RAILROAD RETIREMENT BOARD

PERFORMANCE AND ACCOUNTABILITY REPORT

FISCAL YEAR 2018

November 15, 2018

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Railroad Retirement Board
Performance and Accountability Report

Fiscal Year 2018

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MESSAGE FROM THE BOARD MEMBERS

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Message from the Board Members

This fiscal year 2018 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 programs provided under the Railroad Retirement Act (RRA), and the unemployment and sickness insurance benefit programs 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), Congress, and our constituents. We are proud of the agency's dedicated employees whose achievements are reflected in this report.

Under provisions of the Budget Control Act of 2011 (BCA), across-the-board cuts in Federal spending took effect March 1, 2013. While railroad retirement, survivor and disability payments are not affected by this measure, unemployment and sickness insurance benefits payable under the RUIA are impacted. Benefits payable for days October 1, 2017 through September 30, 2018, were reduced by 6.6 percent. The reduction was required by the sequestration order issued by the President in accordance with the BCA. For fiscal year 2019, a sequestration reduction of 6.2 percent was applied starting October 1, 2018.

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 government-wide requirements are delineated in the Systems, Controls and Legal Compliance part of the Management's Discussion and Analysis section. That part also provides status of actions we are taking and progress we are making to correct internal control deficiencies identified by the Office of Inspector General (OIG). While we disagree that those deficiencies rise to the level of material weakness, we continue to strengthen internal controls and implement solutions that enhance our operational effectiveness and efficiency.

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.

Original signed by:

Walter A. Barrows, Labor Member
Steven J. Anthony, Management Member

November 14, 2018

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MANAGEMENT'S DISCUSSION AND ANALYSIS

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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 1930s 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 1930s, 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 1930s 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 1930s, numerous other railroad laws have 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 1930s. 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. Congress subsequently enacted the 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 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 I taxes at the same rate as social security taxes. In addition, both employees and employers pay tier II taxes which are used to finance railroad retirement benefit payments over and above social security levels.

Tier II 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 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. In fiscal year 2018, the RRB trust funds realized a net of $4.3 billion, representing 38 percent of RRB financing sources (excluding transfers to/from the NRRIT and the change 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 are paid 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 OIG. These funds consist of three administrative funds, four trust funds, three general funds, one American Recovery and Reinvestment Act of 2009 fund, and two Worker, Homeownership, and Business Assistance Act of 2009 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 position of Chairman of the Board is currently vacant, the Labor Member is Walter A. Barrows, and the Management Member is Steven J. Anthony. 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 to ensure equipment and programs maintain earnings records, calculate benefits, and process payments. The RRB also employs actuaries to predict the 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.

THE BOARD
Chairman, VACANT
Labor Member, Walter A. Barrows
Management Member, Steven J. Anthony

- **OFFICE OF EQUAL OPPORTUNITY** – Pamela M. Tate
- **OFFICE OF INSPECTOR GENERAL** – Martin J. Dickman
- **CHIEF ACTUARY *** / **BUREAU OF THE ACTUARY AND RESEARCH** – Frank J. Buzzi

EXECUTIVE COMMITTEE

- **MEMBER** – Shawna R. Weekley
- **MEMBER** – Ana M. Kocur
- **MEMBER** – Keith B. Earley
- **MEMBER** – Michael A. Tyllas
- **SENIOR EXECUTIVE OFFICER** – Daniel J. Fadden
- **MEMBER** – Ram Murthy

CHIEF FINANCIAL OFFICER / **BUREAU OF FISCAL OPERATIONS** – Shawna R. Weekley

OFFICE OF GENERAL COUNSEL – Ana M. Kocur
- **OFFICE OF LEGISLATIVE AFFAIRS** – Beverly Britton Fraser
- **BUREAU OF HEARINGS AND APPEALS** – Rachel L. Simmons
- **SECRETARY TO THE BOARD** – VACANT

OFFICE OF ADMINISTRATION – Keith B. Earley
- **ACQUISITION MANAGEMENT** – Paul T. Ahern
- **BUILDING AND SUPPORT OPERATIONS** – Scott Rush
- **BUREAU OF HUMAN RESOURCES** – Marguerite V. Daniels
- **PUBLIC AFFAIRS** – Michael P. Freeman

OFFICE OF PROGRAMS – Michael A. Tyllas
- **POLICY AND SYSTEMS** – Kimberly A. Price
- **PROGRAM EVALUATION AND MANAGEMENT SERVICES** – Janet M. Hallman
- **RETIREMENT/ SURVIVOR BENEFITS** – Valerie F. Allen
- **DISABILITY BENEFITS** – Sherita Boots
- **UNEMPLOYMENT AND PROGRAMS SUPPORT** – Micheal T. Pawlak

BUREAU OF FIELD SERVICE – Daniel J. Fadden

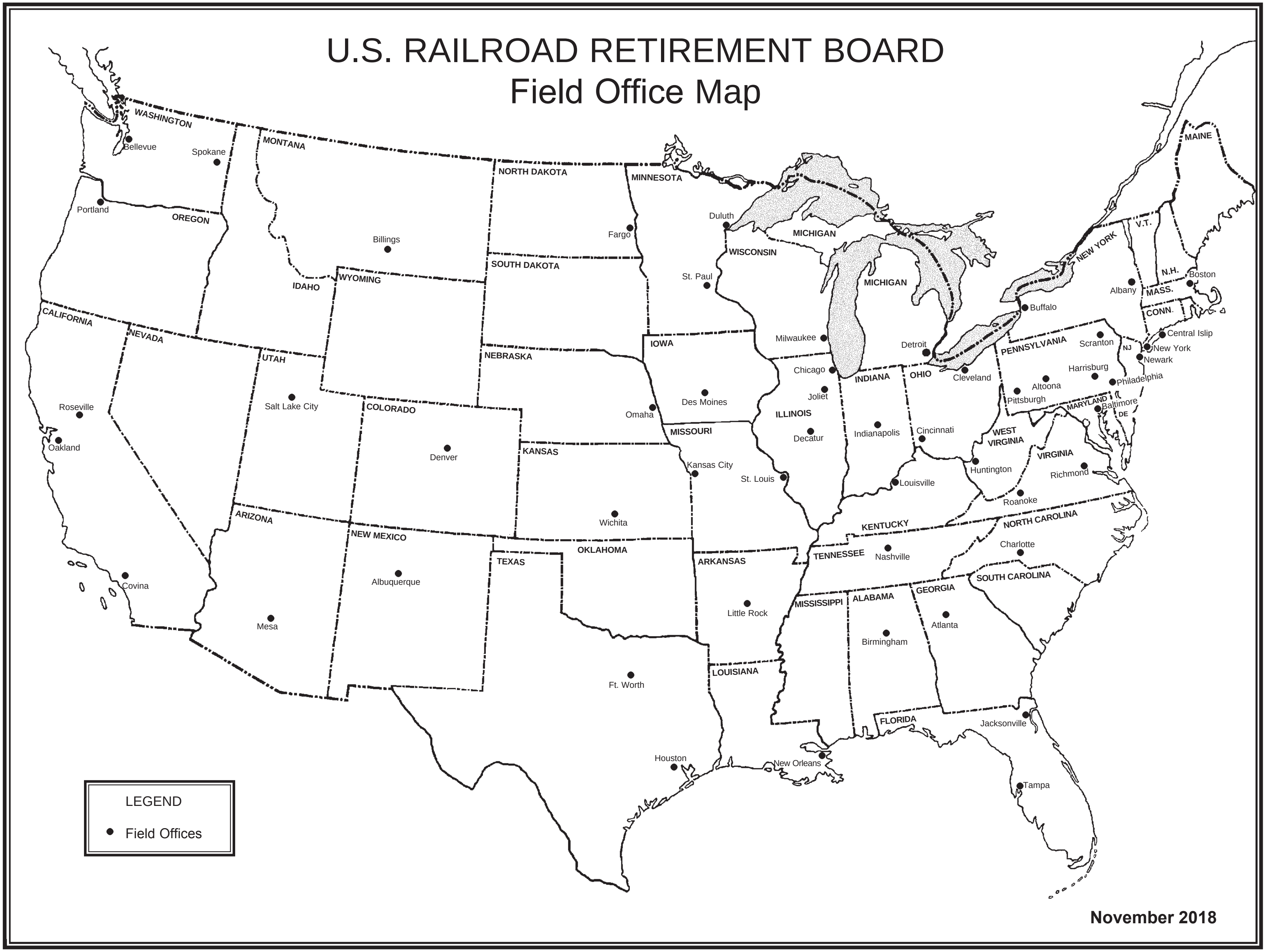
CHIEF INFORMATION OFFICER / **BUREAU OF INFORMATION SERVICES** – Ram Murthy

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

\- - - - - - The Director of Equal Opportunity reports administratively to the Senior Executive Officer and programmatically to the Board.

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

November 2018


U.S. RAILROAD RETIREMENT BOARD
Field Office Map
WASHINGTON
Bellevue
Spokane
OREGON
Portland
CALIFORNIA
Roseville
Oakland
Covina
NEVADA
IDAHO
MONTANA
Billings
WYOMING
UTAH
Salt Lake City
COLORADO
Denver
ARIZONA
Mesa
NEW MEXICO
Albuquerque
NORTH DAKOTA
Fargo
SOUTH DAKOTA
NEBRASKA
Omaha
KANSAS
Wichita
OKLAHOMA
TEXAS
Ft. Worth
Houston
MINNESOTA
Duluth
St. Paul
IOWA
Des Moines
MISSOURI
Kansas City
St. Louis
ARKANSAS
Little Rock
LOUISIANA
New Orleans
WISCONSIN
Milwaukee
ILLINOIS
Chicago
Joliet
Decatur
MICHIGAN
Detroit
INDIANA
Indianapolis
OHIO
Cleveland
Cincinnati
KENTUCKY
Louisville
TENNESSEE
Nashville
MISSISSIPPI
ALABAMA
Birmingham
GEORGIA
Atlanta
FLORIDA
Jacksonville
Tampa
SOUTH CAROLINA
NORTH CAROLINA
Charlotte
VIRGINIA
Roanoke
Richmond
WEST VIRGINIA
Huntington
MARYLAND
Baltimore
DE
PENNSYLVANIA
Pittsburgh
Altoona
Harrisburg
Scranton
Philadelphia
NJ
Newark
NEW YORK
Buffalo
Albany
New York
Central Islip
CONN.
MASS.
Boston
N.H.
V.T.
MAINE
LEGEND
Field Offices
November 2018

Performance Goals, Objectives, and Results

During fiscal year 2018 (ended September 30, 2018), railroad retirement and survivor benefit payments totaled $13.1 billion, net of recoveries and offsetting collections. Railroad unemployment and sickness insurance benefit payments totaled $100.2 million in fiscal year 2018, net of recoveries and offsetting collections. During fiscal year 2018, the RRB also paid benefits on behalf of SSA (for which the RRB is reimbursed) amounting to $1.8 billion to about 124,000 beneficiaries.

In fiscal year 2018, 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 2018 included:

- Providing payments to about 540,000 retirement and survivor beneficiaries.
- Providing payments to about 9,000 unemployment insurance beneficiaries.
- Providing payments to about 16,000 sickness insurance beneficiaries.
- Processing 20,547 retirement, survivor, and disability applications for benefits (through April 30, 2018).
- Processing 102,754 applications and claims for unemployment and sickness insurance benefits (through April 30, 2018).
- Issuing 252,715 certificates of employee railroad service and compensation (mailed on June 15, 2018).

During fiscal year 2018, the RRB used 24 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 a direct appropriation of $123,500,000 for ongoing 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 2018 were not available at the time this report was published. For those objectives, we reported part-year performance information for fiscal year 2018, if available. We also reported actual results from prior years, as applicable.

Summary of Achievement by Strategic Goal

Strategic Goal I: Modernize Information Technology (IT) Operations to sustain mission essential services. For fiscal year 2018, we plan to transform systems and deliver online retirement forms.

Strategic Goal II: Provide Excellent Customer Service. For fiscal year 2018, we expect to meet or exceed most of our timeliness goals and increase Internet services available to employers.

Strategic Goal III: 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 2018, we expect that benefit payment accuracy rates will exceed 99 percent.

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 three overriding strategic issues for the upcoming planning period relate to customer service and trust fund stewardship. The ***IT operations issue*** involves transforming current legacy systems through automation and building modern digital services while safeguarding information. 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 three strategic goals on which we will focus our efforts.

Modernize Information Technology (IT) Operations to sustain mission essential services

Significant investment is essential to update the agency's outdated IT systems, reduce cybersecurity risk, and sustain mission operations. Our Annual Performance Plan for Fiscal Year 2018 reflects two strategic objectives that focus on the specifics of achieving this goal.

- Transform Tax and EDM systems (3 million lines of legacy COBOL) from the mainframe to distributed architecture.
- Deliver online retirement forms (AA-1, AA-3) as citizen-centric digital solutions.

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 Plan for Fiscal Year 2018 reflects two strategic objectives that focus on the specifics of achieving this goal.

- Pay benefits 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 protected, collected, recorded, and reported appropriately.
- Ensure the accuracy and 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 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 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.

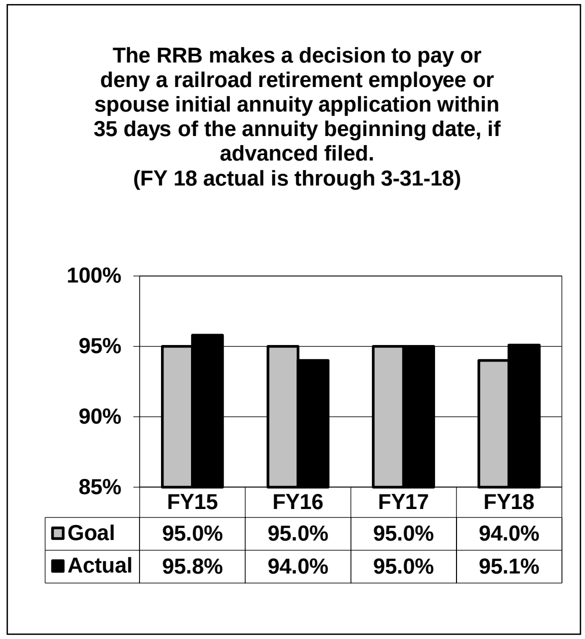
<u>Key performance indicator 1:</u> Timeliness of initial railroad retirement annuity payments, when advanced filed (Objective II-A-1)

FY 2018 goal: 94.0%
Our FY 2018 performance: 95.1% through the 2nd quarter

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

FY 2017 goal: 95.0%
Our FY 2017 performance: 95.0%

Data definition: This goal is included in the RRB Customer Service Plan.



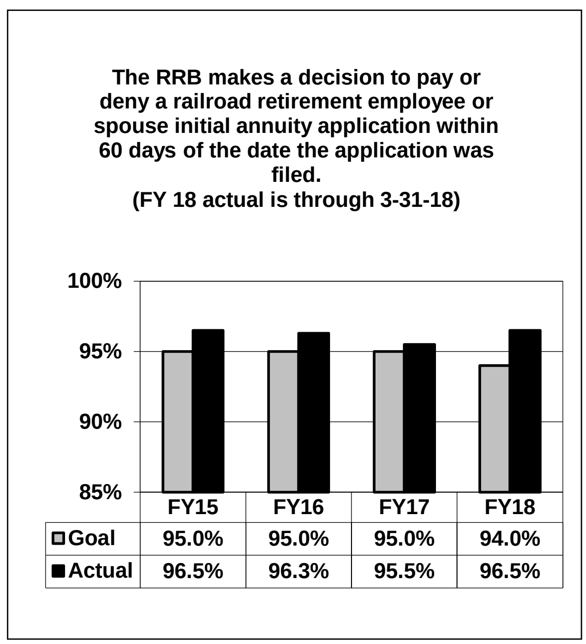
<u>Key performance indicator 2:</u> Timeliness of initial railroad retirement annuity payments, if not advanced filed (Objective II-A-2)

FY 2018 goal: 94.0%
Our FY 2018 performance: 96.5% through the 2nd quarter

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

FY 2017 goal: 95.0%
Our FY 2017 performance: 95.5%

Data definition: This goal is included in the RRB Customer Service Plan.



