General's responsibility to promote economy, efficiency, and effectiveness in the RRB's programs and operations. To that end, the OIG conducts audits/evaluations, management reviews, and inspections of the RRB's programs and operations. As a product of its efforts, the OIG offers recommendations for agency improvement to RRB management. The OIG also identifies and investigates cases of waste, fraud, and abuse in the RRB's programs and operations. The OIG works closely with Federal prosecutors and makes the appropriate referrals for criminal prosecution, civil prosecution, monetary recovery, or administrative action.

The OIG has three operational components: the immediate Office of the Inspector General, the Office of Audit, and the Office of Investigations. The OIG conducts operations from several locations including the RRB headquarters in Illinois and investigative field offices in California, Florida, Pennsylvania, Texas, and Virginia. These field offices provide an increased investigative presence which aid in the effective and efficient coordination of joint investigations with other Inspector General Offices and law enforcement agencies.

EXECUTIVE SUMMARY

Office of Audit

The Office of Audit (OA) conducts financial, performance, and compliance audits and evaluations/inspections of the RRB's programs and operations. In addition to focusing on mandated audit requirements, OA strategically identifies areas affecting program performance, the efficiency and effectiveness of agency operations, and areas of potential fraud, waste, and abuse. OA's audit planning process takes into account mandated audits, staff availability, programmatic risk, and Congressional and Presidential concerns. During this reporting period, OA:

- completed its annual mandated audit of the RRB's comparative financial statements for the fiscal years ended September 30, 2015 and 2016 along with the related reports on internal control and compliance;
- prepared and issued the Inspector General's statement of *Management and Performance Challenges Facing the Railroad Retirement Board*; and



- published its “Letter to Management” detailing matters related to internal control identified during the financial statement audit.

OA’s activities, during this reporting period, are discussed in further detail on pages 4 through 8 of this report. All inspections, evaluations, or audits conducted during this semiannual reporting period were disclosed to the public on our website at www.rrb.gov/oig. In general, reports that transmit sensitive information are not released in full but abstracts are released publicly and available on our website.

Office of Investigations

The Office of Investigations (OI) focuses its efforts on identifying, investigating, and presenting RRB benefit fraud cases for prosecution. OI conducts investigations throughout the United States relating to:

- the fraudulent receipt of RRB disability, unemployment-sickness, and retirement-survivor benefits;
- Railroad Medicare fraud;
- false reporting by railroad employers; and
- criminal violations and misconduct by RRB personnel.

OI Special Agents refer potential cases to Federal, state, or local prosecutors through the use of specialized prosecution reports (investigative reports). These reports are utilized to explain the alleged offenses and the evidence developed to substantiate these allegations. During this semiannual reporting period, OI issued a total of 31 investigative reports. The following table indicates the distribution of these reports and the number of associated individuals.

Investigative Reports Issued From October 1, 2016 – March 31, 2017		
No. of Investigative Reports Issued	Prosecutorial Office	No. of Individuals Referred to Prosecutorial Office
20	Federal, Criminal	21
9	Federal, Civil	9
2	State/Local	2

Prosecution referrals may result in criminal convictions, civil judgments and penalties, and/or a recommendation for administrative recovery.



From October 1, 2016 through March 31, 2017, OI achieved:

- 1 arrest;
- 11 indictments and informations;
- 19 convictions;
- 6 civil judgments; and
- more than \$124 million in financial accomplishments.¹

Defendants, in the aggregate, were sentenced to more than 46 years of prison, 49 years of probation, and 500 hours of community service. Additional details regarding OI activities are discussed on pages 9 through 17.

OCTOBER 1, 2016 – MARCH 31, 2017 ACCOMPLISHMENTS

Office of Audit

Congress established the OIG to provide independent oversight of the RRB. Within the OIG, OA's mission is to promote economy, efficiency, and effectiveness in the administration of the RRB's programs and operations; and to detect and prevent fraud, waste, and abuse. Through the Inspector General, OA keeps Board Members and the Congress informed of current and potential problems and deficiencies in the RRB's operations. OA also tracks the agency's progress towards corrective action.

Brief summaries of all audits completed during this reporting period follow.

¹ The total amount of financial accomplishments reflect fraud amounts related to programs administered exclusively by the RRB and fraud amounts from other Federal programs such as Medicare or Social Security which were included in the disposition resulting from the investigation.



Report on the Railroad Retirement Board's Financial Statements (Audit Report 17-01) and Fiscal Year 2016 Financial Statement Audit Letter to Management (Audit Report 17-03)

During this reporting period, OA completed its annual mandated audit of the RRB's comparative financial statements for:

- the fiscal years ended September 30, 2016 and 2015;
- the related statements of net cost, changes in net position, and budgetary resources for the years then ended;
- the statement of social insurance as of October 1, 2015, January 1, 2015, 2014, 2013, and 2012; and
- the statement of changes in social insurance amounts for the period ended September 30, 2015; and the related notes to the financial statements.

For the reasons explained below, OA was not able to obtain sufficient appropriate audit evidence regarding the financial position of the RRB and accordingly, did not express an opinion (disclaimed opinion) regarding the RRB's financial statements.

National Railroad Retirement Investment Trust Assets

The National Railroad Retirement Investment Trust (NRRIT) is a tax-exempt entity independent of the Federal government that was established by the Railroad Retirement and Survivors' Improvement Act of 2001 (RRSIA) to manage and invest railroad retirement assets.² The net assets of the NRRIT represent \$25.1 billion and \$24.5 billion or approximately 80 percent and 79 percent of the total assets reported for the RRB for fiscal years 2016 and 2015, respectively. Group financial statement auditing standards promulgated by the American Institute of Certified Public Accountants (AICPA), Section 600 requires auditors to have ongoing communication with and cooperation from component auditors. RRB management indicated that communication between OIG auditors and the component auditor (independent auditors hired by the NRRIT) is inconsistent with the independent status of the NRRIT as provided in the RRA.

Disclaimed Opinion

OIG auditors were unable to obtain sufficient, appropriate audit evidence to provide a basis for an audit opinion because RRB management prevented communication

² NRRIT is discussed further on pages 21, 29, and 30.



between OIG and NRRIT auditors. As a result, OIG auditors rendered a disclaimer audit opinion (did not express an opinion on the RRB's financial statements).

Additional Material Weaknesses

The material weakness for financial reporting that was originally reported in fiscal year 2014 continues to exist and OIG auditors found numerous transactions which totaled approximately \$14.2 billion, which did not have adequate supporting documentation in the RRB's official records when the transactions were recorded and approved in the RRB's financial reporting system. OIG auditors cited a new material weakness for the RRB's control environment. RRB management has not taken corrective actions to address high level, monetarily significant matters that were not in accordance with authoritative guidance, previous agreements, and laws and regulations. The lack of action for these matters could have a detrimental effect on the reliability of financial reporting at the RRB and governmentwide levels. The RRB's nonconurrence with this new material weakness is discussed in greater detail in *Appendix D – Significant Matters*.

Internal Control Matters

Other financial statement related internal control matters were also reported. OIG auditors found (1) proper approvals were not always provided in supporting documents, (2) discrepancies between vouchers and entries recorded in the RRB's financial system, and (3) errors in financial statement checklists prepared by agency staff. The OIG made eight recommendations to improve internal controls.

Response

The RRB's response and their progress towards compliance, when applicable, are discussed in *Appendix D – Significant Issues*.

Management Information Report – Management and Performance Challenges Facing the Railroad Retirement Board (Audit Report 17-02)

The OIG annually identifies management and performance challenges facing the RRB and reports on them in the RRB's *Performance and Accountability Report*. This statement is prepared pursuant to the Reports Consolidation Act of 2000 and the requirements of Office of Management and Budget (OMB) Circular A-136. This Circular requires OIGs to identify the most serious management challenges facing their parent agency and to briefly assess the agency's progress in addressing those challenges.



Semiannual Report to the Congress

The OIG’s identification of challenges facing RRB management is based on recent audits, evaluations, investigations, and current issues of concern to the Inspector General. During fiscal year 2016, the OIG identified the following seven major management challenges facing the RRB.

Most Serious Management and Performance Challenges Facing the Railroad Retirement Board as of October 1, 2016 (as identified by the Inspector General)	
Challenge 1	Program Integrity to Strengthen Disability Programs
Challenge 2	Information Technology Security and System Modernization
Challenge 3	Management of Railroad Medicare
Challenge 4	RRB’s Continued Noncompliance with the Improper Payments Elimination and Recovery Act of 2010
Challenge 5	Agency Succession Planning
Challenge 6	Weaknesses Related to Financial Statement Reporting
Challenge 7	Limited Transparency at the NRRIT

Additional details regarding a majority of the identified management challenges are discussed in *Appendix D – Significant Matters*.

Management Decisions and Implementation

As part of its oversight activities, the OIG tracks the agency’s implementation of audit recommendations. The reporting of management decisions and corrective actions for all audit recommendations is required by the OMB Circular No. A-50 (Revised) and the Inspector General Act.