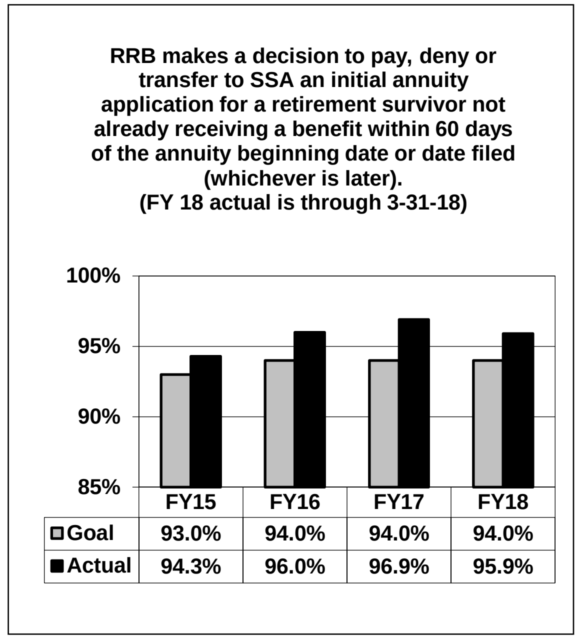
<u>Key performance indicator 3:</u> Timeliness of new survivor benefit payments (Objective II-A-3)

FY 2018 goal: 94.0%
Our FY 2018 performance: 95.9%
through the 2nd quarter

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

FY 2017 goal: 94.0%
Our FY 2017 performance: 96.9%

Data definition: This goal is included in the RRB Customer Service Plan.



	FY15	FY16	FY17	FY18
Goal	93.0%	94.0%	94.0%	94.0%
Actual	94.3%	96.0%	96.9%	95.9%

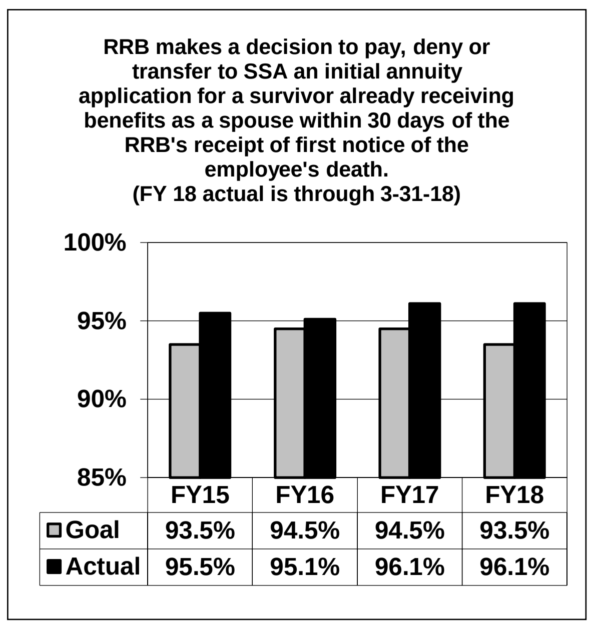
<u>Key performance indicator 4:</u> Timeliness of spouse to survivor benefit payment conversions (Objective II-A-4)

FY 2018 goal: 93.5%
Our FY 2018 performance: 96.1%
through the 2nd quarter

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

FY 2017 goal: 94.5%
Our FY 2017 performance: 96.1%

Data definition: This goal is included in the RRB Customer Service Plan.



	FY15	FY16	FY17	FY18
Goal	93.5%	94.5%	94.5%	93.5%
Actual	95.5%	95.1%	96.1%	96.1%

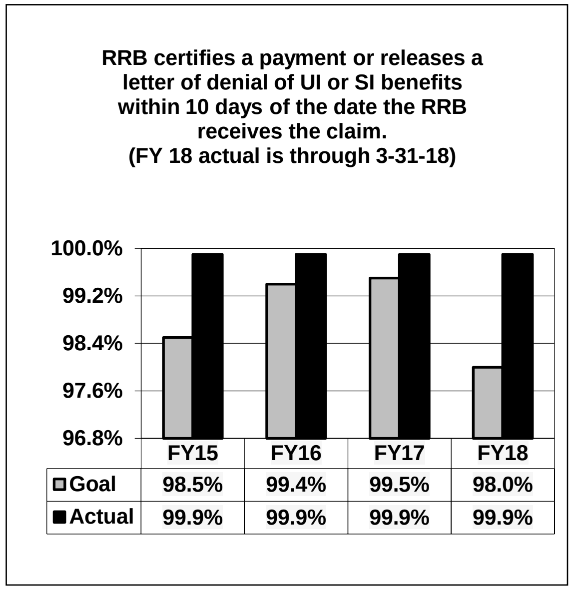
<u>Key performance indicator 5:</u> Timeliness of unemployment or sickness insurance payments (Objective II-A-6)

FY 2018 goal: 98.0%
Our FY 2018 performance: 99.9% through the 2nd quarter

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

FY 2017 goal: 99.5%
Our FY 2017 performance: 99.9%

Data definition: This goal is included in the RRB Customer Service Plan.



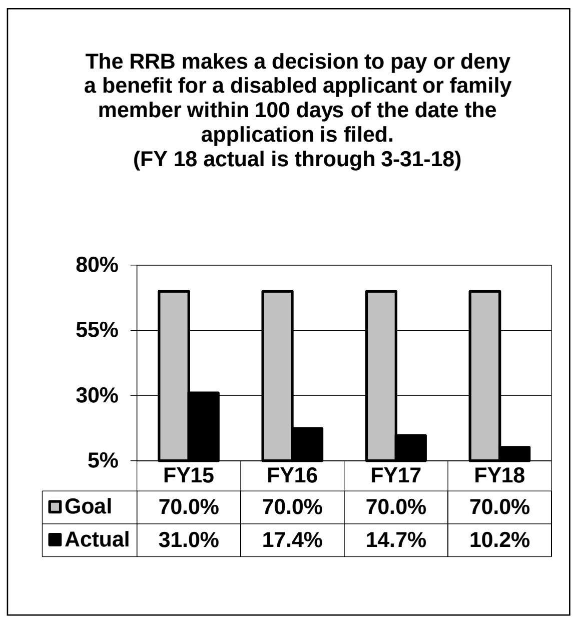
	FY15	FY16	FY17	FY18
Goal	98.5%	99.4%	99.5%	98.0%
Actual	99.9%	99.9%	99.9%	99.9%

<u>Key performance indicator 6:</u> Timeliness of disability decisions (Objective II-A-7)

FY 2018 goal: 70.0%
Our FY 2018 performance: 10.2% through the 2nd quarter

We are not yet achieving our goal.

FY 2017 goal: 70.0%
Our FY 2017 performance: 14.7%



	FY15	FY16	FY17	FY18
Goal	70.0%	70.0%	70.0%	70.0%
Actual	31.0%	17.4%	14.7%	10.2%

Initial disability decision timeliness performance was below the goal of 70% within 100 days for multiple reasons, including a continued effort to make decisions on cases that were greater than 2 years old. At the start of the fiscal year, pending work from 2015 and earlier was 22.5%. As of July 2, 2018, it is approximately 0.19% of the pending work.

Also, new instructions (IM 15-08) required specialist exams for all disability claims citing a primary orthopedic or mental condition that is not an impairment that meets SSA's listing level or is a disqualification by the railroad employer. The new policy and procedure for requiring specialist examinations increased time frames significantly because it required a modification of the contract with the medical services contractor that initially proved challenging to implement. For example, some specialists had long wait times and locating a particular specialist close to some claimant's homes was difficult. In addition, the new policy did not exclude cases that were filed prior to the exam policy revision. This required scheduling additional exams for those cases as well because the case was not yet rated. Although our Disability Benefits Division (DBD) hired additional initial claims examiners, the initial training phase takes approximately 36 weeks. The fiscal year 2016 new hires are beginning to provide beneficial impact on production. The fiscal year 2018 new hires are also affecting production. As their production increases, the benefits to timeliness will impact the Division's overall performance. DBD staff continues to provide significant support to our field offices.

As new hires in DBD and the field service gain experience and we reduce the wait time for examinations, we expect improvement in our timeliness performance over a period of time.

Data Definition: This goal is included in the RRB Customer Service Plan.

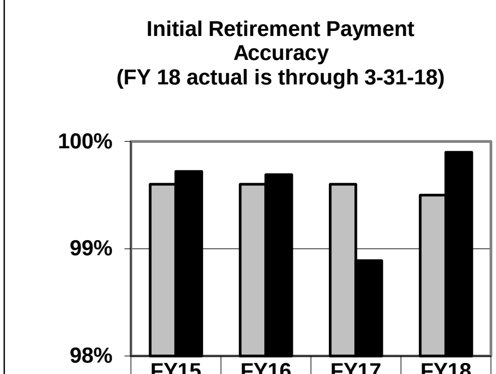
<u>Key performance indicator 7:</u> Initial recurring retirement payment accuracy (Objective III-B-1a)

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 2018 goal: 99.50%
Our FY 2018 performance: 99.90% through the 2nd quarter

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

FY 2017 goal: 99.60%
Our FY 2017 performance: 98.89%



	FY15	FY16	FY17	FY18
Goal	99.60%	99.60%	99.60%	99.50%
Actual	99.72%	99.69%	98.89%	99.90%

We did not achieve our goal.
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.

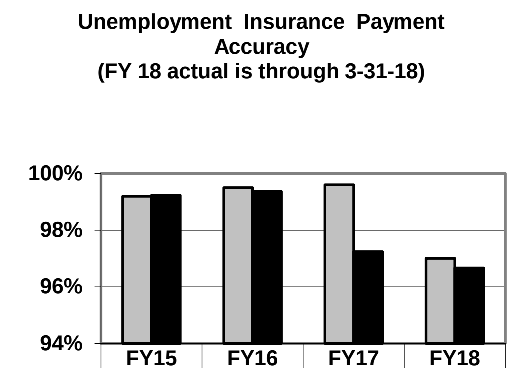
<u>Key performance indicator 8:</u> Unemployment insurance payment accuracy (Objective III-B-2a)

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

FY 2018 goal: 97.00%
Our FY 2018 performance: 96.67% through the 2nd quarter

We are not achieving our goal; however, we expect to meet the goal by the end of fiscal year 2018. Automation plays a key role in assuring benefit payment accuracy by reducing the number of erroneous payments.

FY 2017 goal: 99.60%
Our FY 2017 performance: 97.24%



	FY15	FY16	FY17	FY18
Goal	99.20%	99.50%	99.60%	97.00%
Actual	99.23%	99.36%	97.24%	96.67%

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.

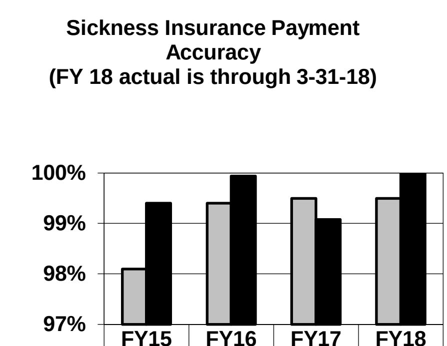
<u>Key performance indicator 9:</u> Sickness insurance payment accuracy (Objective III-B-2b)

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

FY 2018 goal: 99.50%
Our FY 2018 performance: 100.00% through the 2nd quarter

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

FY 2017 goal: 99.50%
Our FY 2017 performance: 99.08%



	FY15	FY16	FY17	FY18
Goal	98.10%	99.40%	99.50%	99.50%
Actual	99.40%	99.94%	99.08%	100.00%

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.

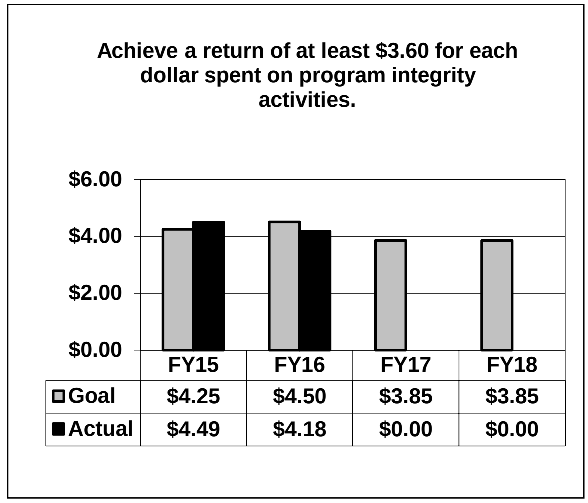
<u>Key performance indicator 10:</u> Return on investment in program integrity activities (Objective III-B-5)

FY 2018 goal: $ 3.85: $1
Our FY 2018 performance: N/A

FY 2018 data will be available in FY 2019.

FY 2017 goal: $3.85 : $1
Our FY 2017 performance: N/A

The most current program integrity data available is from FY 2016.



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' (CMS) utilization and death records, the Office of Personnel Management's benefit records, and State wage reports, usually via data exchange files, and administer other benefit monitoring programs to identify and prevent erroneous payments. We also refer some cases to the 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.

Analysis of Financial Statements and Stewardship Information

Amounts in the Railroad Retirement (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.

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)

	2018	2017
NET POSITION AT SEPTEMBER 30		
Social Security Equivalent Benefit Account	$713.0	$589.9
Railroad Retirement Account 1/	26,612.8	26,510.8
Railroad Retirement Administrative Fund	39.1	30.9
Railroad Unemployment Insurance Trust Fund -		
Benefit Payments	97.4	70.2
Administrative Expenses	9.1	11.7
Limitation on the Office of Inspector General	3.8	1.9
Dual Benefits Payments Account	7.7	8.4
Federal Payments to the Railroad Retirement Accounts	0.8	15.5
American Recovery and Reinvestment Act of 2009		
Railroad Unemployment Insurance Extended Benefit Payments – Recovery Act (no year dollars)	9.5	9.5
Worker, Homeownership, and Business Assistance Act of 2009		
Railroad Unemployment Insurance Extended Benefits (no year dollars)	133.0	133.1
Administrative Expenses, Railroad Unemployment Insurance Extended Benefit Payments	-	-
Total	$27,626.2	$27,381.9
FINANCING SOURCES FOR FISCAL YEAR		
Social Security Equivalent Benefit Account	$7,462.4	$7,691.4
Railroad Retirement Account 2/	5,571.5	6,374.0
Railroad Retirement Administrative Trust Fund	130.2	119.9
Railroad Unemployment Insurance Trust Fund -		
Benefit Payments	117.4	115.0
Administrative Expenses	(2.6)	-
Limitation on the Office of Inspector General	11.4	10.3
Dual Benefits Payments Account	20.4	23.4
Federal Payments to the Railroad Retirement Accounts 3/	-	-
American Recovery and Reinvestment Act of 2009		
Railroad Unemployment Insurance Extended Benefit Payments – Recovery Act (no year dollars)	-	-
Worker, Homeownership, and Business Assistance Act of 2009		
Railroad Unemployment Insurance Extended Benefits (no year dollars)	(0.1)	0.5
Administrative Expenses, Railroad Unemployment Insurance Extended Benefit Payments	-	-
Total	$13,310.6	$14,334.5
BENEFIT PAYMENTS FOR FISCAL YEAR 4/		
Social Security Equivalent Benefit Account	$7,339.3	$7,230.9
Railroad Retirement Account	5,756.3	5,307.1
Railroad Unemployment Insurance Trust Fund -		
Unemployment Insurance	43.5	47.6
Sickness Insurance	56.7	57.0
Dual Benefits Payments Account	20.4	24.0
American Recovery and Reinvestment Act of 2009		
Railroad Unemployment Insurance Extended Benefit Payments – Recovery Act (no year dollars)	-	-
Worker, Homeownership, and Business Assistance Act of 2009		
Railroad Unemployment Insurance Extended Benefits (no year dollars)	(0.1)	0.4
Administrative Expenses, Railroad Unemployment Insurance Extended Benefit Payments		-
Total	$13,216.1	$12,667.0

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

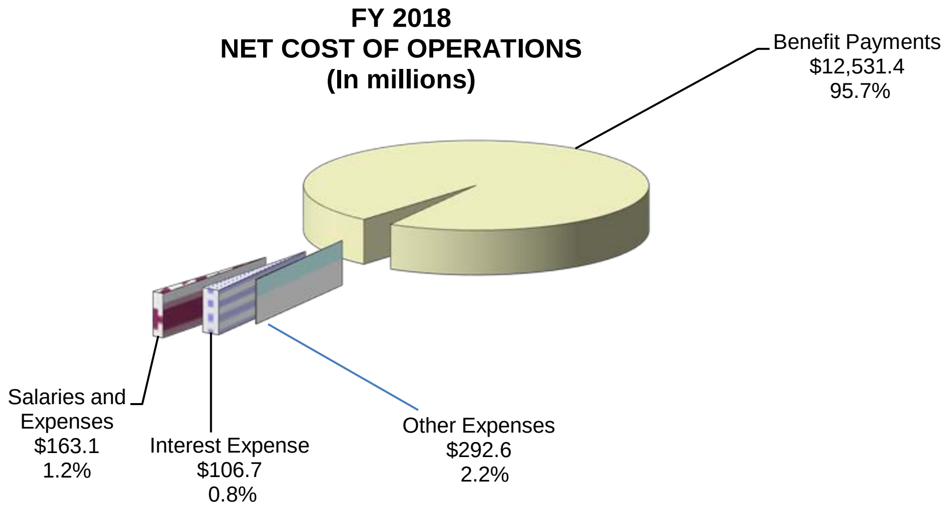
The RRB's financial statements are comprised of: Balance Sheet and Statements of Net Cost, Changes in Net Position, Budgetary Resources, and Social Insurance, Changes in Social Insurance Amounts, and notes which are an integral part of the statements. We also present, as required supplementary information, 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

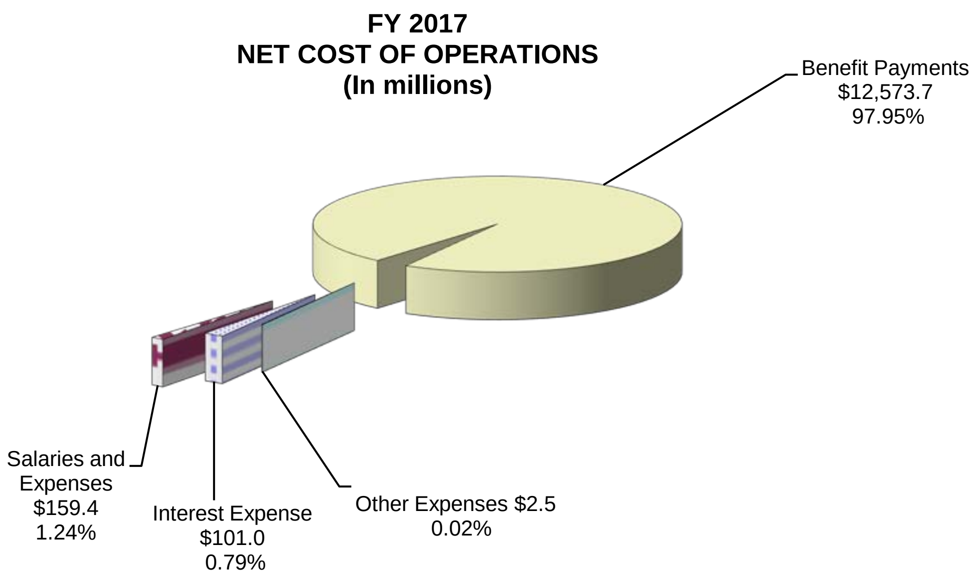
The net cost of operations for fiscal years 2018 and 2017 was $13,051.1 million and $12,797.8 million, respectively. The details of the net cost of operations by type, amount, increase or decrease, and percentage change from fiscal year 2017 to fiscal year 2018 are shown below. Additional information regarding the net cost of operations and financing sources for fiscal years 2018 and 2017 is shown on the following pages.

NET COST OF OPERATIONS
(In millions)

	FY 2018	FY 2017	Amount of Increase (Decrease)	Percent of Increase (Decrease)
Interest expense – Treasury borrowing	$106.7	$101.0	$5.7	5.6%
Salaries and expenses	163.1	159.4	3.7	2.3%
Benefit payments – RRB	12,531.4	12,573.7	(42.3)	(0.3)%
Other expenses	292.6	2.4	290.2	12,091.7%
Subtotal	13,093.8	12,836.5	257.3	2.0%
Less: Earned revenues	42.7	38.7	4.0	10.3%
Net cost of operations	$13,051.1	$12,797.8	$253.3	2.0%



Totals $13,093.8 million, excluding reimbursements and earned revenues of $42.7 million.



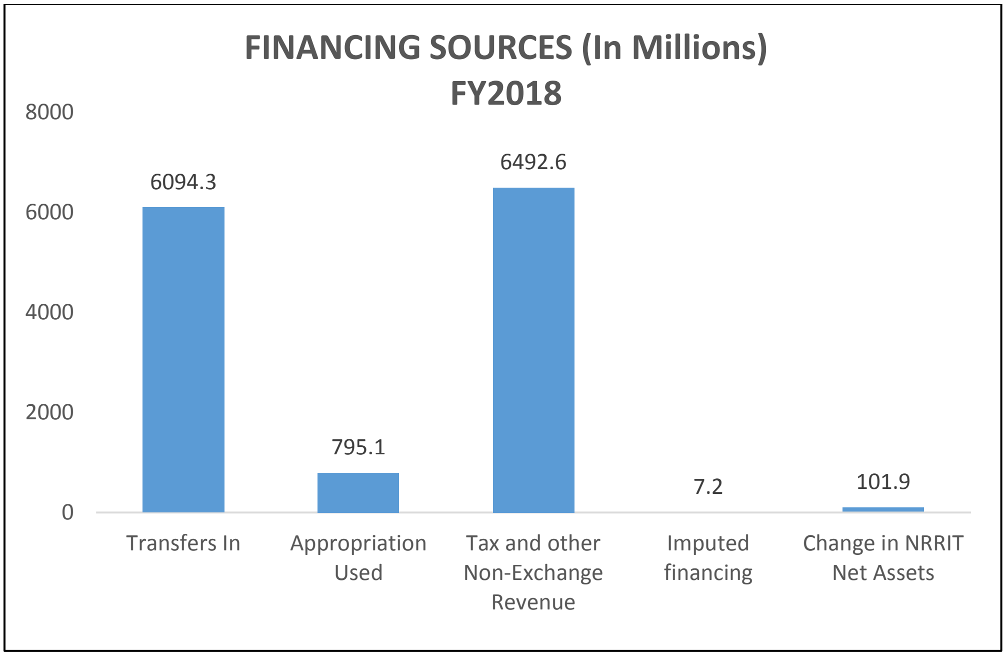
Totals $12,836.6 million, excluding reimbursements and earned revenues of $38.7 million.

The following table shows financing sources (excluding changes in unexpended appropriations) by type, amount, increase or decrease, and percentage change from fiscal year 2017 to fiscal year 2018.

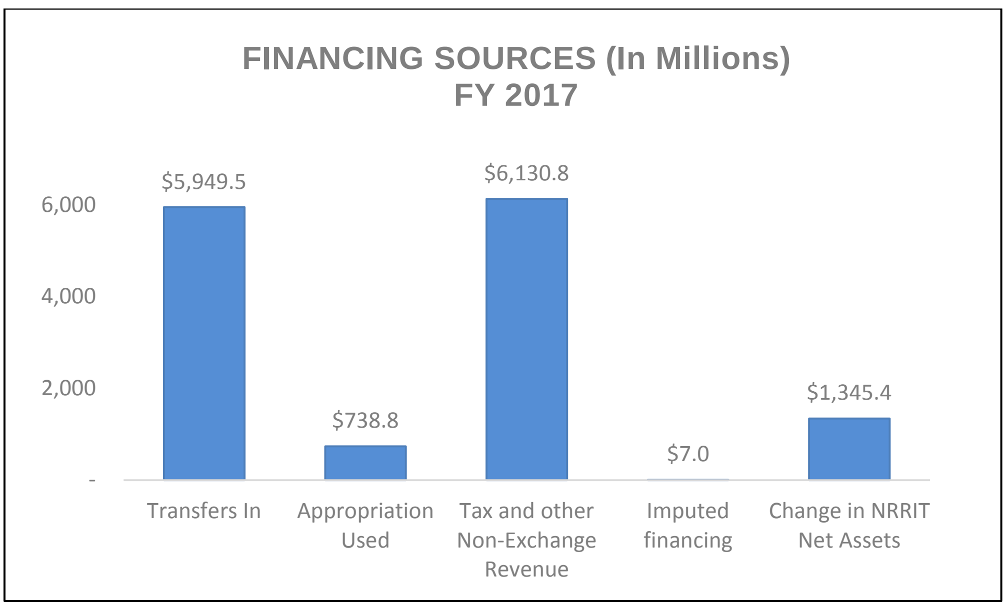
FINANCING SOURCES
(In millions)

	FY 2018	FY 2017	AMOUNT OF INCREASE (DECREASE)	PERCENT OF INCREASE (DECREASE)
Appropriations used	$ 795.1	$ 738.8	$ 56.3	7.6%
Taxes and other non-exchange revenues:				
Payroll taxes	6,324.1	5,968.2	355.9	6.0%
Interest revenue and other income	38.5	33.6	4.9	14.7%
Carriers refunds – principal	(4.2)	(2.1)	(2.1)	100.0%
Railroad Unemployment Insurance (RUI) Revenue	134.2	131.1	3.1	2.4%
Subtotal	$6,492.6	$ 6,130.8	$ 361.8	5.9%
Imputed financing (amount to be provided by the Office of Personnel Management to pay future retirement benefits to RRB employees)	7.2	7.0	0.2	3.1%
Transfers in:				
Financial Interchange, net	4,285.3	4,128.5	156.8	3.8%
NRRIT	1,809.0	1,821.0	(12.0)	(0.7)%
Subtotal	$ 6,094.3	$ 5,949.5	$ 144.8	2.4%
Other:				
Change in NRRIT net assets	101.9	1,345.4	(1,243.5)	(92.4)%
Subtotal	$ 13,491.1	$ 14,171.5	$ (680.4)	(4.8)%
Less: Transfers out to NRRIT	0.0	0.0	0.0	0.0%
Add: Gain/(Loss) in Contingency	(180.5)	163.0	(343.5)	(210.7)%
Subtotal	(180.5)	163.0	(343.5)	(210.7)%
Total	$ 13,310.6	$ 14,334.5	$ (1,023.9)	(7.1)%

The most significant difference between the RRB's financial statements for fiscal year 2017 and fiscal year 2018 was the change in NRRIT net assets. The increase in NRRIT net assets of about $101.9 million is due to market fluctuations during the past year. There is a section later in this publication that describes the NRRIT, and the NRRIT net assets balances for 2017 and 2018 are shown in the RRB's Financial Section of this publication.



Total Financing Sources $13,491.1 million, excluding ($180.5) million loss contingency.



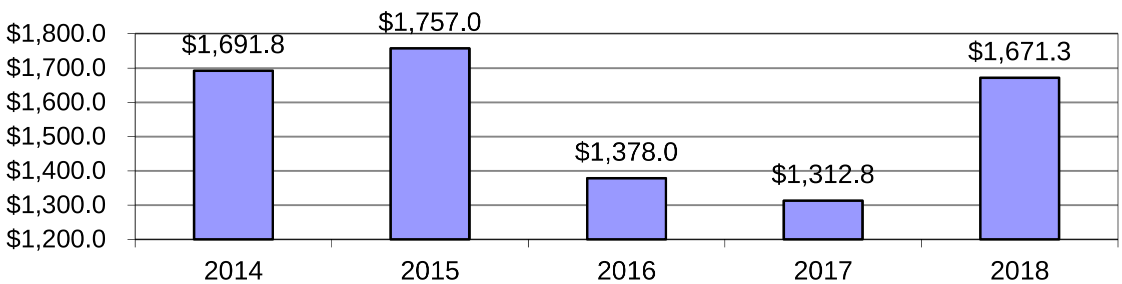
Total Financing Sources $14,171.5 million, excluding $163.0 million gain contingency.

Railroad Retirement Investments at Treasury

The book value of all railroad retirement investments, including accrued interest, increased to $1,671.3 million as of September 30, 2018, from $1,312.8 million on September 30, 2017 (excludes NRRIT net assets). The graph below reflects the book value of the railroad retirement investments from September 30, 2014, through September 30, 2018.

INVESTMENT BALANCES HELD AT TREASURY (AT BOOK VALUE)
AT SEPTEMBER 30, 2014 - 2018

(In millions, excluding NRRIT net assets)



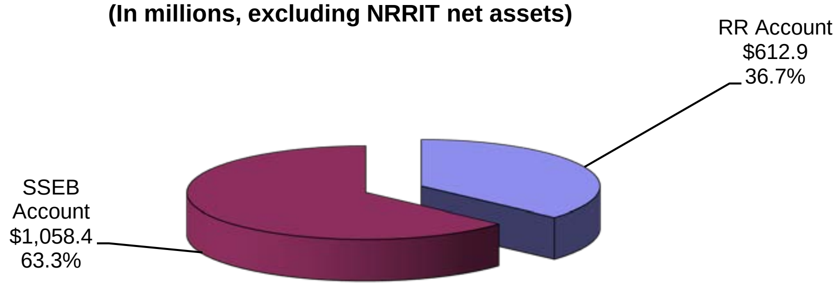
The following chart shows the portfolio of the railroad retirement investments as of September 30, 2018.

R

RAILROAD RETIREMENT INVESTMENTS HELD AT TREASURY
AS OF SEPTEMBER 30, 2018

AT BOOK VALUE
Total $1,671.3

(In millions, excluding NRRIT net assets)



Railroad Retirement Account: On September 30, 2018 and 2017, the book values of the RR Account investments, excluding NRRIT assets, including accrued interest, totaled $612,862,656 and $420,119,798, respectively. The balance on September 30, 2018, consisted of $611,973,000 in 3.000 percent par value specials (with market value equal to face value) maturing on October 1, 2018, and $889,656 in accrued interest. The balance on September 30, 2017, consisted of $419,397,000 in 3.000 percent par value specials (with market value equal to face value) maturing on October 1, 2017, and $722,798 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, 2018 and 2017, the book values of the SSEB Account investments, including accrued interest, totaled $1,058,394,566 and $892,700,696, respectively. The balance on September 30, 2018, consisted of $1,056,648,000 in 3.000 percent par value specials maturing on October 1, 2018, and $1,746,566 in accrued interest. The balance on September 30, 2017, consisted of $891,502,000 in 3.000 percent par value specials maturing on October 1, 2017, and $1,198,696 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 member 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.

Social Insurance: Key Measures

Balance Sheet: The Balance Sheet displayed in the Financial Section presents our assets, liabilities, and net position. Total assets for fiscal year 2018 are $33.5 billion, a 1.5 percent increase over last year. Of the total assets, $26.6 billion relates to funds held by the NRRIT. The net asset value of funds held by the NRRIT increased from fiscal year 2017 by 0.4 percent. Our investments totaled $1.7 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 27. Total liabilities for fiscal year 2018 are $5.9 billion. Liabilities increased by $256.9 million or 4.6 percent in fiscal year 2018. Also, benefits due increased by $31.0 million. By statute, benefits due in September are not paid until October.

Statement of Net Cost: The Statement of Net Cost displayed in the Financial Section presents the annual cost of operating our two major programs: railroad retirement and railroad unemployment insurance. In fiscal year 2018, our net cost of operations was $13.1 billion, an increase over last year of $253.3 million, or 2 percent. A table for the net cost of operations for fiscal years 2018 and 2017 can be found on page 23.

Statement of Changes in Net Position: The Statement of Changes in Net Position displayed in the Financial Section reflects the changes that occurred within cumulative results of operations and unexpended appropriations. Total net position for 2018 is $27.6 billion. The statement shows an increase] in the net position of the agency of $244.3 million attributable to the change in cumulative results of operations. Total financing sources for 2018 are $13.3 billion. A table for financing sources for fiscal years 2018 and 2017 can be found on page 25.

Statement of Social Insurance: Federal accounting standards require the presentation of a Statement of Social Insurance (SOSI) as a basic financial statement. The SOSI presents the present values of estimated future revenue and expenditures of the railroad retirement program. The SOSI 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 as of the valuation date 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 as of the valuation date includes only current participants: (1) those who have not yet retired but are active workers paying payroll taxes, (2) those who have retired and are receiving benefits, and (3) those who are not currently working but have sufficient service to be eligible for future benefits. The closed group measure represents a reasonably good estimate of the extent to which benefits of the closed group are funded by members of the closed group. The open group measure is inherently more sensitive to assumptions about the distant future than the closed group measure. The open group measure gives a more complete assessment of the long-term financial stability of the program because it includes all those who are projected to be participants in the program over the given projection period, whether paying payroll taxes or receiving benefits.

The net present value of estimated future expenditures less estimated future revenue (net expenditures) for all participants over the next 75 years (open group) changed from $24.9 billion as of September 30, 2016 to $26.6 billion as of September 30, 2017, a net change in the open group measure of $1.8 billion, when rounded.

As can be seen on the Statement of Changes in Social Insurance Amounts, a change in the open group measure of about $2.0 billion is due to changes in economic data, assumptions and methods. Select and ultimate assumptions for Cost-of-Living Adjustment (COLA) and wage increase rates were updated in 2018, as described in the footnotes to the Statement of Changes in Social Insurance Amounts. The change in the valuation period (from fiscal years 2017-2091 to fiscal years 2018-2092) resulted in a change of $(0.6) billion in the open group measure. There were no changes in demographic assumptions, but there were updates to demographic data. Changes in demographic data, assumptions and methods, resulted in a change of about $0.3 billion. This year there were no changes in law, policy or methodology and programmatic data.