Management Decisions	
Requiring Management Decision on October 1, 2016	6
Pending Management Decision for New Recommendations	0
Management Decision on Previous Recommendations	6
Recommendations Pending Management Decision on March 31, 2017	0



Corrective Action	
Recommendations Requiring Action on October 1, 2016	264
Recommendations Issued During Reporting Period	12
Corrective Actions Completed During Reporting Period	25
Recommendations Rejected During Reporting Period	0
Final Actions Pending on March 31, 2017	251

The Inspector General Empowerment Act of 2016 (IGEA) requires additional details pertaining to outstanding and unimplemented recommendations. This information, including the associated potential cost savings, regarding the 251 open recommendations is incorporated into this report by reference and may be accessed in the Semiannual Report section of our website (www.rrb.gov/oig). This report is titled *Open or Unimplemented Audit Recommendations and Cost Savings as of March 31, 2017*.



Office of Investigations

OI's primary objective is to identify, investigate, and refer for prosecution or monetary recovery action cases of waste, fraud, or abuse in the RRB's programs. OI also seeks to prevent and deter program fraud by reporting systemic weaknesses identified through investigative work. In order to maximize the impact of its resources, OI pursues cooperative investigative activities in coordination with other Inspectors General such as the Office of Inspector General for the Department of Health and Human Services and other law enforcement agencies, such as the Federal Bureau of Investigation and the U.S. Secret Service.

Current Caseload

During this reporting period, OI opened 104 new investigative cases.

Investigative Caseload Data	
Investigative Cases Open as of October 1, 2016 ³	233
Investigative Cases Closed During Reporting Period	107
Investigative Cases Opened During Reporting Period	104
Investigative Cases Open as of March 31, 2017	230

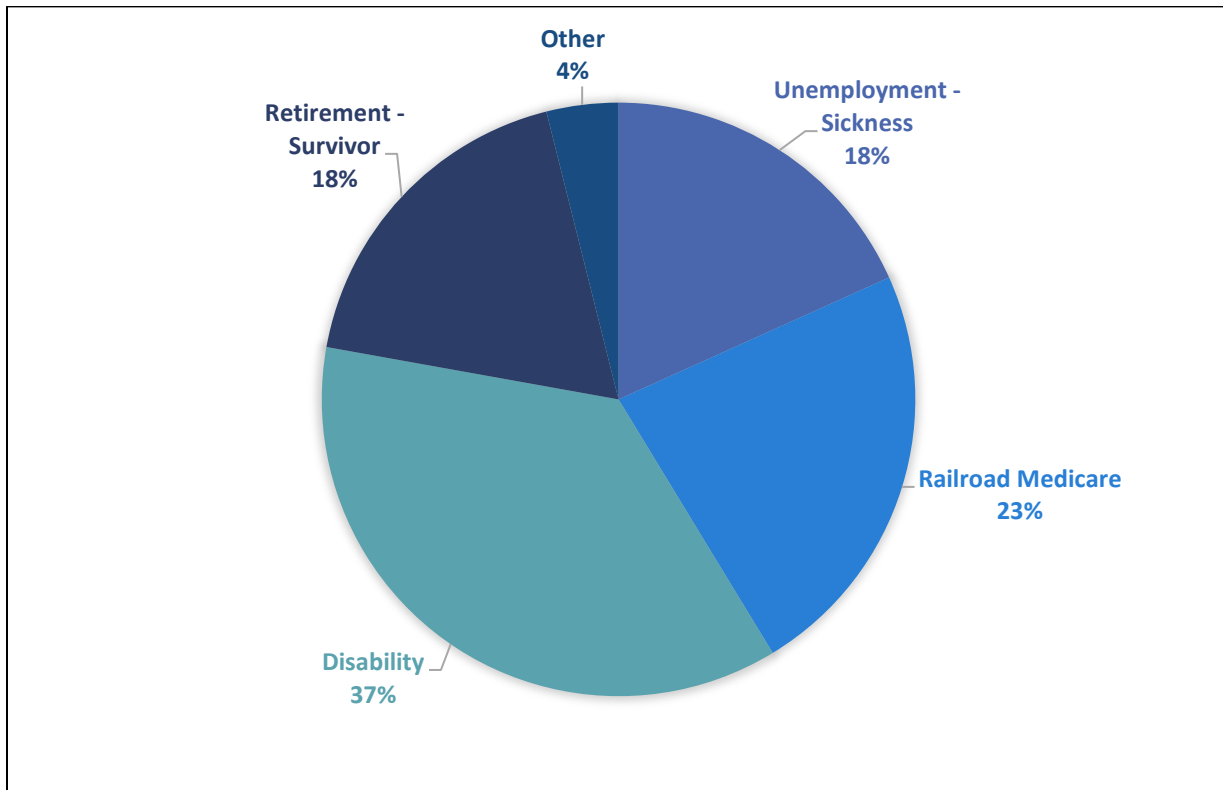
As of March 31, 2017, OI's investigative caseload totaled 230 matters which represents more than \$572.7 million in potential fraud losses.⁴ The following chart reflects the distribution of OI cases open at the end of the reporting period.

³ An investigative case may include multiple subjects.

⁴ This reflects potential fraud amounts related to programs administered exclusively by the RRB and potential fraud amounts from other Federal programs such as Medicare or Social Security which have been identified during OI's joint investigative work.



Investigative Caseload by Case Type



Other case type is an amalgam of various types of cases involving matters such as misconduct by RRB employees, threats against agency employees, false reporting by railroad employers, and others.



Semiannual Report to the Congress

Investigative Accomplishments

Action	October 1, 2016 – March 31, 2017
Indictments/Informations Issued During Reporting Period (Original Prosecutive Referral Made Prior to October 1, 2016)	9
Indictments/Informations Issued During Reporting Period (Regardless of Referral Date)	11
Subpoenas Issued	41
Arrests	1
Convictions	19
Civil Complaints	2
Civil Judgments	6
Restitution and Fines ⁵	\$62.7 million
Civil Damages and Penalties ⁶	\$60.6 million
Potential Economic Loss Prevented	\$382,168
Prison	Over 46 Years
Probation	49 Years
Community Service	500 Hours

Investigative Case Summaries

Brief descriptions of representative matters referred to prosecutorial authorities and the resulting convictions are summarized below. Federal indictments, informations, and ongoing investigations are not included. OI does not have any substantiated senior government employee misconduct cases or incidents of whistleblower retaliation to report.

Disability Investigations

OI conducts fraud investigations relating to the RRB's disability program. Railroad workers who are awarded an RRB disability annuity are subject to work restrictions and earnings limitations. Disability benefit fraud may involve applicant fraud and sophisticated schemes to hide disqualifying work activities/earnings from the RRB.

⁵ The dollar amounts in this table reflect fraud amounts related to programs administered exclusively by the RRB and fraud amounts from other Federal programs such as Medicare or Social Security which were included in the disposition resulting from the investigation.

⁶ See above footnote.



During this reporting period, OI obtained three criminal convictions and one civil judgement for disability fraud cases. The defendants received, in the aggregate, sentences totaling 18 months of prison, 5 years of probation, and were ordered to pay more than \$740,000 in restitution and fines. OI's investigative efforts also prevented more than \$380,000 in potential economic loss.

Descriptions of representative disability cases completed during this reporting period follow.

Annuitant Jailed for Collecting More Than in \$447,000 in Fraudulent Disability Payments

An OI Special Agent investigated an RRB disability annuitant who hid earnings from the RRB by reporting them under his spouse's social security number.

This case was referred to the United States Attorney's Office for the Eastern District of Virginia which filed an information against the annuitant. The annuitant subsequently pled guilty to Theft of Government Funds and was sentenced to 18 months of prison, 3 years of probation, and more than \$447,000 in restitution.

Disability Annuitant Criminally Convicted

An OI Special Agent investigated a self-employed disability annuitant who concealed his earnings from the RRB.

This case was referred to the United States Attorney's Office for the Western District of Virginia which filed an indictment against the annuitant. The annuitant subsequently pled guilty to submitting false statements to the RRB and was sentenced to two years of probation and ordered to repay more than \$70,000 in restitution. The annuitant also agreed to the suspension of future disability payments thereby saving the RRB over \$380,000.

Annuitant Failed to Report Self-Employment to the RRB

OI Special Agents investigated a disability annuitant who failed to report income and excess earnings to the RRB. The annuitant's failure to report caused the RRB to pay him more than 26 years of improper disability payments.



This case was referred to the United States Attorney's Office for the District of Kansas. The United States Attorney's Office subsequently entered into a settlement agreement with the annuitant for \$225,000. The remaining disability payments were referred to the RRB for administrative recovery.

Unemployment-Sickness Insurance Investigations

Unemployment-Sickness Insurance benefit fraud typically involves individuals claiming and receiving Unemployment Insurance (UI) or Sickness Insurance (SI) benefits while working or collecting state administered unemployment benefits. OI receives the majority of these case referrals from the RRB's Sickness and Unemployment Benefits Division.