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 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.

TABLE OF KEY MEASURES

Dollars in ***MILLIONS***	As reported in FY 2018	As reported in FY 2017	Increase / (Decrease) $	%
COSTS[1]				
Total Financing Sources	$13,310.6	$14,334.5	(1,023.9)	(7.1)
Less: Net Cost	$13,051.1	$12,797.9	253.2	2.0
Net Change of Cumulative Results of Operations	$259.5	$1,536.6	(1,277.1)	(83.1)
NET POSITION[2]				
Assets	$33,493.4	$32,992.2	501.2	1.5
Liabilities	$5,867.2	$5,610.3	256.9	4.6
Net Position (Assets minus Liabilities)	$27,626.2	$27,381.9	244.3	0.9

Dollars in ***BILLIONS***	10/1/2017	10/1/2016	Increase / (Decrease) $	%
SOCIAL INSURANCE[3]				
Social Insurance Net Expenditures (Open Group)	$26.6	$24.9	1.8	7.1

1 Source: Consolidated Statement of Net Cost and Statement of Changes in Net Position.

2 Source: Consolidated Balance Sheet.

3 Source: Statement of Social Insurance (SOSI). In prior years, social insurance amounts covered calendar year timeframes January 1 through December 31. Beginning in 2016, social insurance amounts are on a fiscal year basis, from October 1 through September 30. Amounts equal estimated present value of projected revenues and expenditures for scheduled benefits over the next 75 years. The SOSI shows future revenue less future expenditures while the Key Measure above shows future expenditures less future revenue. This change in presentation is done to eliminate any ambiguity in the interpretation of percentage changes in negative amounts. Note that detail may not add to total due to rounding.

Analysis of Systems, Controls and Legal Compliance

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 (A), we are issuing a modified statement of assurance considering the Office of Inspector General (OIG) asserted 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 laws, 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 Government Performance and Results Act and OMB Circular No. A-11.

4. The OIG auditors previously asserted that material weaknesses existed in financial reporting and the control environment. In 2018, the OIG asserted that a new material weakness existed which merged the control environment material weakness into a new material weakness called "deficient internal controls at the agency-wide level." We disagree that the asserted deficiencies rise to the level of material weakness.

Description of OIG Asserted Material Weaknesses

Since 2014, the OIG asserted a material weakness existed in financial reporting. The OIG asserted that this material weakness is due to ineffective controls and lack of access to National Railroad Retirement Investment Trust's auditor. Specifically, the OIG continues to demand that the American Institute of Certified Public Accountants (AICPA), Clarified Statements on Auditing Standards has legal precedence over the National Railroad Retirement Investment Trust's establishing statute.

In 2018, OIG presented their latest iteration of material weakness called "deficient internal controls at the agency-wide level." However, the OIG did not provide any evidence to support the newly asserted material weakness other than to suggest that the previous control environment material weakness, asserted since 2016, will be incorporated into this new, broader material weakness.

Original signed by:

Walter A. Barrows, Labor Member
Steven J. Anthony, Management Member

Management Control Review Program

Internal control is a process effected by an entity's oversight body, management, and other personnel that provides reasonable assurance that the objectives of the entity will be met. We have a well-established agency-wide management control program as required by the *Federal Managers' Financial Integrity Act* (FMFIA). To achieve the goals of the FMFIA, RRB program and administrative activities incorporate internal controls that ensure 1) accountability for mission accomplishment, 2) continual monitoring and periodic control testing, 3) weaknesses are identified and corrected, and 4) appropriate levels of management are informed and positioned to act timely to prevent or correct problems and initiate improvements.

Our managers are responsible for ensuring effective internal control in their areas of operation. Those managers provide annual certifications that attest to the effectiveness of their controls and operations. Organizational heads also submit annual certifications to the Board providing reasonable assurance that 1) obligations and costs are in compliance with applicable law; 2) funds, property, and other assets are safeguarded against waste, loss, unauthorized use, or misappropriation; 3) revenues and expenditures applicable to agency operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the assets; and 4) programs are efficiently and effectively carried out in accordance with applicable laws and management policies. Our Management Control Review Committee ensures our compliance with FMFIA and other related legislative and regulatory requirements.

Financial Statement Audit

For fiscal year 2018, the Office of Inspector General (OIG) will again render a disclaimer of opinion on the RRB's financial statements, as has been done since fiscal year 2013. As a basis for the disclaimer of opinion, the OIG contends that they require access to the National Railroad Retirement Investment Trust's auditor in order to comply with American Institute of Certified Public Accountants (AICPA) group financial statement auditing standards.

We continue to reiterate to the OIG that the Railroad Retirement and Survivors' Improvement Act of 2001 (RRSIA)[1] amended the Railroad Retirement Act (RRA) by adding section 15(j) that provided for the establishment of the National Railroad Retirement Investment Trust (NRRIT).[2] NRRIT was created to "manage and invest"[3] the funds of the railroad retirement system for the purpose of providing railroad retirement benefits administered by the Railroad Retirement Board.[4] We further emphasized that the statute provides that NRRIT is not a "**department, agency, or instrumentality of the Government of the United States and shall not be subject to title 31, United States Code**."[5] (Emphasis added.) Title 31 governs monetary and financial matters within the Federal Government.[6] By inclusion of the provision that NRRIT "shall not be subject to title 31," Congress made clear that control normally exercised over government agencies through the budgeting, appropriation, and auditing functions of the Federal Government would not apply to NRRIT. Further, the Memorandum of Understanding (MOU) between the NRRIT and the U.S. Government Accountability Office (GAO) dated October 31, 2018, states that "[t]here is no other legal basis or requirement for the Trust [NRRIT] to provide financial

[1] Pub. L. 107-90, 115 Stat. 878 (2001).
[2] *See* section 15(j) of the RRA, 45 U.S.C. § 231n(j).
[3] *Id.* § 15(j)(1).
[4] *Id.* § 15(j)(4)(G).
[5] *Id.* § 15(j)(2).
[6] 31 U.S.C. *et. seq.*

information to another party outside of that which is specified in the Act [RRSIA]."[7] RRB's position on this matter has been, and will continue to be, that contact between the OIG and the NRRIT auditor is inconsistent with section 15(j) of the RRA, which provides for an independent status of the NRRIT. The MOU dated October 31, 2018, demonstrates GAO's agreement with the RRB's interpretation of NRRIT's establishing legislation; therefore, the RRB rejects the OIG's inclusion of this matter as both a basis for a disclaimer of opinion on RRB's financial statements and as a component of the financial reporting material weakness.

The OIG asserts that two material weakness exist; the first, which was cited in prior years, relates to financial reporting and has two components (1) ineffective internal controls and (2) lack of access to the National Railroad Retirement Investment Trust's auditor. In 2018, the OIG presented their second material weakness called "deficient internal controls at the agency wide level." This iteration of material weakness was transmitted to the RRB via their "Fiscal Year 2018 Financial Statement Audit - Interim Internal Control Findings" memorandum dated October 17, 2018. The interim internal control memorandum does not provide any evidence to support the newly asserted material weakness, it merely 1) defines the five components that represent the highest standard for internal control in the Federal Fovernment, 2) implies that the RRB did not meet those standards, and 3) states that their previously cited material weakness, the control environment material weakness, will be addressed in this broader material weakness.

We continue to make improvements to internal controls through policy and procedure revisions and emphasis on employee development. In 2018, we added two new senior accountant positions to enhance operating efficiency. Also, in fiscal year 2018, we automated and implemented the financial statement note *Budget and Accrual Reconciliation.* Since 2016, we have continued our quality assurance reviews, which focused on voucher processing internal controls to address OIG concerns. These actions have improved the accuracy and completeness of recorded amounts and the overall effectiveness of financial reporting internal controls. While the OIG has identified some internal control errors, the OIG has not questioned the validity, accuracy, or completeness of the transactions reflected in the financial statements. Therefore, we reject the OIG characterization that this rises to the level of a material weakness.

Financial Management Systems Strategy

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 remote servers, mainframe, local area network and personal computer systems.

The RRB's financial management system uses a comprehensive proprietary software application from CGI Federal – Momentum Enterprise Solution – that resides on a cloud hosting service. The RRB's system is referred to as the Financial Management Integrated System (FMIS). Momentum meets the core financial system requirements set by the Financial Systems Integration Office (FSIO) and is Federal Enterprise Architecture compliant. The hosting service is also provided by CGI Federal which is a commercial shared service provider for financial

[7] MOU for the *NRRIT Inclusion in Government-Wide financial Statements and GAO Access to Information,* entered into by the National Railroad Retirement Investment Trust (NRRIT) and the U.S. Government Accountability Office (GAO), dated October 31, 2018.

system services. Its cloud system has achieved compliance with the General Services Administration's (GSA) FedRAMP security requirements and is an authorized cloud service provider.

FMIS supports the RRB's budget formulation and execution, general ledger and trust fund accounting, procurement, contract management, fixed assets and administrative accounts payable and receivable requirements. The RRB successfully migrated its previous legacy Program Accounts Receivable system to FMIS, which supports management of receivables arising from benefit payment programs and complies with debt collection legislation. In addition, the RRB, with the support of its shared service provider, successfully met the reporting requirements for the Data Accountability and Transparency Act (DATA Act). The RRB has also invested in system upgrades to support electronic invoicing in accordance with mandates from Treasury's Fiscal Service.

The RRB currently utilizes both commercial and Federal shared service providers for other E-Government functions, including payroll (GSA), travel (CWTSatoTravel) and employee relocation services (Bureau of the Fiscal Service). In 2018, the human resources shared service was transferred by the RRB's previous provider (GSA) to IBM. The payroll and travel functions are integrated with FMIS through electronic interfaces. The RRB also signed an Agency Participation Agreement with Treasury's Fiscal Service to interface its financial system with Treasury's Invoice Processing Platform as its strategy to be compliant with the requirement for all agencies to move to a standard platform to electronically process vendor invoices.

Forward-Looking Information

Information Technology Modernization

Our mission essential programs are straining under the burden of being maintained by legacy computer systems built 40 years ago. To continue providing the excellent service to our beneficiaries, our IT modernization efforts are being leveraged to transform these legacy systems and build modern digital services while safeguarding information anywhere, anytime, in all ways throughout the information life cycle. As part of modernization, we have an opportunity to consolidate network services, to re-architect and modernize our network infrastructure. With the emerging cloud solutions, we optimize our network backbone connectivity to overcome latency issues when our users will access modern Cloud Services. With ever increasing IT security and privacy risks, we make our systems and processes more robust with advanced privacy and security controls. This IT modernization is an iterative and incremental approach to show success, communicate these successes across the agency to gain support, and build confidence to accomplish the remaining larger critical tasks.

In the upcoming year, by using re-platform software, we will transition mission essential programs (*9 million lines of legacy COBOL*) from the End-of-Life mainframe hardware. Within 15 to 18 months, we plan to re-platform the legacy mainframe applications, currently developed using COBOL/CICS/DB2, to a Microsoft Server Operating System. Simultaneously, we will contract with subject matter experts to conduct a business process re-engineering of our mission essential services and create a 'blueprint' that will outline the transition from batch oriented processing to interactive transactional processing, and leverage shared services and cloud based services as appropriate.

Human Capital Management

The agency's dedicated, experienced employees have been the foundation for our outstanding track record in customer service and satisfaction. However, we recognize that there is an ongoing need and responsibility to effectively manage our human capital resources. This is particularly important given the number of RRB employees who have recently retired and those who are eligible for retirement over the next four years. We have been working closely with OPM, as well as OMB, to develop long-range plans that will position the agency for continued success in administering our programs.

In particular, the RRB has been focusing on strategic management of human capital. The RRB has developed a comprehensive plan which outlines the agency's human capital policies, programs and practices as they support this Strategic Plan. This includes a detailed analysis of the demographic features of the RRB workforce and the skills needed to fulfill our mission. It also establishes a framework of actions over the planning period that will assist the RRB in recruiting, retaining and developing talented employees. This includes a Hiring Reform Action Plan designed to simplify and streamline the hiring process. Key challenges facing the agency include an aging workforce, employee attrition and the increasing complexity of information technology needs.

Summary of Actuarial Forecast

The Statement of Social Insurance (SOSI) presents an actuarial analysis of the financial position of the railroad retirement system as of October 1, 2017, 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 during fiscal years 2018-2092, 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 three employment assumptions for the 11 fiscal years 2018-2028. The results indicate that the Railroad Unemployment Insurance (RUI) Account will remain solvent during the 11-year projection period.

Limitations of the Financial Statements

The limitations of the principal financial statements are as follows:

The principal financial statements are prepared to report the financial position and results of operations of the reporting entity, pursuant to the requirements of 31 U.S.C. § 3515(b). The statements are prepared from the books and records of the entity in accordance with Federal Generally Accepted Accounting Principles and the formats prescribed by OMB. Reports used to monitor and control budgetary resources are prepared from the same books and records. The financial statements should be read with the realization that they are for a component of the U.S. Government.

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PERFORMANCE SECTION

GOVERNMENT PERFORMANCE AND RESULTS ACT (GPRA) REPORT

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Performance Section – Government Performance and Results Act Report

The following performance report is based on the major goals and objectives for fiscal year 2018 from the RRB's Annual Performance Plan. 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 plan 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.

To date, 29 automated ERSNet services exist for employers to notify, request or provide a means for correcting and transmitting data electronically to and from the RRB. An additional service will be added this year with the completion and implementation of the Suspense and Error Tracking Program (SETS). This process will allow employers to have immediate access to correct suspended transactions on their employee's records. This addition will bring the total number of available services to 30 in the ERSNet system.

The RRB will continue to pursue enhancements in fiscal year 2019 with the development and implementation of the Form G-117a, Designation of Contact Officials. Use of this form will allow employers to quickly provide updated information on changes to the responsible officials in their organizations. This will add one more service to the system.

In fiscal year 2020, RRB in-house staff will develop on-line ERSNet processes for the Form RL-13g, Notice to Employer of Relinquishment of Rights of Disability Annuitant Who Attained Age 65, and the AESOP, Employee Retirement Estimate File.

Our Citizen Services Improvements initiative was started in 2016 to provide RRB customers additional online services to securely file for retirement benefits. This digital service enables railroad workers to submit their application for an employee retirement annuity to the RRB through an online application. The online retirement application service will utilize the U.S. General Services Administration (GSA) Login.gov solution for identity proofing and multi-factor authentication services. The Login.gov service will identity proof individuals who seek benefits or services from Federal agencies. Rather than requiring individuals to have a separate login process to access each Federal agency's electronic system, GSA is creating a process that allows individuals to access information or request services from any of the different federal agencies that have opted to use Login.gov with a single sign-on. We will monitor customer satisfaction via the American Customer Satisfaction Index, a national indicator of customer evaluations of the quality of goods and services available to U.S. residents. Survey results from 2015 will form the baseline for customer satisfaction improvements.

Work continued on SPEED, 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 is being built in a multi-phase approach. During fiscal year 2017, we continued work with the contractor to automate the last pre-retirement non-railroad employer and regular permanent work deductions which is the most complex phase of the SPEED project to-date.

In fiscal year 2018, we completed and placed into production the SPEED version which:

- Processes an award or non-award for single annuitants only (employee only and spouse only) in response to a retirement final work report being submitted (i.e., handles retirement permanent work deductions for one annuitant).

- Processes an award or non-award for employee annuitants whose own earnings affect the employee and their associated spouse in response to final work report being submitted (i.e., handles retirement permanent work deductions for the employee and their spouse).

- Releases letters to notify annuitants of actions.

- Releases overpayment letters to annuitants as well as posts the overpayment to the Federal Management Integrated System (FMIS) through the Overpayment Recovery Correspondence System (ORCS).

- Establishes referrals for cases that SPEED cannot handle.

We will continue to work on SPEED to process awards for the most difficult category involving earnings in response to retirement final work report on the employee and their associated spouse or divorced spouse.

Work continued during fiscal years 2017 and 2018 on an enhanced automated retirement payment system which will replace the current legacy system that processes retirement applications (commonly referred to as Retirement Adjudication System Initial to Application Express [RASI to APPLE] Conversion). The enhanced process will improve the accuracy and efficiency of initial retirement claims. The new system will also allow for the payment of such application types as divorced spouse annuitants, which previously could not be processed automatically. On June 29, 2018 (fiscal year 2018), we completed and implemented the enhanced system. The new system now processes all Retirement Initial applications for recurring annuities and Retirement Initial Medicare applications. The new system allows us to automatically process certain cases that used to require manual handling, such as Railroad Retirement and Survivors' Improvement Act (RRSIA) cases, employee cases involving legal process, divorced spouse cases, and automatically adjusted cases with an accrual greater than $25,000. Additional future enhancements to the new system will be determined.

On April 19, 2017 (fiscal year 2017), we completed and implemented phase three of the Overpayment Recovery and Correspondence System to support Medicare billing and overpayments.

In fiscal year 2012, work began on a project to enhance our EDP policing program, which will address the internal handling and automatic matching of earnings information received from our data match with SSA. The first phase involved the automation and capture of excess and last person employer earnings information stored on the Retirement On-Line Calculations (ROC) system, an on-line system for calculating and paying retirement annuities. Fiscal year 2015 saw the completion of phase two, which integrated the ROC data file into EDP Policing processing to filter out records properly adjudicated using the SSA earnings amount. In fiscal year 2016, we completed work to integrate data from our Payment, Rate, and Entitlement History database to further filter out records in which the annuitant is not subject to excess earnings policing; this allowed us to eliminate redundant information and reduce the number of records referred to the claims adjudication units. In fiscal year 2017, we began work to extract data from SPEED processing to eliminate records where earnings reports have already been received. This work was completed in June 2018.

Sequestration of RUIA Benefits

Under provisions of the Budget Control Act of 2011 (BCA), across-the-board cuts in Federal spending took effect March 1, 2013. While railroad retirement, survivor and disability payments are not affected by this measure, unemployment and sickness insurance benefits payable under the RUIA are impacted. Benefits payable for days October 1, 2017, through September 30, 2018, are being reduced by 6.6 percent. The reduction is required by the sequestration order issued by the President in accordance with the BCA. For fiscal year 2019, a sequestration reduction of 6.2 percent will be applied starting on October 1, 2018, and beyond.

Succession Planning and Training

Strategic Management of Human Capital – Like many agencies, the RRB has an aging workforce. About 50 percent of our employees have 20 or more years of service and over 26 percent of the current workforce will be eligible for retirement by the end of fiscal year 2018. To prepare for the expected turnover, the agency is placing increased emphasis on strategic management of human capital. We have completed a workforce analysis that identifies historical data, trends and projected attrition to evaluate and prioritize future needs and vacancies in our workforce. The results from this analysis form the basis for formulating specific strategies, hiring plans and initiatives that will support the agency's succession plan. A methodology for measuring skill gaps continues to be developed. Once final, RRB will utilize our Learning Management System (LMS) to implement the methodology. This process will allow the RRB to continuously and accurately identify skill gaps at the individual level and take the necessary training and development steps to address skill deficiencies. It also identifies areas of new skills that may need to be addressed through outside hires.

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 and have provided meaningful development programs for our employees. We have re-established the Training and Development Section within the Bureau of Human Resources. This section is charged with creating, implementing and modifying the overall training and development policies, procedures and programs within the Agency. Its goal is to create developmental opportunities to assist agency employees in building the competencies needed to achieve our mission, values and strategic goals. We utilize the results from training needs assessments and surveys to prioritize these needs. We are also making use of technology in this area, utilizing the LMS, an internet-based program which effectively formalizes all aspects of training for all agency employees, while also providing self-assessments to the student and feedback to supervisors on their progress. In addition, all field managers now have access to the latest webinar technology to facilitate the remote training of new employees, as well as the ongoing training of experienced field staff. These initiatives are particularly useful to employees and managers in the agency's field offices.

Systems Security

We continue to make progress towards a compliant Information Security program to improve the RRB's security posture. The RRB implemented an Information Security Continuous Monitoring (ISCM) Strategy as outlined in OMB Memorandum M-14-03: Enhancing the Security of Federal Information and Information Systems. This strategy addressed the gaps in the Information Security program. We partnered with the Department of Homeland Security (DHS) in the Continuous Diagnostic and Mitigation (CDM) program. This partnership with DHS will further improve our Information Security program pertaining to vulnerability assessment, hardware and software management, configuration management, and privileged account management. We also enrolled in the DHS EINSTEIN-3 Accelerated (E3A) program that ensures all of the Domain Name System (DNS) and Simple Mail Transfer Protocol (SMTP) are monitored by these services.

We continue to manage the risk of the critical infrastructure considering asset management, remote access, identity management, and network protection. Specifically:

- Assessment Management – we have enrolled in the DHS CDM Continuous Monitoring as a Service (CMaaS) to provide better visibility of current hardware and software and to automatically detect unauthorized hardware and software. The CDM solution is scheduled to be implemented in December 2017.

- Identity Management – we now have a multi-factor authentication solution in place and as part of CMaaS, we will be implementing credential management for general users and privileged access management for system administrators.

- Remote Access – we deployed managed services for hardware encryption and have upgraded our Cisco ASA firewalls to strengthen information security controls for VPN remote access.

- Network Protection – as part of CMaaS, we will further improve the Defense in Depth configuration in place, namely the Intrusion Prevention System (IPS), Network Access Control (NAC), and the Security Information and Event Management (SIEM).

Program Evaluations

Program Evaluation	Results in Fiscal Year 2018
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 2018, concludes that, barring a sudden, unanticipated, large drop in railroad employment or substantial investment losses, the railroad retirement system will experience no cash flow problems during the next 29 years' employment assumptions. 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 2018, addresses the 11 fiscal year period 2018 through 2028. The report indicated that even as maximum benefits are expected to increase 51 percent from 2018 to 2028, 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	Our most recent program integrity report was for fiscal year 2016. It showed that program integrity activities resulted in the establishment of about $10.3 million in recoverables, recoveries of $9.2 million, benefit savings of $1.6 million, and 22 cases referred to the Office of Inspector General.
Quality assurance reviews and special studies	RRA and RUIA 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. Initial disability determination accuracy is evaluated by quality assurance staff within PEMS and by an external contractor (Juncture). 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. Case review audits were completed in 2000 and 2008; the agency is in its third year of a contract with the advisory doctors. In FY 2018, the advisory doctors completed their final report on the 100 case review to determine the effectiveness of Specialist Consultative Examinations.

Program Evaluation	Results in Fiscal Year 2018
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	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	See pages 39 through 41 of this section.
Payment integrity evaluation	See "Payment Integrity" in the "Other Information" section.
RRB Office of Inspector General audits	See "Inspector General's Statement on Management and Performance Challenges" and "Management's Comments" in the "Other Information" section.

The next page begins a consolidated presentation of our actual performance for fiscal years 2015 through March 31, 2018 (except as noted), followed by a discussion of our unmet performance goals and objectives for fiscal year 2017. At the time this report was prepared, we had incomplete information on our fiscal year 2018 performance. The discussion of any unmet fiscal year 2018 performance goals and indicators will be presented in next year's report. This performance report was prepared by RRB employees.

Railroad Retirement Board Fiscal Year 2018 Performance Plan	2015 Actual (At $111.225m)	2016 Actual (At $111.225m)	2017 Actual (At $113.5m)	2018 Planned [1/] (At $123.5m[2/])	2018 Actual [1/] (At $123.5m[2/])
STRATEGIC GOAL I: Modernize Information Technology (IT) Operations to Sustain Mission Essential Services					
Strategic Objective: Legacy Systems Modernization Goal leader: Ram Murthy, Chief Information Officer					
I-A-1. Transform Tax and EDM systems (3 million lines of legacy COBOL) from the mainframe to distributed architecture.	New Performance Goal for FY 2018	New Performance Goal for FY 2018	New Performance Goal for FY 2018	Measure: Transformation Complete	Tax: 100% EDM: New Strategic direction, see I-A-4
I-A-2. Deliver online retirement forms (AA-1, AA-3) as citizen-centric digital solutions.	New Performance Goal for FY 2018	New Performance Goal for FY 2018	New Performance Goal for FY 2018	Measure: Online Service delivered	AA-1: Complete AA-3: 100%
I-A-3. Transition Mission Essential Programs from the End-of-Life Mainframe hardware.	New Performance Goal for FY 2019	New Performance Goal for FY 2019	New Performance Goal for FY 2019	New Performance Goal for FY 2019	New Performance Goal for FY 2019
I-A-4. Complete the assessment for re-engineering Mission Essential Programs.	New Performance Goal for FY 2019	New Performance Goal for FY 2019	New Performance Goal for FY 2019	New Performance Goal for FY 2019	New Performance Goal for FY 2019
I-A-5. Complete the migration of agency network and telecommunication services to new services in EIS.	New Performance Goal for FY 2019	New Performance Goal for FY 2019	New Performance Goal for FY 2019	New Performance Goal for FY 2019	New Performance Goal for FY 2019

Railroad Retirement Board Fiscal Year 2018 Performance Plan	2015 Actual (At $111.225m)	2016 Actual (At $111.225m)	2017 Actual (At $113.5m)	2018 Planned [1/] (At $123.5m[2/])	2018 Actual [1/] (At $123.5m[2/])
STRATEGIC GOAL II: Provide Excellent Customer Service					
Strategic Objective: Pay benefits timely. Goal leader for objectives II-A-1 through II-A-5; II-A-7 and II-A-8: Michael Tyllas, Director of Programs Goal leader for objective II-A-6: Daniel Fadden, Director of Field Service Goal leader for objective II-A-9: Rachel L. Simmons, Director of Hearings and Appeals					
II-A-1. 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: % ≤ 35 days)	95.8%	94.0%	95.0%	94.0%	95.1%
II-A-2. 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: % ≤ 60 days)	96.5%	96.3%	95.5%	94.0%	96.5%
II-A-3. 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)	94.3%	96.0%	96.9%	94.0%	95.9%

Railroad Retirement Board Fiscal Year 2018 Performance Plan	**2015 Actual (At $111.225m)**	**2016 Actual (At $111.225m)**	**2017 Actual (At $113.5m)**	**2018 Planned [1/] (At $123.5m[2/])**	**2018 Actual [1/] (At $123.5m[2/])**
II-A-4. RRB makes a decision to pay, deny or transfer to SSA an initial annuity application for a railroad retirement survivor already receiving benefits as a spouse within 30 days of the RRB's receipt of first notice of the employee's death. (Measure: % ≤ 30 days)	95.5%	95.1%	96.1%	93.5%	96.1%
II-A-5. RRB makes a decision to pay or deny a lump sum death benefit within 60 days of the date the application was filed. (Measure: % ≤ 60 days)	98.1%	98.0%	97.5%	97.0%	97.2%
II-A-6. 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 days)	99.9%	99.9%	99.9%	98.0%	99.9%
II-A-7. 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)	31.0%	17.4%	14.7%	70.0%	10.2%
II-A-8. 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)	95.8%	92.6%	92.5%	93.5%	90.2%
II-A-9. Reduce the number of days elapsed between the date the appeal is filed and a decision is rendered. (Measure: average elapsed days)	261	239	217	250	211

Railroad Retirement Board Fiscal Year 2018 Performance Plan		2015 Actual (At $111.225m)	2016 Actual (At $111.225m)	2017 Actual (At $113.5m)	2018 Planned [1/] (At $123.5m[2/])	2018 Actual [1/] (At $123.5m[2/])
Strategic Objective: Provide a range of choices in service delivery methods. Goal leader: Michael Tyllas, Director of Programs						
II-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)		19 services available	19 services available	19 services available	20 services available	19 services available
II-B-2. Enable employers to use the Internet to conduct business with the RRB, in support of the Government Paperwork Elimination Act. (Measures: percentage of employers who use the on-line ERS; number of services available through electronic media)	a) Employers using ERS:	99.0%	99.0%	99.0%	99.0%	99.0%
	b) Internet services:	27 Internet services available	27 Internet services available	29 Internet services available	30 Internet services available	29 Internet services available
STRATEGIC GOAL III: Serve as Responsible Stewards for Our Customers' Trust Funds and Agency Resources						
Strategic Objective: Ensure that trust fund assets are protected, collected, recorded, and reported appropriately. Goal leader: Shawna Weekley, Chief Financial Officer						
III-A-1. Debts will be collected through billing, offset, reclamation, referral to outside collection programs, and a variety of other collection efforts. (Measure: total overpayments recovered in the fiscal year / total overpayments established in the fiscal year.)		99.58%	90.73%	92.14%[3/]	85.00%	91.70%

Railroad Retirement Board Fiscal Year 2018 Performance Plan		**2015 Actual (At $111.225m)**	**2016 Actual (At $111.225m)**	**2017 Actual (At $113.5m)**	**2018 Planned [1/] (At $123.5m[2/])**	**2018 Actual [1/] (At $123.5m[2/])**
Strategic Objective: Ensure the accuracy and integrity of benefit programs. Goal leader III-B-1(a)(b) and III-B-3, 4, and 5: Michael Tyllas, Director of Programs Goal leader III-B-2a: Dan Fadden, Director of Field Service Goal leader III-B-2b: Micheal Pawlak, Director of Unemployment Payment Support Division						
III-B-1. Achieve a railroad retirement benefit payment accuracy rate [4/] of at least 99%. (Measure: percent accuracy rate)	a) Initial payment	99.72%	99.69%	98.89%	99.50%	99.90%
	b) Sample post recurring payments	99.91%	99.70%	99.94%	99.50%	99.99%
III-B-2. Achieve a railroad unemployment/sickness insurance benefit payment accuracy rate [4/] of at least 99%. (Measure: percent accuracy rate)	a) Unemployment	99.23%	99.36%	97.24%	97.00%	96.67%
	b) Sickness	99.40%	99.94%	99.08%	99.50%	100%
III-B-3. Overall Initial Disability Determination Accuracy. (Measure: % of Case Accuracy)		95.8%	94.40%	94.40%	96.00%	Not Available
III-B-4. Maintain the level of RRA improper payments below the OMB threshold. (Measure: prior to fiscal year 2014, below 2.5%; beginning fiscal year 2014, below 1.5%)		0.58%[5/]	0.60%	Reporting relief granted by OMB	1.00%	Reporting relief granted by OMB
III-B-5. Achieve a return of at least $3.60 for each dollar spent on program integrity activities. (Measure for fiscal year 2011: recoveries and savings per dollar spent. Measure for fiscal years 2012 and following: recoverables and savings per dollar spent)		$4.49: $1.00	$4.18: $1.00	Not Available	$3.85: $1.00	Not Available

Railroad Retirement Board Fiscal Year 2018 Performance Plan		**2015 Actual (At $111.225m)**	**2016 Actual (At $111.225m)**	**2017 Actual (At $113.5m)**	**2018 Planned [1/] (At $123.5m[2/])**	**2018 Actual [1/] (At $123.5m[2/])**
Strategic Objective: Ensure effectiveness, efficiency, and security of operations. Goal leader: Ram Murthy, Chief Information Officer						
III-C-1. Complete modernization of RRB processing systems in accordance with long-range planning goals. (Measure: Meet target dates for the project. Yes/No)		Yes. The target date for the RUIA XR modernization and Medicare Database conversion has been met. PREH conversion is delayed due to staff working on higher priority project. The new target date is September 30, 2016.	No. The modernization of the Tax Database will now be incorporated in the multi-year Mainframe Applications Re-engineering project.	Project complete	Project complete	Project complete
III-C-2. Deliver – Deliver on Budget. Percent of IT Projects costs within 10% of budgeted costs.		New Performance Goal for FY2016	100%	100%	85%	85%%
III-C-3. Deliver – Meet Customer Expectations. www.RRB.gov Internet Services (Mainline and Employer Reporting System) continuous availability experienced by end users.	a. Continuous availability target	New Performance Goal for FY 2016	98.72%	99.20%	99%	98.92%
	b. Hours of outage allowed per month	New Performance Goal for FY 2016	9.38 hours	6.52 hours	7 hours	7.77 hours

Railroad Retirement Board Fiscal Year 2018 Performance Plan	**2015 Actual (At $111.225m)**	**2016 Actual (At $111.225m)**	**2017 Actual (At $113.5m)**	**2018 Planned [1/] (At $123.5m[2/])**	**2018 Actual [1/] (At $123.5m[2/])**
III-C-4. Innovate – Design for Modularity. Strategy for Continuity of Operations Improvements.	New Performance Goal for FY 2016	New Performance Goal for FY 2016	No.	Complete applying HTTPS-only standard to www.rrb.gov	Completed applying HTTPS-only standard to www.rrb.gov
III-C-5. Innovate – Adopt New Technologies. Percentage of investments that evaluated cloud alternatives.	New Performance Goal for FY 2016	New Performance Goal for FY 2016	50%	98.5%	91.67%
III-C-6. Protect – Email Data Loss Prevention. Percentage of externally bound emails and their attachments automatically encrypted that contain personally identifiable or credit card information.	New Performance Goal for FY 2016	New Performance Goal for FY 2016	99.82%	99%	99.93%
III-C-7. Protect – Percentage of agency employees required to use a Personal Identity Verification card to authenticate.	New Performance Goal for FY 2016	New Performance Goal for FY 2016	74%	Unprivileged Network Users $\geq$ 85% Privileged Network Users 100%	77%
Strategic Objective: Effectively carry out responsibilities with respect to the National Railroad Retirement Investment Trust. Goal leader: Ana M. Kocur, General Counsel					
III-D-1. Timely review information reported by the National Railroad Retirement Investment Trust to carry out RRB's oversight responsibility under section 15(j)(5)(F) of the Railroad Retirement Act. Reports are to be reviewed within 30 days of receipt. (Measure: Yes/No)	Yes	Yes	Yes	Yes	Yes

Footnotes:

1/ Planned amounts reflect the fiscal year 2018 performance targets shown in the RRB's Congressional Justification of Budget Estimates, released on February 12, 2018. Unless otherwise noted, actual results represent status as of March 31, 2018, and as reported in the RRB's FY 2020 Budget Submission, dated September 14, 2018.