During this reporting period, OI obtained four criminal convictions and one civil judgment for UI-SI fraud cases. Defendants in these cases received, in the aggregate, sentences totaling 3 months of prison, 12 years of probation, 100 hours of community service, and were ordered to pay more than \$88,000 in restitution, fines, and civil damages/penalties.

Descriptions of representative UI-SI cases completed during this reporting period follow.

UI Claimant Fails to Report Work and Earnings to the RRB

OI investigated an UI claimant based upon an agency referral. OI's investigation determined that during the period of December 2009 through April 2011, the claimant applied for UI benefits on the same days he was working and being paid by a private employer. The claimant submitted a total of 24 false claims and collected more than \$13,000 in fraudulent UI benefits.

This case was referred to the United States Attorney's Office for the Central District of California. The United States Attorney's Office filed an information against the annuitant for Theft of Public Property. The claimant subsequently pled guilty and was sentenced to 3 months of prison, 86 days of home confinement, 1 year of supervised release, and ordered to pay full restitution plus a special assessment.

UI Claimant Prosecuted in State Court

OI investigated an UI claimant based upon an agency referral. OI's investigation determined that during the period of June 2012 through April 2013, the claimant applied for UI benefits on the same days he was working and being paid by a private employer.



The claimant submitted a total of 20 false claims and collected almost \$10,000 in fraudulent UI benefits.

This case was referred to the local District Attorney's Office in McMinn County, Tennessee. The District Attorney's Office filed an indictment against the claimant for Theft of Property. The claimant subsequently pled guilty and was sentenced to two years of probation and ordered to pay full restitution.

UI Claimant Ordered to Repay Over \$26,000

OI investigated an UI claimant based upon an agency referral. OI's investigation determined that during the period of June 2014 through January 2016, the claimant applied for UI benefits on the same days he was working and being paid by a private employer. The claimant submitted a total of 43 false claims and collected more than \$26,000 in fraudulent UI benefits.

This case was referred to the United States Attorney's Office for the Southern District of Indiana. The United States Attorney's Office filed an information against the annuitant and the annuitant subsequently pled guilty to one count of Making False, Fictitious, or Fraudulent Claims. The claimant was sentenced to five years of probation and ordered to pay full restitution plus a special assessment.

Retirement-Survivor Investigations

The RRA provides retirement-survivor benefits for qualified railroad workers and their families. RRB retirement-survivor benefit fraud typically involves:

- an individual failing to report information to the RRB that may disqualify the annuitant from receiving benefits;
- instances of theft or fraudulent cashing of retirement benefit checks by someone other than the authorized RRB annuitant; or
- an individual designated to receive RRB benefits on behalf of an RRB annuitant fraudulently using the funds for their own personal use.

During this reporting period, OI obtained two convictions and one civil judgment related to Retirement-Survivor benefit fraud. Defendants in these cases received, in the aggregate, sentences totaling more than 15 months of prison, 5 years of probation, and were ordered to pay more than \$595,000 in restitution, fines, and civil damages/penalties. Additionally, OI Special Agents were able to assist an RRB annuitant with the recovery of more than \$22,000 in RRB annuity payments diverted from his checking account.



Descriptions of representative retirement-survivor and representative payee cases completed during this reporting period follow.

Annuitant's Son Agrees to Pay the RRB More Than \$82,000

OI's investigation revealed that an RRB annuitant passed away in October 2011; however, RRB continued to deposit electronic funds into his bank account until October 2016. Special Agents determined that the annuitant's son converted these improper payments for his own personal use.

This case was referred to the United States Attorney's Office for the Northern District of Texas. The United States Attorney's Office entered into a settlement agreement with the target who repaid more than \$82,000 to settle this matter.

Annuitant's Granddaughter Indicted for Theft of Government Funds

OI's investigation revealed that an RRB annuitant passed away in 1994; however, her death was never reported to the RRB and her granddaughter converted more than \$350,000 in RRB benefits for her own personal use.

This case was referred to the United States Attorney's Office for the Northern District of Georgia which filed an indictment against the granddaughter. She subsequently pled guilty to one count Theft of Government Funds and was sentenced to 15 months of prison, 3 years of probation, and full restitution.

Annuitant's Daughter Steals More Than 30 Years' Worth of RRB Annuity Checks

OI Special Agents determined that an annuitant's daughter failed to report her mother's death to the RRB and fraudulently collected more than 30 years' worth of RRB annuity checks.

This case was referred to the United States Attorney's Office for the Eastern District of Michigan which filed a criminal information against the daughter. She subsequently pled guilty to Theft of Government Funds and was sentenced to one day of prison, two years of probation, and almost \$160,000 in restitution.



Semiannual Report to the Congress

Railroad Medicare Investigations

All of OI's active Medicare cases are being worked jointly with either the Office of Inspector General for the U.S. Department of Health and Human Services, the Office of Inspector General for the Office of Personnel Management, or other agencies responsible for investigating health care fraud. Interagency cooperation is imperative to effective law enforcement especially among agencies responsible for investigating the complexities of health care fraud committed against multiple Federal agencies.

During this reporting period, OI obtained ten convictions and three civil judgments in Railroad Medicare related fraud cases. Defendants in these cases received, in the aggregate, sentences totaling more than 43 years of prison, 27 years of probation, 400 hours of community service, and were ordered to pay more than \$121.9 million in restitution, fines, and civil damages/penalties.⁷

Descriptions of representative Railroad Medicare cases completed during this reporting period follows.

Home Health Physician and Chief Executive Officer Prosecuted

Pursuant to a referral from the Medicare Fraud Strike Force, OI initiated this investigation against a Chicago-based home health care agency. The subsequent joint investigation revealed that the Chief Executive Officer and a physician submitted false claims to Medicare for fraudulent home health services. As a means to further their scheme, they altered patient files to fraudulently increase Medicare claims and falsified patients as qualifying for home health services.

This case was prosecuted by the United States Attorney's Office for the Northern District of Illinois. The Chief Executive Officer pled guilty to one count of Health Care Fraud and was sentenced to 15 months of prison, 3 years of probation, and more than \$1.8 million in restitution. He also entered into a civil settlement agreement for more than \$3.7 million. The physician was found guilty of Health Care Fraud and False Statements Relating to Health Care Matters after a four-day trial. He was sentenced to 40 months of prison, 3 years of probation, and \$1.5 million in restitution.

⁷ This total reflects the full amount of restitution, fines, and civil damages/penalties ordered. Since OI's Railroad Medicare fraud cases are joint investigations, the total dollar amount includes losses to other health care programs.



Qui Tam Lawsuit Settled for \$56.6 Million

An OI Special Agent worked cooperatively on a multi-agency team investigating allegations contained in a Qui Tam lawsuit filed in the Northern District of Illinois. Agents were able to prove that the subject medical provider fraudulently billed government health care programs, including Railroad Medicare, for higher and more expensive levels of medical service than were actually performed. The United States Attorney's Office for the Northern District of Illinois subsequently intervened in this case and entered into a settlement agreement with the provider for more than \$56.6 million. The provider also entered into a five year Corporate Integrity Agreement designed to increase accountability and transparency.

Podiatrist Sentenced to Prison

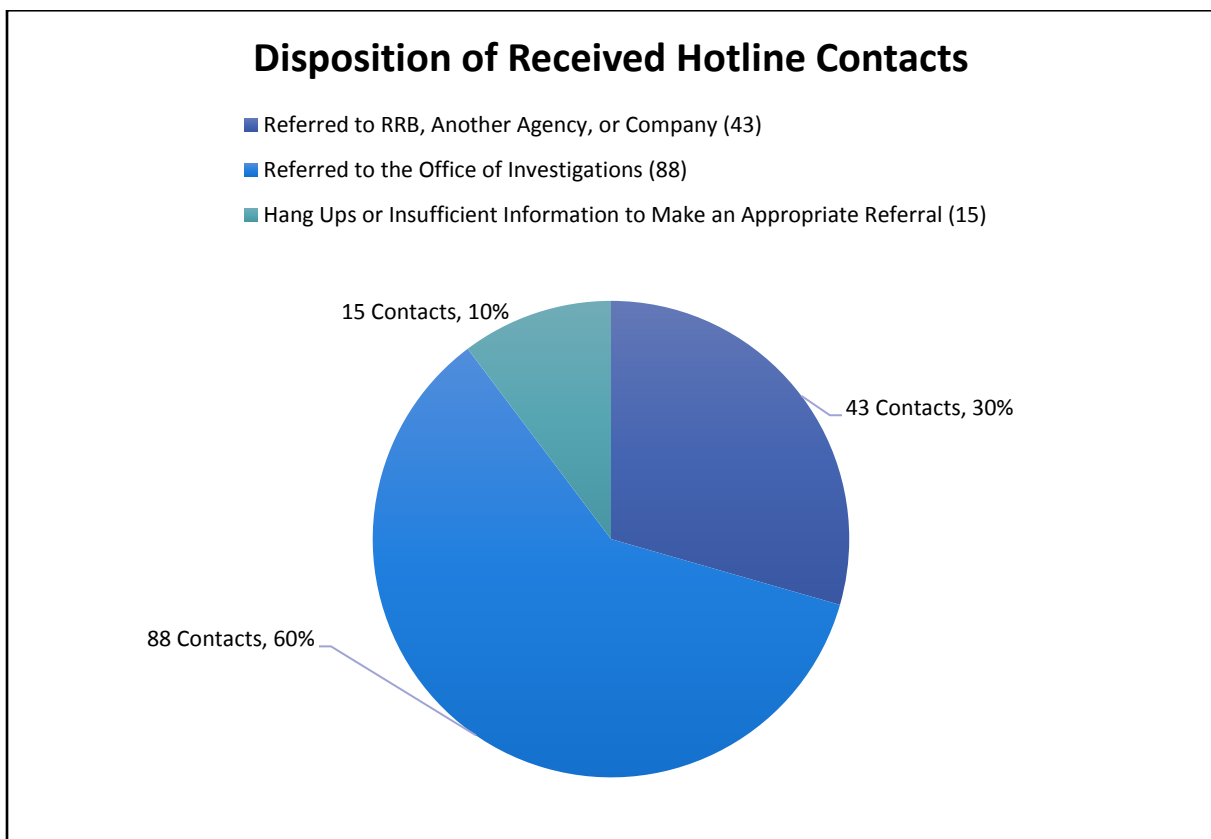
An OI Special Agent participated as member of a multi-agency team investigating allegations into the medical billing practices of a podiatrist. The investigation revealed that the podiatrist fraudulently billed Medicare and private insurance companies for thousands of medical services which were never provided.