2/ Public Law 115-141, *Consolidated Appropriations Act, 2018*, provided $123,500,000 in funding and includes $10,000,000 devoted specifically to RRB information technology investment initiatives. The $10,000,000 will remain available until expended.

3/ The percentages under the 2017 Planned and Actual columns for III-A-1 were incorrectly reported in the fiscal year 2017 Performance and Accountability Report. The correct fiscal year 2017 goal was 85.00%. The actual figure for 2017 has been updated to reflect the correct year-end percentage (92.14%). This goal was met.

4/ The payment accuracy rate is the percentage of dollars paid correctly as a result of adjudication actions performed.

5/ Actual IP rate for fiscal year 2015 was adjusted to accurately show that fiscal year data reviewed matches the fiscal year data reported.

Discussion of Unmet Performance Goals and Indicators for Fiscal Year 2017

INDICATOR	DISCUSSION OF VARIANCE
Performance Indicator II-A-5. RRB makes a decision to pay or deny a lump sum death benefit within 60 days of the date the application was filed. (Measure: % ≤ 60 days) Our fiscal year 2017 goal was 98.0% and the actual was 97.5%.	The Retirement and Survivor Benefits Division (RSBD), specifically the Survivor Benefits Division (SBD), did not meet its goal of 98.0% for lump sum death payments because 53% of the staff processing the work consisted of new hires in an initial training class, with limited adjudicative experience. We were also short staffed in the post section comprised of examiners that authorize the work.
Performance Indicator II-A-7. 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) Our fiscal year 2017 goal was 70.0%, and the actual was 14.7%.	DBD did not reach its goal of 70% initial filings rated within 100 days due to DBD's focus on decreasing backlogged cases; specifically, cases with filing dates 2015 and earlier. At the start of the fiscal year, there were 376 cases with filing dates before 2015. At the close of the fiscal year, there were 49 cases which equates to an 87% decrease. Fiscal year 2017 started with more than 1,295 cases from fiscal year 2016. This increased up to more than 1,500 cases pending examiner action in December 2016. At the end of fiscal year 2017, DBD had 567 cases from 2016, a 63% decrease from December 2016.
Performance Indicator II-A-8. 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) Our fiscal year 2017 goal was 94.5%, and the actual was 92.5%.	This payment goal is shared by both the Retirement Benefits Division (RBD) and the Survivor Benefits Division (SBD) initial staff. RSBD did not meet our shared goal of 94.5% because 42% of the RBD staff and 53% of the SBD staff, processing the work, consisted of new hires in an initial training class with limited adjudicative experience. RBD and SBD were also short staffed in the post sections comprised of examiners that authorize the work.
Performance Indicator III-B-1a. The RRB achieves a railroad retirement benefit payment recurring accuracy rate of at least 99% for initial payments. (Measure: Percent accuracy rate) Our fiscal year 2017 goal was 99.60%, and the actual was 98.89%.	Our railroad retirement initial benefit payment recurring accuracy rate is determined by a sample review. The performance goal was set at an approximate target level, and the deviation of 0.71% was not statistically significant related to our projected accuracy range. There was no effect on overall program or activity performance.

INDICATOR	DISCUSSION OF VARIANCE
Performance Indicator III-B-2a. Achieve a railroad unemployment insurance benefit payment accuracy rate of at least 99%. (Measure: percent accuracy rate) Our fiscal year 2017 goal was 99.60%, and the actual was 97.24%.	Field Service has been experiencing high attrition rates over the last few years. Until recently, we have been able to hire new Claim Representatives each year to replace staff who retired or accepted other Federal jobs. However, in FY 2017 we were not able to add any new hires due to budgetary constraints and in the interim, lost an additional 26 FTEs in Field Service. The ongoing loss of experienced Field Service employees, in addition to being unable to add any hires since FY 2016, are both directly attributable to the decrease seen in the unemployment payment accuracy rate in fiscal year 2017.
Performance Indicator III-B-2b. Achieve a railroad sickness insurance benefit payment accuracy rate of at least 99%. (Measure: percent accuracy rate) Our fiscal year 2017 goal was 99.50%, and the actual was 99.08%.	The sickness claim process was brought back from Field Service to headquarters on January 17, 2017. In addition, the Sickness and Unemployment Benefits Section (SUBS) has had back-to-back training classes in fiscal years 2015 and 2016. The combination of having new staff with little adjudicative experience in SUBS and learning a new process that was previously handled in Field Service resulted in the missed 99.50% accuracy target. We expect that moving forward as new examiners gain a better understanding of the adjudicative process and become more familiar with the processing of sickness claims the accuracy level will increase and SUBS will meet and/or exceed the 99.50% accuracy target.
Performance Indicator III-B-3. Overall Initial Disability Determination Accuracy. (Measure: % of Case Accuracy) Our fiscal year 2017 goal was 96.00%, and the actual was 94.40%.	At the start of fiscal year 2017, less than 25% of the initial examiners had more than 3 years' experience. The knowledge and skills required to complete disability work takes 2-3 years to obtain. Before the end of fiscal year 2017, DBD lost an experienced examiner due to retirement. In addition, the trainees hired were beginning production. This resulted in approximately 15% of the team having 3 or more years' experience. In fiscal year 2017, there were policy and procedure changes that affected development including the transition to the imaging process. In 2017, all initial determinations were finalized using a paperless process. As initial examiners adjust to changes and additional examiners are brought on board the accuracy will improve.

INDICATOR	DISCUSSION OF VARIANCE
Performance Indicator III-C-5. Innovate – Adopt New Technologies. Percentage of investments that evaluated cloud alternatives. Our fiscal year 2017 goal was 98.5% and the actual was 91.7%.	The majority of the IT initiatives this year were focused on Legacy Systems Migration. This initial phase was a like-to-like transformation, that did not leverage cloud solutions
Performance Indicator III-C-7. Protect – Percentage of agency employees required to use a Personal Identity Verification (PIV) card to authenticate. Our fiscal year 2017 goal was Unprivileged Network Users > 85% and Privileged Network Users 100%and the actual was Unprivileged Network Users 72% Privileged Network Users 0%.	Variance due to delays in staff receiving the replacement for expiring PIV cards from GSA. In addition, the agency's approach to use temporary smart cards failed for teleworking. These challenges causes some of our users to be un-enforced, which dropped the unprivileged network users to 72%. The original solution for privileged users to use agency generated smart cards failed. We are now in the process to implement a different solution using CyberArk. We anticipate to be on track for the next reporting period

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FINANCIAL SECTION

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RAILROAD RETIREMENT BOARD
CONSOLIDATED BALANCE SHEET
AS OF SEPTEMBER 30, 2018 AND 2017
(in dollars)

	FY 2018	FY 2017
ASSETS		
Intragovernmental:		
Fund Balance with Treasury (Note 3)	$332,487,241	$268,433,925
Investments (Note 4)	1,671,257,222	1,312,820,493
Accounts Receivable (Note 6)	4,840,828,997	4,864,277,435
Other	1,136,474	0
Total Intragovernmental	**6,845,709,934**	**6,445,531,853**
NRRIT Net Assets (Note 5)	26,596,540,632	26,494,665,253
Accounts Receivable, Net (Note 6)	46,187,778	46,598,105
General Property, Plant and Equipment, Net (Note 7)	4,391,760	4,833,433
Other	543,846	542,340
TOTAL ASSETS	**$33,493,373,950**	**$32,992,170,984**
LIABILITIES (Note 8)		
Intragovernmental:		
Accounts Payable	$609,853,949	$583,699,949
Debt	3,769,557,030	3,752,924,494
Other	2,174,201	2,015,222
Total Intragovernmental	**4,381,585,180**	**4,338,639,665**
Accounts Payable	604,297	1,142,045
Benefits Due and Payable	1,101,027,480	1,070,061,592
Other	383,996,104	200,473,059
TOTAL LIABILITIES	**$5,867,213,061**	**$5,610,316,361**
COMMITMENTS AND CONTINGENCIES (Note 9)		
NET POSITION		
Unexpended Appropriations - Funds from Dedicated Collections (Note 16)	874,327	15,505,338
Unexpended Appropriations - All Other Funds	147,617,040	148,170,964
Cumulative Results of Operations - Funds from Dedicated Collections (Note 16)	27,475,062,169	27,215,393,767
Cumulative Results of Operations - All Other Funds	2,607,353	2,784,554
Total Net Position - Funds from Dedicated Collections (Note 16)	27,475,936,496	27,230,899,105
Total Net Position - All Other Funds	150,224,393	150,955,518
TOTAL NET POSITION	**27,626,160,889**	**27,381,854,623**
TOTAL LIABILITIES AND NET POSITION	**$33,493,373,950**	**$32,992,170,984**

The accompanying notes are an integral part of these statements.

RAILROAD RETIREMENT BOARD
CONSOLIDATED STATEMENT OF NET COST
FOR THE YEARS ENDED SEPTEMBER 30, 2018 AND 2017
(in dollars)

	FY 2018	FY 2017
Gross Program Costs:		
Railroad Retirement Program		
Gross Costs	$12,970,946,882	$12,699,060,156
Less: Earned Revenue	31,357,989	28,601,407
Net Program Costs	12,939,588,893	12,670,458,749
Railroad Unemployment and Sickness Insurance Program		
Gross Costs	122,826,652	137,384,203
Less: Earned Revenue	11,185,196	10,043,595
Net Program Costs	111,641,456	127,340,608
Costs Not Assigned to Programs	0	0
Less: Earned Revenues Not Attributed to Programs	163,129	34,984
NET COST OF OPERATIONS	**$13,051,067,220**	**$12,797,764,373**

The accompanying notes are an integral part of these statements.

RAILROAD RETIREMENT BOARD
CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION
FOR THE YEAR ENDED SEPTEMBER 30, 2018
(in dollars)

FY 2018

	Funds from Dedicated Collections	All Other Funds	Eliminations	Consolidated Total
Unexpended Appropriations:				
Beginning Balance	$15,505,338	$148,170,964		$163,676,302
Budgetary Financing Sources:				
Appropriations received	774,906,126	22,000,000		796,906,126
Appropriations transferred in/out				
Other Adjustments	(14,775,011)	(2,281,675)		(17,056,686)
Appropriations used	(774,762,126)	(20,272,249)		(795,034,375)
Total Budgetary Financing Sources	(14,631,011)	(553,924)		(15,184,935)
Total Unexpended Appropriations	**$874,327**	**$147,617,040**		**$148,491,367**
Cumulative Results of Operations:				
Beginning Balances	$27,215,393,767	$2,784,554		$27,218,178,321
Budgetary Financing Sources:				
Appropriations used	774,762,126	20,272,250		795,034,376
Nonexchange revenue	6,492,788,988	(62,447)	(6,000)	6,492,720,541
Transfers in from NRRIT (Note 10)	1,809,000,000			1,809,000,000
Transfers in/out without reimbursement	4,285,278,000			4,285,278,000
Other Financing Sources (Nonexchange):				
Imputed financing	7,213,652			7,213,652
Change in NRRIT assets	101,875,379			101,875,379
Gain/(Loss) contingency	(180,563,527)			(180,563,527)
Total Financing Sources	13,290,354,618	20,209,803	(6,000)	13,310,558,421
Net Cost of Operations	13,030,686,216	20,387,004	(6,000)	13,051,067,220
Net Change	**259,668,402**	**(177,201)**	**(0)**	**259,491,201**
Cumulative Results of Operations	**27,475,062,169**	**2,607,353**		**27,477,669,522**
Net Position	**$27,475,936,496**	**$150,224,393**		**27,626,160,889**

The accompanying notes are an integral part of these statements.

RAILROAD RETIREMENT BOARD
CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION
FOR THE YEAR ENDED SEPTEMBER 30, 2017
(in dollars)

FY 2017

	Funds from Dedicated Collections	All Other Funds	Eliminations	Consolidated Total
Unexpended Appropriations:				
Beginning Balance	$15,470,032	$149,309,072		$164,779,104
Budgetary Financing Sources:				
Appropriations received	715,043,017	25,000,000		740,043,017
Appropriations transferred in/out				
Other Adjustments	(104,744)	(2,273,824)		(2,378,568)
Appropriations used	(714,902,967)	(23,864,284)		(738,767,251)
Total Budgetary Financing Sources	35,306	(1,138,108)		(1,102,802)
Total Unexpended Appropriations	**$15,505,338**	**$148,170,964**		**$163,676,302**
Cumulative Results of Operations:				
Beginning Balances	$25,677,990,029	$3,458,613		$25,681,448,642
Budgetary Financing Sources:				
Appropriations used	714,902,967	$23,864,284		738,767,251
Nonexchange revenue	6,130,873,820	($68,827)	(9,950)	6,130,795,043
Transfers in from NRRIT (Note 10)	1,821,000,000			1,821,000,000
Transfers in/out without reimbursement	4,128,503,000			4,128,503,000
Other Financing Sources (Nonexchange):				
Imputed financing	6,985,164			6,985,164
Change in NRRIT assets	1,345,443,594			1,345,443,594
Gain/(Loss) contingency	163,000,000			163,000,000
Total Financing Sources	14,310,708,545	23,795,457	(9,950)	14,334,494,052
Net Cost of Operations	12,773,304,807	24,469,516	(9,950)	12,797,764,373
Net Change	**1,537,403,738**	**(674,059)**	**0**	**1,536,729,679**
Cumulative Results of Operations	**27,215,393,767**	**2,784,554**		**27,218,178,321**
Net Position	**$27,230,899,105**	**$150,955,518**		**$27,381,854,623**

The accompanying notes are an integral part of these statements.