This case was referred to the United States Attorney's Office for the Eastern District of Pennsylvania which filed a criminal information against the podiatrist. He subsequently pled guilty to one count of Health Care Fraud and was sentenced to 97 months of jail, 3 years of supervised release, and more than \$4.9 million in restitution. The podiatrist has already paid \$50,000 in restitution and has agreed to surrender multiple bank accounts worth approximately \$975,000.



Hotline Contacts

The OIG's hotline provides an open line of communication for individuals to report suspected criminal activity and mismanagement/waste of RRB funds. During this reporting period, our hotline received 146 contacts in the following manner: 41 percent by telephone, 14 percent by mail, and 45 percent by email. The following chart summarizes the disposition of these received hotline contacts.





OTHER OVERSIGHT ACTIVITIES

Data Analytics

The IGEA strengthened an OIG's ability to identify fraudulent or improper government payments through data analytics. During this semiannual reporting period, the OIG continued their commitment to proactively pursue projects aimed at promoting economy, efficiency, and effectiveness in the RRB's program and operations. In addition to identifying potential targets previously undetected through the RRB's standard program integrity measures, the OIG will make the necessary recommendations to resolve identified program weaknesses and prevent future occurrences.

OPERATIONAL ISSUES

The following operational issues impact the OIG's ability to effectively carry out its oversight role.

Attempts to Interfere with the Independence of the Office of Inspector General

The IGEA further solidifies an Inspector General's independence by ensuring full and prompt access to all agency records/documents. It also requires an Inspector General to report any attempts by their parent agency to interfere with an OIG's independence. During this reporting period, the OIG experienced the following resistance to our oversight activities.

- During the course of ongoing communications, a RRB Board Member notified the Inspector General that all future OIG requests for agency information should identify the purpose of such request (i.e., criminal investigation or audit). The Inspector General refused this request stating that such a request impedes our right of access and interferes with OIG's independent oversight activities. No subsequent requests were made by the Board Member.
- In our audit of the agency's fiscal year 2016 financial statements, OA identified a new material weakness for the RRB's control environment.⁸ OA reported that

⁸ Railroad Retirement Board (RRB) Office of Inspector General (OIG), *The Office of the Inspector General's Report on the Railroad Retirement Board's Fiscal Year 2016 Financial Statements*, Report No. 17-01 (Chicago, IL: November 15, 2016).



RRB management had not taken corrective actions to address high level, monetarily significant matters that were not in accordance with authoritative guidance, previous agreements, and laws and regulations regarding matters that could have a detrimental effect on the reliability of financial reporting at RRB and governmentwide levels. OA cited several examples to support this assessment. OA also determined that RRB management does not always communicate matters of audit significance with OIG auditors, who are responsible for auditing the agency's financial statements.

In its response to our finding, RRB management stated that our finding was unfounded and questioned why corrective actions were addressed to the RRB's Executive Committee. RRB management also stated that the recommendations imply that the RRB does not have the authority or prerogative to disagree with OIG audit findings or recommendations and that ceding that authority to the OIG would compromise audit independence. The OIG disagrees that the findings were unfounded and with management's response. Our finding provided numerous examples of our concerns. Management's response further supports our identification of this new material weakness.

- In fiscal year 2016, OA reported that controls were not adequate to ensure the RRB's cost allocation plans and Medicare reimbursement calculations were accurate and supported in accordance with Federal requirements and, as a result, there may have been a violation of the Purpose Statute and Antideficiency Act.⁹ These weaknesses resulted in unsupported Medicare direct costs totaling approximately \$30.4 million and unsupported indirect costs ranging from \$9.5 million to \$33.8 million for fiscal years 2010 through 2014. RRB management did not concur with most of the recommendations in the report, particularly those that would require retroactive assessment of the accuracy of reimbursements received from CMS or address the noncompliance with criteria established in its interagency agreement with CMS. Further, in December 2016, RRB requested that the OIG rescind its audit report because it believes the guidance the audit was based on did not adequately address the reimbursement relationship between two Federal agencies and was superseded for a portion of the review. However, as we had explained throughout the audit, we utilized the guidance agreed to in the RRB's interagency agreement with CMS and the guidance utilized was in effect during the timeframe audited. Management's rejection of this criteria would leave no criteria in place to determine cost reimbursements. Further, management's response raises concerns and may increase the risk of inaccurate future reimbursements from CMS.

⁹ RRB OIG, *Railroad Retirement Board Did Not Calculate Reimbursed Medicare Costs in Accordance With Federal Requirements*, Report No. 16-10 (Chicago, IL: August 22, 2016).



We believe each audit recommendation and finding discussed above requires action by the agency to address and continued inaction leaves taxpayer funds at risk of loss and misallocation.

In addition to the examples above and as reported previously, in conducting both the fiscal year 2014 and 2015 mandated consolidated agency financial statement audit, the RRB has refused to provide the OIG access to the NRRIT's auditor or associated audit work papers, as required by AICPA Standards. As a result, our office issues a disclaimer of opinion on the RRB's financial statements, which directly impacts the governmentwide financial statements. The OIG intends to continue reporting on this matter as the refusal leaves approximately \$24 billion in Federal funds without independent oversight.

National Railroad Retirement Investment Trust

As stated previously, the NRRIT is a tax-exempt entity independent of the Federal government which was established by RRSIA to manage and invest railroad retirement assets.¹⁰ RRSIA requires that the NRRIT report to the RRB but does not provide the OIG with oversight authority to conduct audits and investigations of the NRRIT. We have, however, monitored the NRRIT since 2001 and have continually expressed concerns regarding lack of meaningful oversight. Despite these concerns, the RRB continues to maintain a passive relationship with the NRRIT. A lack of NRRIT investment fund management accountability, transparency, and stringent financial oversight can be precursors to fraud, waste, or abuse. Yet, the NRRIT fund, which supports the railroad retirement program, continues to remain outside the purview of those appointed to protect the interests of the program's beneficiaries and tax-paying public. To ensure the integrity, economy, and long-term viability of the NRRIT, RRB management must establish and implement independent performance audit requirements that will strengthen administrative and financial oversight and ensure fund transparency.

Additionally, as discussed on pages 5, 29, and 30, the OIG is not able to comply with the AICPA auditing standards (section 600) and will disclaim on the RRB's financial statements this year and in future years until legislative changes are made regarding the relationship between the OIG, the NRRIT, and its auditors.

¹⁰ As of September 30, 2016, the RRB's investments in the NRRIT were valued at approximately \$25.1 billion.



Semiannual Report to the Congress

LEGISLATIVE & REGULATORY REVIEW

The Inspector General Act of 1978, as amended, requires the Inspector General to review existing and proposed legislation and regulations relating to the programs and operations of the agency. The agency did not submit any legislative proposals for OIG review during this reporting period.



Semiannual Report to the Congress

APPENDICES

<i>Appendix</i>	<i>Title</i>	<i>Page No.</i>
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Appendix A – Office of Inspector General Reports and Other Publicly Available Papers Issued

- Report on the Railroad Retirement Board’s Financial Statements (OA Report 17-01)
- Management Information Report – Management and Performance Challenges Facing the Railroad Retirement Board (OA Report 17-02)
- Fiscal Year 2016 Financial Statement Audit Letter to Management (OA Report 17-03)

All publicly available audit reports and papers are available on our website at www.rrb.gov/oig.