RAILROAD RETIREMENT BOARD
COMBINED STATEMENT OF BUDGETARY RESOURCES
FOR THE YEARS ENDED SEPTEMBER 30, 2018 AND 2017
(in dollars)

	2018	2017
Budgetary Resources		
Unobligated balance from prior year budget authority, net (discretionary and mandatory)	$167,762,457	$178,757,532
Appropriations (discretionary and mandatory)	9,638,125,618	9,428,372,158
Borrowing authority (discretionary and mandatory) Note 19	4,194,529,480	4,089,100,000
Spending authority from offsetting collections (discretionary and mandatory)	178,982,598	163,444,853
Total budgetary resources	**$14,179,400,153**	**$13,859,674,543**
Memorandum (non-add) entries:		
Net adjustments to unobligated balance brought forward, Oct. 1 Note 23	($14,666,742)	$0
Status of budgetary resources		
New obligations and upward adjustments (total) Note 17	$14,010,349,155	$13,684,573,070
Unobligated balance, end of year		
Apportioned, unexpired accounts	13,138,714	5,038,416
Unapportioned, unexpired accounts	145,112,860	158,689,432
Unexpired unobligated balance, end of year	158,251,574	163,727,848
Expired unobligated balance, end of year	10,799,424	11,373,625
Unobligated balance, end of year (total)	169,050,998	175,101,473
Total budgetary resources	**$14,179,400,153**	**$13,859,674,543**
Outlays, net		
Outlays, net (total) (discretionary and mandatory)	$13,786,256,511	$13,512,885,176
Distributed offsetting receipts (-)	(5,060,034,126)	(4,843,396,016)
Agency outlays, net (discretionary and mandatory)	**$8,726,222,385**	**$8,669,489,160**

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

Railroad Retirement Board

Statement of Social Insurance (Note 13, Note 15)

Actuarial Surplus or (Deficiency)

75-year Projection as of October 1, 2017

(Present values in billions of dollars)

	10/1/2017	10/1/2016	10/1/2015	1/1/2015	1/1/2014
Current participants who have attained retirement age:					
Contributions and earmarked taxes	$87.6	$88.2	$85.3	$85.4	$82.8
Expenditures for scheduled future benefits	134.6	135.7	131.2	130.6	125.8
Present Value of estimated future revenue less estimated future expenditures	(47.0)	(47.5)	(45.8)	(45.1)	(43.0)
Current participants not yet having attained retirement age:					
Contributions and earmarked taxes	87.3	91.1	92.5	88.0	85.5
Expenditures for scheduled future benefits	92.3	97.5	99.0	97.2	96.8
Present Value of estimated future revenue less estimated future expenditures	(5.0)	(6.5)	(6.5)	(9.2)	(11.3)
Net estimated present value of future revenue less future expenditures for current participants (closed group measure)	(52.0)	(54.0)	(52.4)	(54.4)	(54.4)
Plus: Treasury securities and assets held by the program	27.9	26.6	26.3	27.6	27.6
Closed group surplus/(unfunded obligation)	($24.2)	($27.5)	($26.1)	($26.8)	($26.7)
Future participants:					
Contributions and earmarked taxes	$52.9	$61.0	$58.0	$63.2	$62.8
Expenditures for scheduled future benefits	27.5	31.9	30.2	34.9	34.5
Present Value of estimated future revenue less estimated future expenditures	25.4	29.2	27.8	28.3	28.3
Net estimated present value of future revenue less future expenditures for current and future participants (open group measure)	(26.6)	(24.9)	(24.6)	(26.1)	(26.0)
Plus: Treasury securities and assets held by the program	27.9	26.6	26.3	27.6	27.6
Open group surplus/(unfunded obligation)	$1.2	$1.7	$1.7	$1.5	$1.6

Detail may not add to totals due to rounding.
The accompanying notes are an integral part of these financial statements.

Railroad Retirement Board

Statement of Changes in Social Insurance Amounts

Open Group Measure

For the Period Ended September 30, 2017

(in billions of dollars)

Net Present Value end of fiscal year 2015/beginning of year 2016	$	(24.6)
Reasons for changes in the NPV during the year:		
Changes in valuation period[1]		-
Changes in demographic data, assumptions, and methods[2]		(0.1)
Changes in economic data, assumptions, and methods[3]		(0.1)
Changes in law or policy[4]		NA
Changes in methodology and programmatic data[5]		NA
Changes in Medicare healthcare and other healthcare assumptions[6]		NA
Other changes		NA
Net change during 2016 (Through 9/30/2016)		(0.2)
Net Present Value end of fiscal year 2016	$	(24.9)
Reasons for changes in the NPV during the year:		
Changes in valuation period[1]		0.6
Changes in demographic data, assumptions, and methods[2]		(0.3)
Changes in economic data, assumptions, and methods[3]		(2.0)
Changes in law or policy[4]		NA
Changes in methodology and programmatic data[5]		NA
Changes in Medicare healthcare and other healthcare assumptions[6]		NA
Other changes		NA
Net change during fiscal year 2017		(1.8)
Net Present Value end of fiscal year 2017	$	(26.6)

Detail may not add to totals due to rounding.
The accompanying notes are an integral part of these financial statements.

NOTES:

Beginning with the fiscal year 2016 reporting period, the valuation period for the Statement of Social Insurance (SOSI) was changed from calendar year to fiscal year. The valuation date for the SOSI was set back three months, from January 1, 2016 to October 1, 2015. The 2018 SCSIA presents the changes in social insurance amounts for the periods October 1, 2015 through September 30, 2016 (fiscal year 2016), and October 1,2016 through September 30, 2017 (fiscal year 2017).

1. Changes in valuation period –

   Between 10/1/2015 and 10/1/2016:
   Changes in the valuation period from fiscal years 2016-2090 to fiscal years 2017-2091 had a minimal effect on the open group measure between 10/1/2015 and 10/1/2016.

   Between 10/1/2016 and 10/1/2017:
   Changes in the valuation period from fiscal years 2017-2091 to fiscal years 2018-2092 had a change of about $0.6 billion on the open group measure between 10/1/2016 and 10/1/2017.

2. Changes in demographic data, assumptions, and methods –

   Between 10/1/2015 and 10/1/2016:
   Demographic assumptions were not changed between the Statement of Social Insurance as of 10/1/2015 and the Statement of Social Insurance as of 10/1/2016. Changes in demographic data had a change of about ($0.1) billion on the open group measure between 10/1/2015 and 10/1/2016.

   Between 10/1/2016 and 10/1/2017:
   Some demographic assumptions, such as the Annuitants Mortality Table, the Disabled Mortality Table for Annuitants with Disability Freeze, the Disabled Mortality Table for Annuitants without Disability Freeze, the Active Service Mortality Table, the Spouse Total Termination Table, the probability of a spouse, the rates of immediate age retirement, the rates of immediate disability retirement, the rates of eligibility for disability freeze, service months, salary scales, and family characteristics, were changed between the Statement of Social Insurance as of 10/1/2016 and the Statement of Social Insurance as of 10/1/2017. Changes in demographic data and assumptions had a change of about ($0.3) billion on the open group measure between 10/1/2016 and 10/1/2017.

3. Changes in economic data, assumptions, and methods –

   Between 10/1/2015 and 10/1/2016:
   Ultimate economic assumptions were not changed between the Statement of Social Insurance as of 10/1/2015 and the Statement of Social Insurance as of 10/1/2016, but select economic assumptions were. The actual COLA of 0.3% was used for 2017 in place of the 0.5% COLA assumed for 2017 in the prior year's report. A 1.9% COLA was used for 2018 instead of a 1.6% COLA, and a 2.3% COLA was assumed for 2019 instead of a 2.7% COLA. A wage increase assumption of 2.0% was used for 2016 instead of a 3.7% wage increase assumption. Economic data, assumptions, and methods resulted in a change of about ($0.1) billion from 10/1/2015 to 10/1/2016.

Between 10/1/2016 and 10/1/2017:
Ultimate economic assumptions were changed between the Statement of Social Insurance as of 10/1/2016 and the Statement of Social Insurance as of 10/1/2017, as were select economic assumptions. The actual COLA of 2.0% was used for 2018 in place of the 1.9% COLA assumed for 2018 in the prior year's report. A 2.6% COLA was used for 2019 instead of a 2.3% COLA, and a 2.6% COLA was assumed for 2020 and later years instead of a 2.7% COLA. A wage increase assumption of 3.6% was used for 2017 and later years instead of a 3.7% wage increase assumption. Changes in economic data, assumptions, and methods resulted in a change of about ($2.0) billion from 10/1/2016 to 10/1/2017.

4. There were no changes in law or policy.

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

6. Medicare healthcare and other healthcare assumptions are not applicable to the Railroad Retirement program.

Notes to the Financial Statements: Fiscal Years Ended September 30, 2018 and 2017

1. Summary of Significant Accounting Policies

A. *Basis of Presentation*
Public Law 107-289, the Accountability of Tax Dollars Act of 2002, added the RRB as an agency required to prepare audited financial statements for fiscal year 2003, and subsequent years. OMB guidance requires that Performance and Accountability Reports for fiscal year 2018 are to be submitted to the President, the Congress, and the Director of OMB by November 15, 2018. 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 inter-fund balances and transactions) are comprised of the Balance Sheet and Statements of Net Cost, Changes in Net Position, Budgetary Resources, Social Insurance, and Changes in Social Insurance Amounts. 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.

The current and prior year balance sheet net asset amounts for the NRRIT are unaudited figures that are within acceptable materiality amounts. The audited net asset NRRIT amount used in the computations for the SOSI is from the prior fiscal year. The balance sheet NRRIT amount is reasonable, not restated and was used to meet the goal of November 15 for the release of RRB's financial statements.

B. *Reporting Entity*
The railroad retirement and the railroad unemployment and sickness insurance programs are financed through the following accounts:

- Railroad Retirement 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 a fund from dedicated collections. Our authority to use these collections is 45 USC §231f(c)(1).

- Social Security Equivalent Benefit 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 a fund from dedicated collections. Our authority to use these collections is 45 USC §231n-1(c)(1).

- Dual Benefits Payments 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 §231n(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 a fund from dedicated collections. 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 a fund from dedicated collections. 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 of the delegated properties. Funds carried over may only be expended for operation and maintenance and repair of the facility. In addition, this fund contains the Limitation on Administration funds for extended unemployment benefits provided under Public Laws 111-92, 112-96, and 112-240. Account 60X8237 is considered a fund from dedicated collections.

- 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 a fund from dedicated collections. 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 a fund from dedicated collections. 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 a fund from dedicated collections. Our authority to use these collections is Public Law 115-141.

- Railroad Unemployment Insurance Extended Benefit Payments – Recovery Act, 60X0114: 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, and Public Law 112-96, Middle Class Tax Relief and Job Creation Act of 2012, and Public Law 112-240, American Taxpayer Relief Act of 2012.

- 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. 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 Dual Benefits Payment 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, 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 Fiscal Service, 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 the Bureau of the Fiscal Service 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. *Funds from Dedicated Collections*
SFFAS No. 43, Funds from Dedicated Collections, amends SFFAS No. 27, Identifying and Reporting Earmarked Funds. Generally, funds from dedicated collections are financed by specifically identified revenues, provided to the government by non-Federal sources, often supplemented by other financing sources, which remain available over time. These specifically identified revenues and other financing sources are required by statute to be used for designated activities, benefits, or purposes, and must be accounted for separately from the government's general revenues. Funds from Dedicated Collections should be shown as a separate presentation and disclosure in the financial statements. The three required criteria for funds from dedicated collections are:

- A statute committing the Federal Government to use specifically identified revenues and/or other financing sources that are originally provided to the Federal Government by a non-Federal source only for designated activities, benefits, or purposes;

- Explicit authority for the fund to retain revenues and/or 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/or other financing sources that distinguish the fund from the Federal Government's general revenues.

Refer to Note 17, Funds from Dedicated Collections.

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 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. Related Parties

The RRB has significant transactions with the following governmental and non-governmental 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 2018 and 2017, net payroll taxes transferred to the RRB by Treasury were $6.5 billion and $6.0 billion, respectively.

  Treasury provides payment services to Federal agencies and operates collections and deposit systems. The RRB invests in government account securities through the Bureau of the Fiscal Service. In fiscal years 2018 and 2017, investments, including accrued interest, totaled $1.7 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 2018 due to the financial interchange advances during fiscal year 2017 included principal of $4.1 billion and interest of $103.5 million. The amount paid by the RRB to Treasury in fiscal year 2017 due to the financial interchange advances during fiscal year 2016 included principal of $4.0 billion and interest of $99 million.

- 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. In fiscal year 2018, the RRB trust funds realized $4.9 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 $1.8 billion for fiscal year 2018 and $1.6 billion for fiscal year 2017.

- CMS participates in the annual financial interchange in the same manner as described for SSA. The RRB transferred $597 million and $637 million to CMS in fiscal years 2018 and 2017, 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 2018 and 2017 were $31.4 million and $28.5 million, respectively.

- GSA provides payroll processing and human resources services to the RRB. In addition, the RRB paid rent to GSA in the amount of $3.1 million for fiscal year 2018 and $3.1 million for fiscal year 2017.

- The Department of Labor invests RUIA contributions. Accounts receivable with the Department of Labor amounted to $87.2 million and $76.0 million for fiscal years 2018 and 2017, respectively.

- NRRIT transfers funds to the RRB for payment of railroad retirement benefits. During fiscal years 2018 and 2017, the NRRIT transferred $1,809 million and $1,821 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:

	2018	2017
1. Status of Fund Balance with Treasury		
(1) Unobligated Balance		
(a) Available	$13,138,714	$5,038,416
(b) Unavailable	145,112,860	158,689,432
(2) Obligated Balance not yet Disbursed	174,235,667	104,706,077
(3) Non-Budgetary FBWT	0	0
Total	$332,487,241	$268,433,925

2. 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 funds from dedicated collections, the RR and the SSEB Accounts.

	Amounts for Balance Sheet Reporting		
	Cost	Interest Receivable	Investments Net
Intragovernmental Securities:			
Non Marketable Par Value 2018	$1,668,621,000	$2,636,222	$1,671,257,222
Non Marketable Par Value 2017	$1,310,899,000	$1,921,493	$1,312,820,493

The balance on September 30, 2018, consisted of investments in 3.000 percent par value specials (with market value equal to face value) maturing on October 1, 2018. The balance on September 30, 2017, consisted of investments in 3.000 percent par value specials (with market value equal to face value) maturing on October 1, 2017. 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, 2018 and 2017. These figures were provided to the RRB by the NRRIT for the fiscal years ended September 30, 2018 and 2017.

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:

	2018	2017
Financial Interchange – Principal	$4,689,600,000	$4,799,200,000
Financial Interchange – Interest	64,000,000	(11,100,000)
Department of Labor	87,228,997	76,177,435
Total	$4,840,828,997	$4,864,277,435

- *Accounts Receivable, Net*

Accounts receivable, net at September 30 consisted of:

	2018	2017
Accounts receivable – Benefit overpayments	$37,053,261	$50,383,576
Accounts receivable – Past due RUI contributions and taxes	178,324	56,621
Accounts receivable – Interest, penalty & administrative costs	499,270	5,084,894
Accounts receivable - Criminal Restitution	20,653,452	5,995,817
Sub-Total	58,384,307	61,520,908
Accounts receivable - Criminal Restitution - Long Island Railroad	295,353,960	0
Total	$353,738,267	$61,520,908
Less: Allowances for doubtful accounts	8,907,271	13,124,058
Less: Allowances for doubtful accounts-Criminal Restitution	6,242,797	1,798,745
Less: Allowances for doubtful accounts-Criminal Restitution - Long Island Railroad	292,400,420	0
Net Total	$46,187,778	$46,598,105

The RRB's September 30, 2018 accounts receivable balance (prior to the application of the allowance for doubtful accounts) of $353,738,267 includes $30,901,956 (8.736%) in railroad retirement program receivables, $6,805,415 (1.924%) in railroad unemployment insurance program receivables, $23,484 (0.0070%) in employee debt receivables, $20,653,452 (5.839%) in criminal restitution receivables, and $295,353,960 (83.495%) in Long Island Railroad criminal restitution.

The total allowance for doubtful accounts in railroad retirement programs is $8,907,271. This includes $7,774,931 (87.29%) for the railroad retirement program and $1,132,340 (12.71%) for the unemployment insurance program receivables.

The allowance for doubtful accounts for the railroad retirement program was calculated, including debts classified as currently not collectible and excluding the criminal restitution receivables, by averaging the percentages determined from the past five fiscal years of amounts due the RRB that would probably not be collected, and applying those percentages against accounts receivable.

The total allowance for doubtful accounts in criminal restitution for railroad retirement programs is $6,242,797. This includes $5,532,669 (88.62%) for the railroad retirement program and $710,129 (11.38%) for the unemployment insurance program receivables. The allowance for doubtful accounts for the criminal restitution is an estimate of 30% and applying the percentage against the accounts receivable.

The total allowance for doubtful accounts in criminal restitution – Long Island is $292,400,420. This includes $286,890,698 (98.11%) for the railroad retirement program and $5,509,722 (1.89%) for the unemployment insurance program receivables.

The allowance for doubtful accounts for the criminal restitution – Long Island is estimated at 99% on the basis that the total of the large amount is expected among four individuals and the probability of collecting full restitution is unlikely. The percentage is applied against the accounts receivable.