Appendix B – Audit Reports with Questioned Costs or with Recommendations That Funds be Put to Better Use

	Audit Reports With Questioned Costs	Amount of Questioned Costs	Amount of Unsupported Costs
A. For which no management decision had been made by October 1, 2016	1	\$3,800,000	\$3,800,000
B. Which were issued from October 1, 2016 through March 31, 2017	0	\$0	\$0
Subtotal (A + B)	1	\$3,800,000	\$3,800,000
C. For which a management decision was made between October 1, 2016 through March 31, 2017	1	\$3,800,000	\$3,800,000
(i) dollar value of disallowed costs (agreed to by management)		\$3,800,000 ¹¹	\$3,800,000 ¹¹
(ii) dollar value of costs not disallowed (not agreed to by management)		\$3,800,000 ¹¹	\$3,800,000 ¹¹
D. For which no management decision had been made by March 31, 2017	0	\$0	\$0
E. Report for which no management decision was made within six months of issuance	0	\$0	\$0

¹¹ The aggregate total of \$3,800,000 in unsupported questioned costs for this report (Report No. 13-02) is associated with four audit recommendations of which two were agreed to by management and two were not agreed to by management.

	Audit Reports With Recommendations That Funds Be Put to Better Use	Dollar Value
A. For which no management decision had been made by October 1, 2016	1	\$11,900,000
B. Which were issued from October 1, 2016 through March 31, 2017	0	\$0
Subtotal (A + B)	1	\$11,900,000
C. For which a management decision was made between October 1, 2016 through March 31, 2017	1	\$11,900,000
(i) dollar value of recommendations agreed to by management		\$0
(ii) dollar value of recommendations not agreed to by management	1	\$11,900,00
D. For which no management decision had been made by March 31, 2017	0	\$0
E. Report for which no management decision was made within six months of issuance	0	\$0

Appendix C – Report on Receivables, Waivers, and Recoveries

The fiscal year 1999 appropriations language for the OIG requires the reporting of additional information concerning actual collections, offsets, and funds put to better use achieved as a result of the OIG's activities.

Office of Investigations

Recoveries realized by the RRB resulting from court-ordered restitution and civil damages			
Fiscal Year	Amount Recovered	Fiscal Year	Amount Recovered
1999	\$ 855,655	2014	\$1,021,544
2000	\$1,038,134	2015	\$ 904,400
2001	\$ 990,356	2016	\$1,121,313
2002	\$ 785,843	October 1, 2016 – March 31, 2017	\$242,578
2003	\$ 947,876		
2004	\$ 646,273		
2005	\$ 844,183		
2006	\$1,281,680		
2007	\$1,347,049		
2008	\$1,389,489		
2009	\$1,097,227		
2010	\$1,118,256		
2011	\$2,293,530		
2012	\$1,417,125		
2013	\$1,922,166		

Office of Audit

Report	Funds to Be Put to Better Use	Funds Agreed by Management	Receivables Established	Waivers	Recoveries to Date ¹²
99-03	\$50,850	\$50,850	\$50,850	\$50,490	\$360
99-14	\$83,000	\$83,000	\$34,423	\$0	\$30,584
99-16	\$48,000,000	\$48,000,000	\$0	\$0	\$25,800,000
99-17	\$11,000,000	\$11,000,000	\$0	\$0	\$1,604,545
00-16	\$235,000	\$235,000	\$0	\$0	\$253,846
03-06	\$306,129	N/A	\$0	\$0	\$306,129
04-06	\$821,000	\$821,000	\$604,429	\$5,564	\$629,688
04-10	\$400,000	\$400,000	\$0	\$0	\$761,151
05-03	\$1,800,000	\$1,800,000	\$4,455,247	\$339,244	\$3,268,110
05-06	\$10,000	\$10,000	\$0	\$0	\$42,915
05-07	\$1,070,000	\$1,070,000	\$49,943	\$0	\$95,376
05-10	\$2,600,000	\$2,600,000	\$311,000		
06-04	\$257,000	\$257,000			
06-05	\$2,100	\$2,100	\$0	\$0	\$0
06-06	\$200,000	\$200,000	\$31,455	\$0	\$39,375
09-02	\$600,000	\$600,000	\$320	\$0	\$2,126,748
10-09	\$3,355,408	\$3,355,408	\$0	\$0	\$3,355,408
10-13	\$212,038	\$92,412	\$0	\$0	\$18,614
12-03	\$3,483	\$3,483	\$0	\$0	\$3,483
13-03	\$112,600	\$112,600	\$0	\$0	\$0
13-08	\$2,440	\$2,440	\$0	\$2,440	\$0
13-09	\$9,927 ¹³	\$9,927	\$4,330 ¹⁴	\$0	\$10,004
14-04	\$866,000	\$866,000	\$51,490	\$51,490	\$0
14-08	\$11,900,000 ¹⁵	\$0	\$0	\$0	\$0
15-03	\$11,148	\$11,148	\$0	\$0	\$0
16-02	\$6,914	\$6,914	\$0	\$0	\$210
16-10	\$19,500	\$0	\$0	\$0	\$0

¹² Both overpayments and underpayments are included in this column.

¹³ Amount includes additional monies reported by the RRB.

¹⁴ Amount reflects correction of previously reported receivables by the RRB.

¹⁵ Amount is associated with an unresolved audit recommendation.

Appendix D – Significant Matters

The OIG has identified deficiencies in RRB management controls as a significant matter. A summary of the issues and related recommendations for corrective action follow.

Financial Controls and Reporting

Ineffective Controls

We continued to cite a material weakness in financial reporting in our financial statement audit for fiscal year 2016 because we continued to find ineffective controls for material transactions. We found that financial transactions that totals \$14.2 billion did not have adequate supporting documentation in the official records when the transactions were recorded and approved in the RRB's financial system. In addition, RRB management had not updated the official records to include the missing documentation for the cited records. Corrective actions remain in progress.

In fiscal year 2016, we reported that selective financial management business process controls need improvement to ensure proper access, segregation of duties, appropriate approvals, proper payments, vendor data, and processing overrides. During this semiannual period, corrective actions attempted by management were not sufficient to ensure program integrity of vendor code data and to ensure correction of discrepant vendor codes. Corrective actions for the remaining recommendations remain in progress.

In fiscal year 2015, we reported that internal controls were not adequate to ensure that obligations were recorded and reported in accordance with applicable laws and regulations and were inadequately documented to support open obligations. During this semiannual period, management provided evidence of travel and purchase cardholder training; however, because management did not explain how this process will ensure that future training is completed in a timely manner, we determined that these actions were not sufficient to provide complete evidence of implementation. Corrective actions for the remaining recommendations remain in progress.

For fiscal year 2014, we reported ineffective controls as part of an overall material weakness in financial reporting and made recommendations for improvements. Corrective actions for three recommendations remain in progress.

Communication with the NRRIT's Auditor

This portion of the overall material weakness in financial reporting continues to exist. Communication between OIG and NRRIT auditors is required to achieve compliance with AICPA standards. RRB management continues to cite statutory limitations as the basis for not permitting OIG auditors to communicate with NRRIT auditors, and

therefore, did not concur with the recommendation for corrective action. We continue to look for resolution of this issue.

Ineffective Control Environment

In connection with our financial statement audit for fiscal year 2016, we reported a material weakness for the RRB’s control environment because RRB management has not taken corrective action to address high level, monetarily significant issues that could have a detrimental effect on reliability of financial reporting at RRB and governmentwide levels. We cited six examples of audit concerns regarding agency actions and inactions that were found not to be in accordance with authoritative guidance, previous agreements, and policies and procedures. We made four recommendations for improvement, and RRB management did not concur with two of the recommendations and took corrective action for one. The reasons cited by RRB management for nonconcurrency provided further justification for this new material weakness. Corrective action for the remaining recommendation remains in progress.

Financial Controls and Reporting Issue Area	Date of Report	Audit Report and Recommendations
Ineffective Controls	August 1, 2014 March 31, 2015 August 14, 2015 November 30, 2015 February 16, 2017	OIG Report 14-10, 1-2 OIG Report 15-05, 2 OIG Report 15-08, 1-4, 6, 9-12, 16 OIG Report 16-02, 6, 8-11 OIG Report 17-03, 1
Communication with the NRRIT’s Auditor	March 31, 2015	OIG Report 15-05, 8
Ineffective Control Environment	February 16, 2017	OIG Report 17-03, 2-4

Program Integrity Activities

Death Matches with SSA and CMS

Previously in 2016, we reported that the RRB does not record receivables for returned payments because they do not consider them outstanding debts. Our testing identified certain death match cases with overpayments where a receivable had not been recorded and the payments had been returned before RRB systems recognized them as overpayments. Because the RRB uses the accounts receivable system to estimate improper payments, improper payment estimates may have been understated. In addition, other studies and reports that rely on information from the RRB’s accounts receivable system could be impacted. Returned payments are overpayments that should be recorded as receivables and subsequently offset. They meet the definition of improper payments and should be reported as improper payments. Recommendations 1

and 2 for Management Information Report 16-08 (Issued August 4, 2016) were closed as implemented on March 21, 2017. We recommended that the RRB:

1. take the necessary steps to ensure that receivables are recorded for overpayments returned to the RRB; and
2. revise procedures to ensure that all overpayments made to deceased annuitants are included in the RRB's improper payment reporting.

With regards to recommendation #1, the RRB revised their procedures (Procedure Transmittal 16-56, RCM 6.6.135 – 6.6.173) to state that a railroad retirement debt must be established even if all or some of the payments have been returned. In addition, they provided training to the Survivor Initial Section. We reviewed the examples provided and they do indicate that payments returned to the RRB are now being established as receivables in Financial Management Integrated System (FMIS). Based on these examples, we believe that we can conclude that the RRB is establishing receivables for overpayments returned to the RRB in FMIS. Since receivables recorded by the RRB in FMIS are the source of the RRB's improper payment reporting, overpayments made to deceased annuitants returned to the RRB should now be included in the RRB's improper payment reporting. However, the OIG has yet to assess if these types of receivables have indeed been included in the RRB's improper payments calculations going forward. We plan to review this area when we next review improper payments.

Occupational Disability Program

In 2007, the OIG initiated a joint investigation with the Federal Bureau of Investigation that unraveled a complex occupational disability fraud scheme perpetrated by a number of Long Island Rail Road retirees, doctors, and disability facilitators. Foundational flaws that leave the RRB's occupational disability program susceptible to fraud and abuse remain, including an agency culture that focuses on paying benefits quickly; thereby increasing the likelihood of erroneous payments.

In fiscal year 2016, we reported that medical opinions used in the decision to award disability annuities added limited value to the disability determination process. Medical opinions used by the RRB were found to be inaccurate and incorrectly presumed to have been based on all medical evidence in the file when the opinion did not support that assumption. Controls were also ineffective in ensuring that contract requirements were met, and that medical licenses, insurance requirements, and timeliness was effectively monitored by the RRB.

In fiscal year 2014, we reported that a provision of the RRA allows railroad employees to purchase their service eligibility for an occupational disability annuity through injury settlements with their railroad employer, and without the RRB as a party to the settlement. The RRB is then obligated to pay the annuity from the RRA trust fund, which could potentially impact the trust fund by as much as \$2.2 billion if all annuitants who

barely qualified for an occupational disability had purchased some of the qualifying service months through an injury settlement. Additionally, under the law, such settlements are not always taxable as railroad compensation.

In fiscal year 2013, we reported that the RRB did not always verify job duty information before granting occupational disability annuities, and RRB policies and procedures were inadequate to ensure such verifications were obtained. Job duty information is used to determine the applicant’s job duties normally performed and to consider impairment-related restrictions. Such information is used to support whether the applicant is unable to perform his or her railroad occupation, a requirement for the awarding of occupational disability benefits.

Program Integrity Issue Area	Date of Report	Audit Report and Recommendations
Death Matches with SSA and CMS	August 4, 2016	OIG Report 16-08, 1 & 2 (closed)
Medical Opinions	March 9, 2016	OIG Report 16-05, 1-18
Injury Settlements	July 18, 2014	OIG Report 14-08, 1-2
Job Duty Verifications	January 15, 2013	OIG Report 13-02, 1-5

Oversight of Railroad Medicare

In fiscal year 2016, we determined that controls were not adequate to ensure the RRB’s cost allocation plans and Medicare reimbursement calculations were accurate and supported in accordance with Federal requirements. Further, the RRB’s Medicare cost allocation policies and procedures were not effective in preventing errors. Labor costs were reimbursed based on management’s professional judgment and indirect costs had not been formally approved by CMS.

RRB management concurred with 10 recommendations and did not concur with 16 recommendations. Management’s response raises concerns and increases the risk of inaccurate future reimbursements from CMS. Generally, the RRB and the OIG disagree on the applicability of and the RRB’s compliance with the OMB Circular A-87, which provides the Federal requirements for preparation of the cost allocation plan as agreed to in the applicable interagency agreement with CMS. The RRB nonconcurred with recommendations that would require retroactive assessment of the accuracy of reimbursements received from CMS in compliance with the applicable interagency agreement or address the examples of noncompliance with OMB Circular A-87.

The weaknesses resulted in unsupported Medicare direct costs totaling approximately \$30.4 million and unsupported indirect costs ranging from \$9.5 million to \$33.8 million for

fiscal years 2010 through 2014. Final determination of the accurate reimbursable Medicare costs may result in violations of the Purpose Statute and Antideficiency Act.

On December 2, 2016, the RRB requested that the OIG rescind its audit report that disclosed the control inadequacies within its cost allocation plans and offered recommendations for improving the accuracy of Medicare reimbursement calculations. The agency believes the OMB Circular A-87 guidance does not adequately address the reimbursement relationship between two Federal agencies and was superseded during the review.

OMB Circular A-87 establishes specific requirements and expectations with respect to the reimbursement of the RRB’s Medicare costs and was adopted by the RRB within the terms of its interagency agreement with CMS. Rejection by RRB management of the OMB Circular A-87 requirements would leave no criteria in place for the RRB to be held accountable in requesting cost reimbursement from CMS. OMB Circular A-87 was determined to be effective and was in effect during the entirety of the timeframe covered by the audit. On this basis, the OIG denied the RRB’s request and agency corrective action has since resulted in closure submissions addressing three recommendations.

In fiscal year 2015, we determined that controls were not sufficient to ensure that payments for Railroad Medicare chiropractic services complied with Medicare requirements. Inadequate contract oversight resulted in vulnerabilities exposing approximately \$14 million in payments for unnecessary and improper chiropractic services from 2009 through 2013. In addition, the reviews performed by the RRB’s Medicare contractor did not validate the medical necessity for billed chiropractic services, nor did the contractor’s procedures adequately identify ongoing risks associated with chiropractic service claim payments. Such risks include the frequency of chiropractic visits, the use of dual modifiers, commonly up coded chiropractic services, and high risk chiropractic services. RRB corrective action is ongoing and has resulted in closure of six recommendations.

Oversight of Railroad Medicare Issue Area	Date of Report	Audit Report and Recommendations
Reimbursed Medicare Costs	August 22, 2016	OIG Report 16-10, 1-16, 21-24
Chiropractic Services	June 4, 2015	OIG Report 15-07, 1, 7, 9-11

Information Technology

As with all Federal agencies, the RRB faces the challenge of how to modernize its information technology and safeguard sensitive data, while accomplishing the agency's mission. On November 9, 2016, we released our online CyberScope report on the information security at the RRB as mandated by the Federal Information Security Modernization Act of 2014 (FISMA). Our audit determined that the RRB continues to make progress in implementing an information security program that meets the requirements of FISMA, yet a fully effective security program has not been achieved. Each of the five cybersecurity framework functions were assessed as not effective when evaluated using the five level maturity model. Prior information technology reports included recommendations for improvement, many of which continue to be open or unimplemented. With the issuance of our last report, the RRB had 119 open audit recommendations from OIG audit reports issued since 2002, and another 357 open recommendations from other evaluators.

Information Technology Issue Area	Date of Report	Audit Report
Information Security	April 26, 2016	OIG Report 16-06

For more information on major management challenges identified by our office, see *Management and Performance Challenges Facing the Railroad Retirement Board*, OIG Management Information Report No. 17-02, December 1, 2016.

Appendix E – Peer Reviews

Section 989C of the Dodd-Frank Wall Street Reform and Consumer Protection Act requires Inspectors General to provide information regarding peer reviews in their Semiannual Reports to the Congress.

Office of Audit

In general, Federal audit organizations may receive a peer review rating of pass, pass with deficiencies, or fail.

The results of OA's most recently completed peer review for the period ending March 31, 2015, was transmitted on September 23, 2015. OA received a peer review rating of pass. This peer review did not contain any recommendations.

During this semiannual reporting period, OA conducted their peer review of the audit organization for the Federal Deposit Insurance Corporation. On November 14, 2016, the Federal Deposit Insurance Corporation received a peer review rating of pass. As is customary, we concurrently issued a letter of comment, which contained 10 recommendations that, while not affecting the overall opinion, were designed to further strengthen the system of quality control at the Federal Deposit Insurance Corporation.

Office of Investigations

A rating of Compliant conveys that the reviewed OIG has adequate internal safeguards and management procedures to ensure that the Council of Inspectors General on Integrity and Efficiency standards are followed and that law enforcement powers conferred by the Inspector General Act are properly exercised.

The results of OI's most recent peer review of the period ending January 14, 2014 was transmitted on June 23, 2014. OI received a rating of Compliant. This peer review did not contain any recommendations.

During this semiannual reporting period, OI did not complete any peer reviews of other OIG offices.

Appendix F – Reports Prepared by Management Final Action on Audits with Disallowed Costs

For the 6-Month Period Ending March 31, 2017	<u>Number of Audit Reports</u>	<u>Disallowed¹⁶ Costs</u>
A. Audit reports, with management decisions, on which final action had not been taken at the beginning of the period.	0	\$ 0
B. Audit reports on which management decisions were made during the period.	0	\$ 0
C. Total audit reports pending final action during the period. (A + B)	0	\$ 0
D. Audit reports on which final action was taken during the period.		
1. Recoveries		
(a) Collections and offsets	0	\$ 0
(b) Property	0	\$ 0
(c) Other	0	\$ 0
2. Recovery Waived	0	\$ 0
3. Total of 1 and 2	0	\$ 0
E. Audit reports needing final action at the end of the period (C - D.3).	0	\$ 0

¹⁶ OMB Circular A-50 defines disallowed costs as “an incurred cost questioned by the audit organization that management has agreed should not be charged to the Government.”

***Management Report on Final Action on Audits with
Recommendations to Put Funds to Better Use for the
6-Month Period Ending March 31, 2017***

	<u>Number of Audit Reports</u>	<u>Funds to be Put to Better Use</u>
A. Audit reports, with management decisions, on which final action had not been taken at the beginning of the period.	3	\$1,472,914 ¹⁷
B. Audit reports on which management decisions were made during the period.	0	\$0
C. Total audit reports pending final action during the period. (A - B)	3	\$1,472,914
D. Audit reports on which final action was taken during the period.		
1. Value of recommendations implemented (completed)	1	\$200,000 ¹⁸
2. Value of recommendations that management concluded should not or could not be implemented (completed)	0	\$0
3. Total of 1 and 2	1	\$200,000
E. Audit reports needing final action at the end of the period	3	\$1,472,914

¹⁷ Comprised of the following amounts: \$600,000 from Audit Report 09-02, *Fiscal Year 2008 Financial Statement Audit Letter to Management*; \$866,000 from Audit Report 14-04, *Audit of Railroad Retirement Act Dual Spouse Annuity Adjustments*, and \$6,914 from Audit Report 16-02, *Select Financial Management Integrated System Business Process Controls Need Improvement*.

¹⁸ Comprised of the following amount: \$200,000 from Audit Report 06-06, *Review of the Termination and Suspension of Benefits Paid Under the Railroad Retirement Act*.

Management Statement on Resolved Audit Reports Over 12 Months Old with Final Action Pending as of March 31, 2017

Report	Date	Disallowed Costs	Funds to be Put to Better Use	Reason Action Not Completed
Review of information Security at the Railroad Retirement Board (02-04)	02/05/02	NONE	NONE	Information Services has closed 27 out of 28 recommendations. Servers are scheduled to be replaced once remaining project on server is completed.
Review of Internal Control over The Actuarial Projection Process (05-04)	05/05/05	NONE	NONE	The Chief Actuary continues to review work plan prior for submission to OIG.
Review of Compliance with the Provisions of the Railroad Retirement Act Governing the Initial Award of Benefits (06-05)	04/12/06	NONE	\$2,100	Programs staff closed four of the five recommendations. Last recommendation on hold due to resources diverted to higher priority project.
Review of Incident Handling and Reporting at the Railroad Retirement Board (06-09)	08/24/06	NONE	NONE	Agency currently reviewing documentation for the remaining recommendation and will submit to OIG for closeout.
Audit of the DAISY/CHICO Component Application of the RRA Benefit System (07-02)	03/09/07	NONE	NONE	Submitted closeout request to OIG March 2017 for last open recommendation. Awaiting OIG review and decision.
Audit of Federal Income Taxes Withheld from Railroad Retirement Annuities (07-07)	07/30/07	NONE	NONE	Last recommendation submitted to OIG for closeout March 2017, awaiting OIG review and decision.

**Management Statement on Resolved Audit Reports Over
12 Months Old with Final Action Pending as of March 31, 2017**

Report	Date	Disallowed Costs	Funds to be Put to Better Use	Reason Action Not Completed
Fiscal Year 2007 Evaluation of information Security at the Railroad Retirement Board (07-08)	09/27/07	NONE	NONE	Work continues and is targeted for completion in FY17.
Audit of Controls to Safeguard Sensitive Personally Identifiable information (07-09)	09/27/07	NONE	NONE	Work and coordination continues with outside contractor to close remaining recommendation.
Evaluation of Information Security for the RRB's Financial Interchange Major Application (08-03)	09/26/08	NONE	NONE	Work continues on work plans, policy and/or procedures.
Fiscal Year 2008 Evaluation of Information Security at the RRB (08-05)	09/30/08	NONE	NONE	Documentation for the one remaining recommendation is currently being reviewed prior to submission to OIG.
Fiscal Year 2008 Financial Statement Audit Letter to Management (09-02)	03/24/09	NONE	\$600,000	Review and updating of documentations along with case reviews are currently being performed on remaining four recommendations. Work continues.
Audit of the Railroad Medicare Integrity Program at Palmetto Government Benefits Administrators (09-04)	09/25/09	NONE	NONE	Coordination continues with outside agency on the remaining three recommendations.

**Management Statement on Resolved Audit Reports Over
12 Months Old with Final Action Pending as of March 31, 2017**

Report	Date	Disallowed Costs	Funds to be Put to Better Use	Reason Action Not Completed
Fiscal Year 2009 Evaluation of Information Security (10-01)	11/12/09	NONE	NONE	Documentation is currently being reviewed prior to submission to OIG for the remaining two recommendations. Target completion in FY17.
Review of Statistical Methods Employed in the Financial Interchange Determination (10-06m)	05/04/10	NONE	NONE	The Bureau of Actuary is reviewing documentation and will take the necessary action(s). They will coordinate with the Bureau of Information Services for programming services.
Review of the Technical Approach and Methodology Used to Determine the Annual Financial Interchange Amount for the Year Ended September 30, 2008 (10-07m)	05/19/10	NONE	NONE	The Bureau of Actuary is reviewing documentation and will take the necessary action(s) for the one remaining recommendation.
Review of the Accuracy of the Financial Interchange as Executed for the Year Ended September 30, 2008 (10-10m)	05/25/10	NONE	NONE	The Bureau of Actuary is reviewing documentation and will take the necessary action(s).
Audit of Unilateral Disability Freeze Determinations (10-11)	08/12/10	NONE	NONE	Work continues. Target completion in FY17.

**Management Statement on Resolved Audit Reports Over
12 Months Old with Final Action Pending as of March 31, 2017**

Report	Date	Disallowed Costs	Funds to be Put to Better Use	Reason Action Not Completed
Audit of the Account Benefits Ratio (10-12)	09/29/10	NONE	NONE	The Bureau of Actuary is reviewing and will take the necessary action(s).
Audit of Controls Over Railroad Medicare Contract Costs (11-06)	04/20/11	NONE	NONE	Coordination with outside organization is required.
Audit of Railroad Retirement Act Benefits Overpayments and Internal Controls (11-07)	06/29/11	NONE	NONE	Chart of controls for RBD and SBD to be updated and tested prior to submission to OIG for closeout on last remaining recommendation.
Review of the Railroad Retirement Board's Security Patch Management Process (11-08)	07/07/11	NONE	NONE	Work continues on three recommendations, and the other 10 were implemented.
Inspection of the Railroad Retirement Board's Agency Enterprise General Information Support System Certification and Accreditation (11-10)	09/28/11	NONE	NONE	Documentation is currently being reviewed and finalized for resubmission to OIG.
Fiscal Year 2011 Evaluation of Information Security at the Railroad Retirement Board (12-02)	01/05/12	NONE	NONE	Eleven of 13 recommendations have been closed. Documentation is currently being reviewed and finalized for resubmission to OIG for remaining two.

**Management Statement on Resolved Audit Reports Over
12 Months Old with Final Action Pending as of March 31, 2017**

Report	Date	Disallowed Costs	Funds to be Put to Better Use	Reason Action Not Completed
Fiscal Year 2011 Financial Statement Audit Letter to Management (12-04)	01/31/12	NONE	NONE	Work continues on review of procedures.
Inspection of the Railroad Retirement Board's Representative Payee Monitoring (12-07)	07/27/12	NONE	NONE	Four of 20 recommendations remain pending. Documentation submitted to OIG for closeout on two recommendations, and waiting guidance from Department of Treasury for other two.
Inspection of the Railroad Retirement Board's Financial Interchange System Continuous Monitoring (12-08)	09/21/12	NONE	NONE	The Bureau of Actuary is currently reviewing and will take the necessary action(s).
Audit of Job Duty Verification Procedures for Long Island Rail Road Occupational Disability Applicants (13-02)	01/15/13	NONE	NONE	Currently reviewing policies and procedures.
Fiscal Year 2012 Audit of Information Security at the Railroad Retirement Board (13-04)	02/12/13	NONE	NONE	Eleven of 19 recommendations have been closed. Documentation is being reviewed and finalized for OIG resubmission on four recommendations, and work continues on other four.

**Management Statement on Resolved Audit Reports Over
12 Months Old with Final Action Pending as of March 31, 2017**

Report	Date	Disallowed Costs	Funds to be Put to Better Use	Reason Action Not Completed
Audit of the Railroad Retirement Board's Compliance with the Government Charge Card Abuse Prevention Act of 2012 (13-10)	09/19/13	NONE	NONE	In the process of reviewing policies and procedures to develop control for when and how often for reviews of charge card holders.
Audit of the Railroad Retirement Board's Privacy Program (13-11)	09/20/13	NONE	NONE	Documentation is currently being reviewed and finalized for submission to OIG.
Fiscal Year 2013 Financial Statement Audit Letter to Management (14-02)	02/20/14	NONE	NONE	Bureau of Fiscal Operations staff updating Accounting Procedures Guide and developing training.
Fiscal Year 2013 Audit of Information Security at the Railroad Retirement Board (14-03)	03/04/14	NONE	NONE	Corrective action underway, Bureau of Information Services is coordinating internally to review procedures and identify resources to address necessary corrective action.
Audit of Railroad Retirement Act Dual Spouse Annuity Adjustments (14-04)	03/20/14	NONE	\$866,000	Office of Programs will take no further action based on OGC guidance that cases should not be sent to the Board for a reopening decision based on a parallel handling at SSA.

**Management Statement on Resolved Audit Reports Over
12 Months Old with Final Action Pending as of March 31, 2017**

Report	Date	Disallowed Costs	Funds to be Put to Better Use	Reason Action Not Completed
Audit of the General and Application Controls in the Railroad Retirement Board's Financial Management Information System (14-06)	05/06/14	NONE	NONE	Office of Administration and the Bureau of Information Services are working to implement corrective action and have submitted close out requests to the OIG.
Audit of Payment Controls over Railroad Medicare Claims Submitted by Physical Therapists (14-07)	05/16/14	NONE	NONE	Office of Programs working to implement corrective action and have submitted close out requests to the OIG.
Management Information Report Financial Impact of Injury Settlements Awarding Service Months to Qualify Railroad Employees for Occupational Disability Benefits (14-08)	07/18/14	NONE	NONE	Management non-concurred, no action intended.
Management Information Report - Railroad Medicare Progress and Challenges (14-09)	07/25/14	NONE	NONE	Coordination with external organization is required.
Audit of Business Process Controls in the Financial Management integrated System (14-10)	08/01/14	NONE	NONE	Bureau of Fiscal Operations staff have re-written Accounting Procedures Guide and are coordinating close-out of recommendations.

**Management Statement on Resolved Audit Reports Over
12 Months Old with Final Action Pending as of March 31, 2017**

Report	Date	Disallowed Costs	Funds to be Put to Better Use	Reason Action Not Completed
Audit of the Data Management Application Controls and Selected General Controls in the Financial Management Integrated System (14-12)	09/30/14	NONE	NONE	Bureau of Information Services staff currently reviewing and revising policy and procedures.
The Railroad Retirement Board Lacks Adequate Controls Over Creditable Compensation Related to Injury Settlements (15-03)	01/29/15	NONE	NONE	Office of Programs reviewed cases cited in the audit report, coordinated with industry to request corrections to employee records and determined adjudicative actions. Management non-concurred, no action intended.
Fiscal Year 2014 Audit of Information Security at the Railroad Retirement Board (15-04)	03/16/15	NONE	NONE	Corrective action underway, Bureau of Information Services is coordinating internally to review procedures and identify resources to address corrective action.
Fiscal Year 204 Financial Statement Audit Letter to Management (15-05)	03/31/15	NONE	NONE	Concurred with two of three open recommendations. Took corrective action and submitted close-out requests. OIG determined corrective actions were not sufficient. Will work with the OIG to identify appropriate corrective action.

**Management Statement on Resolved Audit Reports Over
12 Months Old with Final Action Pending as of March 31, 2017**

Report	Date	Disallowed Costs	Funds to be Put to Better Use	Reason Action Not Completed
Railroad Retirement Board's Compliance with the Improper Payments Elimination and Recovery Act of 2010 in the Fiscal Year 2014 Performance and Accountability Report (15-06)	05/15/15	NONE	NONE	Took corrective action to coordinate preparation of risk assessment for agency programs, prepared and submitted risk assessments, developed policy and procedure. OIG determined corrective actions were not sufficient. Will continue to work with the OIG to identify appropriate corrective action.
Railroad Retirement Board Medicare Contract Oversight Did Not Effectively Mitigate Chiropractic Service Risks (15-07)	06/04/15	NONE	NONE	RRB concurred with eight of ten open recommendations. RRB submitted close-out requests for five, pending OIG review. Coordinating with multiple stakeholders for remaining three and will continue to work corrective action and re-submit close out requests.
Audit of the Internal Controls Over Obligations at the Railroad Retirement Board (15-08)	08/14/15	NONE	NONE	RRB concurred with seven of ten open recommendations. RRB submitted a close-out request for one, pending OIG review. Coordinating with multiple stakeholders for remaining six and will continue to work corrective action and re-submit close out requests.

**Management Statement on Resolved Audit Reports Over
12 Months Old with Final Action Pending as of March 31, 2017**

Report	Date	Disallowed Costs	Funds to be Put to Better Use	Reason Action Not Completed
Select Financial Management Integrated System Business Process Controls Need Improvement (16-02)	11/30/15	NONE	NONE	Open recommendations impact several bureaus within the RRB. Bureaus took corrective action that the OIG did not deem sufficient. Offices continue to work corrective action and will re-submit close out requests during FY17.
Fiscal Year 2015 Financial Statement Audit Letter to Management (16-04)	02/02/16	NONE	NONE	Bureau took corrective action that the OIG did not deem sufficient. Bureau will continue to work corrective action and will re-submit close out requests during FY17.

Appendix G – Reporting Requirements

Act Section	Inspector General Reporting Requirements	Page(s)
4(a)(2)	Review of Legislation and Regulations	22
5(a)(1)	Significant Problems, Abuses, and Deficiencies	29 – 34
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5(a)(4)	Matters Referred to Prosecutive Authorities	3, 4, 11
5(a)(5)	Summary of Reports to the Chairman	None
5(a)(6)	Open or Unimplemented Audit Recommendations and the Associated Cost Savings	8
5(a)(7)	Summary of Each Significant Report	4-8
5(a)(8)	Statistical Table on Management Decisions on Questioned Costs	25
5(a)(9)	Statistical Table on Management Decisions on Recommendations That Funds be Put to Better Use	26
5(a)(10)	Summary of Each Audit Report Over 6 Months Old for Which No Management Decision Has Been Made	7
5(a)(11)	Description and Explanation for Any Significant Revised Management Decision	None
5(a)(12)	Information on Any Significant Management Decision With Which the Inspector General Disagrees	5, 20, 21, 29 – 34
5(a)(13)	Chairman Statement of Compliance	None
5(a)(14)	Peer Reviews	35
5(a)(15), (16)	Peer Reviews – Outstanding Recommendations	None
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5(a)(19)	Investigations Involving Senior Government Employees	None
5(a)(20)	Instances of Whistleblower Retaliation	None
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5(a)(22)(a)	Inspections, Evaluations, and Audits Closed and Not Disclosed to the Public	None
5(a)(22)(b)	Investigations Involving Senior Government Employees Closed and Not Disclosed to the Public	None

Act Section	Management Reporting Requirements	Page(s)
5(b)(1)	Management Comments	Management's Transmittal
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5(b)(4)	Statement on Audit Reports With Final Action Pending	38 – 47

Appendix H – Acronyms

Acronym	Explanation
AICPA	American Institute of Certified Public Accountants
CMS	Centers for Medicare and Medicaid Services
FISMA	Federal Information Security Modernization Act of 2014
FMIS	Financial Management Integrated System
IGEA	Inspector General Empowerment Act of 2016
NRRIT	National Railroad Retirement Investment Trust
OA	Office of Inspector General for the Railroad Retirement Board – Office of Audit
OI	Office of Inspector General for the Railroad Retirement Board – Office of Investigations
OIG	Office of Inspector General for the Railroad Retirement Board
OMB	Office of Management and Budget
RRA	Railroad Retirement Act
RRB	Railroad Retirement Board
RRSIA	Railroad Retirement and Survivors' Improvement Act of 2001
RUIA	Railroad Unemployment Insurance Act
SSA	Social Security Administration
SI	Sickness Insurance
UI	Unemployment Insurance

Appendix I – Legal References

Antideficiency Act - 31 U.S.C. § 1341(a), 1342, 1349-1351, 1511(a), and 1512-1519

Dodd-Frank Wall Street Reform and Consumer Protection Act – P.L. 111-203

Federal Information Security Modernization Act of 2014 – P.L. 113-283

Improper Payments Elimination and Recovery Act of 2010 – P.L. 111-204

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

Inspector General Empowerment Act of 2016 – P.L. 114-317

Purpose Statute – 31 U.S.C. § 1301(a)

Reports Consolidation Act of 2000 – P.L. 106-531

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

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

Railroad Retirement and Survivors' Improvement Act of 2001 – P.L. 107-90

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

Social Security Act – 42 U.S.C. § 301, et seq.

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