7. General Property, Plant and Equipment

These assets are stated at cost less accumulated depreciation/amortization. Beginning with fiscal year 2014, acquisitions are capitalized if the cost is $50,000 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, 2018		
Classes of Fixed Assets	Service Lives	Cost	Accumulated Depreciation	Net Book Value
Structures, facilities and leasehold improvements	15 years	$2,723,731	$2,723,731	$0
ADP software	5 years	26,692,215	25,557,321	1,134,894
Equipment	5-10 years	7,042,673	6,901,801	140,872
Internal-Use Software in Development		3,115,994	0	3,115,994
		$39,574,613	$35,182,853	$4,391,760

		At September 30, 2017		
Classes of Fixed Assets	Service Lives	Cost	Accumulated Depreciation	Net Book Value
Structures, facilities and leasehold improvements	15 years	$ 2,723,731	$ 2,723,731	$0
ADP software	5 years	26,692,215	24,402,426	2,289,789
Equipment	5-10 years	7,042,673	6,859,173	183,500
Internal-Use Software in Development		2,360,144	0	2,360,144
		$38,818,763	$33,985,330	$4,833,433

8. Liabilities

Liabilities at September 30 consisted of:

	2018	2017
A. Intragovernmental:		
(1) Other – Unfunded Federal Employees Compensation Act (FECA) Liability	$339,677	$402,040
B. Public:		
(1) Other – Accrued Unfunded Leave	$6,929,759	$6,612,588
Total Liabilities Not Covered by Budgetary Resources	$7,269,436	$7,014,628
Total Liabilities Covered by Budgetary Resources	5,858,391,476	5,601,354,375
Total Liabilities Not Requiring Budgetary Resources	1,552,149	1,947,358
Total Liabilities	$5,867,213,061	$5,610,316,361

- *Debt*

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

	2018	2017
Beginning Balance, Principal	$3,711,700,000	$3,576,700,000
New Borrowing	4,104,300,000	4,090,500,000
Repayments	(4,090,800,000)	(3,955,500,000)
Ending Balance, Principal	3,725,200,000	3,711,700,000
Accrued Interest	44,357,030	41,224,494
Total	$3,769,557,030	$3,752,924,494

- *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 $14,873,336 and $14,566,634, at September 30, 2018 and 2017, 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 10,736 benefit cases, estimated at $5.3 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	2018 Total
Intragovernmental:			
Employer Contributions & Payroll Taxes Payable		$1,834,524	$1,834,524
Unfunded FECA Liability		339,677	339,677
Other Liabilities With Related Budgetary Obligations		0	0
Total Intragovernmental		2,174,201	2,174,201
Accrued Unfunded Liabilities		6,929,760	6,929,760
Accrued Payroll		2,974,273	2,974,273
Accrued RRB Contributions – Thrift Savings Plan		(841,741)	(841,741)
Other Unfunded Employment – Related Liability		531,018	531,018
Contingent Liability (see Note 9 for details)	$361,163,527	0	361,163,527
Other		13,239,267	13,239,267
Total Other Liabilities	$361,163,527	$25,006,778	$386,170,305

	Non-Current	Current	2017 Total
Intragovernmental:			
Employer Contributions & Payroll Taxes Payable		$1,613,182	$1,613,182
Unfunded FECA Liability		402,040	402,040
Other Liabilities With Related Budgetary Obligations		0	0
Total Intragovernmental		2,015,222	2,015,222
Accrued Unfunded Liabilities		6,612,589	6,612,589
Accrued Payroll		2,982,775	2,982,775
Accrued RRB Contributions – Thrift Savings Plan		(743,452)	(743,452)
Other Unfunded Employment – Related Liability		289,514	289,514
Contingent Liability (see Note 9 for details)	$180,600,000	0	180,600,000
Other		10,731,633	10,731,633
Total Other Liabilities	$180,600,000	$21,888,281	$202,488,281

9. Commitments and Contingencies

The RRB is involved in the following actions:

- One railroad filed suit requesting a refund of $75.0 million (not including interest) representing the employer and employee share of taxes previously paid with respect to the exercise of non-qualified stock options granted to its employees, the vesting of restricted stock and restricted stock units granted to employees and certain ratification payments made to union members. The RRB's general counsel has determined that the likelihood of loss is probable.

- Another railroad filed suit requesting a refund of $13.3 million (not including interest) representing the employer's share of taxes related to non-qualified stock options, , exclusive of interest. The RRB's general counsel has determined that the likelihood of loss is probable.

- Another railroad filed suit requesting a refund of $12.0 million for tax on stock transferred to its employees upon the exercise of non-qualified stock options and the vesting of performance stock or restricted stock units. The refund request also includes tax on relocation benefits for the railroad employees and their families. The RRB's general counsel has determined that the likelihood of loss is probable for stock and reasonably possible for relocation benefits.

- Several Class I railroads have filed claims for refund of taxes with the Internal Revenue Service (IRS). Of the $102.3 million in claims, the RRB's legal counsel has determined that it is probable that the RR and SSEB Accounts are contingently liable for $80.7 million, and the remaining $21.5 million is reasonably possible. 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 the reasonably possible claims other than this disclosure. Details may not add to totals due to rounding.

- As of September 30, 2018, the RRB had contractual arrangements which may result in future financial obligations of $96.6 million.

- We also recorded a contingent liability in the amount of $180.2 million, for forthcoming adjustments to the financial interchange for military service credits due SSA.

10. Transfers To/From NRRIT

The RRB received a total of $1,809 million and $1,821 million from the NRRIT during fiscal years 2018 and 2017, respectively. These funds were received into the RR Account. Transfers were to fund the payment of benefits.

11. Undelivered Orders at the End of the Period

	2018	2017
Federal Undelivered Orders	$0	Not required
Non-Federal Undelivered Orders	28,309,759	Not required
Total Federal/Non-Federal Undelivered Orders	28,309,759	Not required
Paid Undelivered Orders	$0	Not required
Unpaid Undelivered Orders	28,309,759	Not required
Total Paid/Unpaid Undelivered Orders	$28,309,759	Not Required
Total Undelivered Orders	$28,309,759	$26,289,112

12. 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, 2017, to amounts included in the Budget of the United States Government. A reconciliation was not performed for the period ended September 30, 2018, since the RRB's Performance and Accountability Report is published in November 2018, and OMB's MAX system will not have actual budget data available until after the RRB's PAR is published.

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

	Fiscal Year 2017 (in millions)			
	Budgetary Resources	Obligations Incurred	Distributed Offsetting Receipts	Net Outlays
1. Combined Statement of Budgetary Resources – September 30, 2017	13,860	13,685	4,843	8,669
2. Expenditure Transfers from Trust Funds	(124)			
3. Unobligated Balance, Brought Forward October 1, 2016 as adjusted	(174)			
4. Recoveries of Prior Year Unpaid Obligations	(2)			
5. Sickness Insurance Benefit Recoveries	(10)			
6. Administrative Expense Reimbursement	(29)			
7. Interfund Transfers: Federal Payment Obligations – Income Taxes Collected on Benefits (0113)	(715)			

	Fiscal Year 2017 (in millions)			
	Budgetary Resources	Obligations Incurred	Distributed Offsetting Receipts	Net Outlays
8. Intrafund Transfers: Receipts from the Old-Age and Survivors Insurance (OASI) Trust Fund	(4,316)			
9. Intrafund Transfers: Receipts from the Disability Insurance (DI) Trust Fund	(213)			
Financial Interchange				
10. Accrued Receipts from the OASI and DI Trust Funds			(238)	238
11. Accrued Transfers to the Federal Hospital Insurance Trust Fund			632	(632)
NRRIT				
12. NRRIT Obligations / Outlays	1,886	1,886		1,886
13. Intrafund Transfers: NRRIT Transfer to RRA	(1,821)		1,821	(1,821)
14. Proprietary Receipts: NRRIT – Gains and Losses	(2,895)		2,895	(2,895)
15. Proprietary Receipts: NRRIT – Interest and Dividends	(406)		406	(406)
16. Rounding	1	(3)	1	(3)
17. Budget of the United States Government FY 2017 Actuals	5,042	15,568	10,360	5,036

13. Social Insurance

- Surplus/(unfunded obligation) represents combined values for the RR Account, SSEB Account, and NRRIT.
- Estimated future revenue includes tier I taxes, tier II 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 1/1/2017, whereas present values are as of 10/1/2017.
- Beginning with the fiscal year 2016 reporting period, the valuation period of the SOSI was changed from calendar year to fiscal year. The valuation date for the SOSI was set back three months, from January 1, 2016, to October 1, 2015. Although the SOSI shows present values for the current year and four previous years, the present values for the two previous calendar years 2015 and 2014 are not being restated but will remain on a calendar year basis. This change was made because of a request from the NRRIT to adjust the valuation period for the SOSI from calendar year to fiscal year for financial and administrative purposes. Financially, the NRRIT saves $200,000 per year in contract services required to prepare a second financial statement audit covering a three-month period (October 1 to December 31) after the first audit is achieved on a fiscal year basis.

- Due to the use of the Account Benefits Ratios to determine tier II tax rates, higher Treasury security and asset balances result in lower tax rates and consequently lower future tax income whereas lower Treasury security and asset balances result in higher rates and income.

14. Sustainability Financial Statements Disclosure

The sustainability financial statements are based on management's assumptions. These sustainability financial statements present the actuarial present value of the RRB's estimated future income to be received and future expenditures to be paid using a projection period sufficient to illustrate long-term sustainability. The sustainability financial statements are intended to aid users in assessing whether future resources will likely be sufficient to sustain public services and to meet obligations as they come due. The Statements of Social Insurance and Changes in Social Insurance Amounts are based on income and benefit formulas in current law and assume that scheduled benefits will continue after any related trust funds are exhausted. The statements of long-term fiscal projections are based on the continuation of current policy. The sustainability financial statements are not forecasts or predictions. The sustainability financial statements are not intended to imply that current policy or law is sustainable. In preparing the sustainability financial statements, management considers and selects assumptions and data that it believes provide a reasonable basis to illustrate whether current policy or law is sustainable. Assumptions underlying such sustainability information do not consider changes in policy or all potential future events that could affect future income, future expenditures, and sustainability, for example, implementation of policy changes to avoid trust fund exhaustion or unsustainable debt levels. Because of the large number of factors that affect the sustainability financial statements and the fact that future events and circumstances cannot be estimated with certainty, even if current policy is continued, there will be differences between the estimates in the sustainability financial statements and the actual results, and those differences may be material.

15. Significant Assumptions

The estimated future revenue and expenditures in the SOSI 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 estimated future revenue and expenditures are also based on various economic, employment, and other actuarial assumptions. The ultimate economic assumptions are a 7.0 percent investment return, a 2.6 percent annual increase in the cost of living, and a 3.6 percent annual wage increase.

The employment assumption for the SOSI is employment assumption II, the intermediate employment assumption, as used in the 27th Actuarial Valuation. Under employment assumption II, starting with an average 2017 employment of 223,000, (1) railroad passenger employment is assumed to remain level at 48,000, 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-Seventh Actuarial Valuation of the Assets and Liabilities Under the Railroad Retirement Acts as of December 31, 2016." This may be found on the RRB's website, www.RRB.gov.

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

Table S-1.	2013 Base Year RRB Annuitants Mortality Table
Table S-2.	2013 Base Year RRB Disabled Mortality Table for Annuitants with Disability Freeze
Table S-3.	2013 Base Year RRB Disabled Mortality Table for Annuitants without Disability Freeze
Table S-4.	2012 RRB Active Service Mortality Table
Table S-5.	2013 Base Year RRB Spouse Total Termination Table
Table S-6.	Probability of a retired employee having a spouse eligible for railroad retirement benefits
Table S-7.	2013 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.	2013 RRB Mortality Improvement Scale
Table S-11.	Calendar year rates of immediate age retirement
Table S-12.	Rates of immediate disability retirement and of eligibility for disability freeze
Table S-13.	Calendar year rates of final withdrawal
Table S-14.	Service months and salary scales
Table S-15.	Family characteristics of railroad employees assumed for the valuation of survivor benefits

Note 16 Funds from Dedicated Collections

	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 Funds from Dedicated Collections*
Balance Sheet as of September 30, 2018									
Assets									
Fund Balance with Treasury	$65,757,537	$44,152,102	$18,919,951	$823,452	$45,608,906	$3,160,922	$3,416,977		$181,839,848
Investments	1,058,394,566	612,862,656							1,671,257,222
NRRIT Net Invested Assets		26,596,540,632							26,596,540,632
Taxes and Interest Receivable	4,753,600,003	38,871,771	88,219,111		19,785	6,302,408		(1)	4,887,013,078
Other Assets					4,907,844		1,167,933		6,075,777
Total Assets	5,877,752,106	27,292,427,161	107,139,062	823,452	50,536,535	9,463,330	4,584,910	(1)	33,342,726,557
Liabilities Due and Payable	4,984,575,857	485,733,690	9,735,188		565,188	359,164	(71,279)	(1)	5,480,897,809
Other Liabilities	180,200,000	193,924,741			10,868,890		898,621		385,892,252
Total Liabilities	5,164,775,857	679,658,431	9,735,188		11,434,078	359,164	827,342	(1)	5,866,790,061
Unexpended Appropriations				823,452	50,875				874,327
Cumulative Results of Operations	712,976,249	26,612,768,730	97,403,874		39,051,582.0	9,104,166	3,757,568		27,475,062,169
Total Liabilities and Net Position	$5,877,752,106	$27,292,427,161	$107,139,062	$823,452	$50,536,535	$9,463,330	$4,584,910	($1)	$33,342,726,557
Statement of Net Cost for the Period Ended September 30, 2018									
Gross Program Costs	$7,339,308,436	$5,469,640,228	$101,349,741	$6,000	$152,353,717	$0	$11,160,625	($114,917)	$13,073,703,830
Less Earned Revenues		3,491	11,186,413		30,115,289		1,669,268	(425,000)	42,549,461
Net Program Costs	7,339,308,436	5,469,636,737	90,163,328	6,000	122,238,428	0	9,491,357	310,083	13,031,154,369
Costs Not Attributable to Program Costs									0
Less Earned Revenues Not Attributable to Program Costs					158,070				158,070
Net Cost of Operations	$7,339,308,436	$5,469,636,737	$90,163,328	$6,000	$122,080,358	$0	$9,491,357	$310,083	$13,030,996,299
Statement of Changes in Net Position for the Period Ended September 30, 2018									
Net Position Beginning of Period	$589,886,335	$26,510,858,221	$70,160,090	$15,454,463	$30,941,071	$11,711,124	$1,887,801		$27,230,899,105
Appropriations Received				774,906,126					774,906,126
Expended Appropriations				774,762,126					774,762,126
Other Adjustments				(14,775,011)					(14,775,011)
Appropriations Used				(774,762,126)					(774,762,126)
Taxes and Non-Exchange Revenue	2,992,133,790	3,366,317,830	107,721,260		(502)	26,616,614		310,083	6,493,099,075
Other Financing Sources	4,470,264,560	475,317,563	9,685,852	(774,756,126)	130,242,246	(29,223,572)	11,361,124		4,292,891,648
Transfers In From NRRIT		1,809,000,000							1,809,000,000
Change in NRRIT Assets		101,875,379							101,875,379
Gain/(Loss) contingency		(180,963,527)							(180,963,527)
Net Cost of Operations	(7,339,308,436)	(5,469,636,737)	(90,163,328)	(6,000)	(122,080,358)		(9,491,357)	(310,083)	(13,030,996,299)
Change in Net Position	123,089,914	101,910,508	27,243,784	(14,631,011)	8,161,386	(2,606,958)	1,869,767		245,037,391
Net Position End of Period	$712,976,249	$26,612,768,729	$97,403,874	$823,452	$39,102,457	$9,104,166	$3,757,568		$27,475,936,496

*rounding difference

Note 16 Funds from Dedicated Collections

	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 Funds from Dedicated Collections*
Balance Sheet as of September 30, 2017									
Assets									
Fund Balance with Treasury	$26,069,824	$27,258,646	$7,376,661	$15,454,463	$36,681,394	$1,539,522	$2,947,467		$117,327,977
Investments	892,700,696	420,119,798							1,312,820,494
NRRIT Net Invested Assets		26,494,665,253							26,494,665,253
Taxes and Interest Receivable	4,788,100,000	41,137,085	71,464,484		16,881	9,943,665		(1)	4,910,662,116
Other Assets					5,348,011		30,289		5,378,300
Total Assets	5,706,870,520	26,983,180,782	78,841,145	15,454,463	42,046,286	11,483,187	2,977,756	(1)	32,840,854,140
Liabilities Due and Payable	4,936,384,185	461,625,256	8,681,055		825,948	(227,937)	212,578	(1)	5,407,501,086
Other Liabilities	180,600,000	10,697,305			10,279,267		877,377		202,453,949
Total Liabilities	5,116,984,185	472,322,561	8,681,055		11,105,215	(227,937)	1,089,955	(1)	5,609,955,035
Unexpended Appropriations				15,454,463	50,875				15,505,338
Cumulative Results of Operations	589,886,335	26,510,858,221	70,160,090		30,890,196	11,711,124	1,887,801		27,215,393,767
Total Liabilities and Net Position	$5,706,870,520	$26,983,180,782	$78,841,145	$15,454,463	$42,046,286	$11,483,187	$2,977,756	($1)	$32,840,854,140
Statement of Net Cost for the Period Ended September 30, 2017									
Gross Program Costs	$7,230,879,644	$5,307,113,007	$114,667,565	$9,950	$149,556,904	$0	$10,184,122	($407,954)	$12,812,003,238
Less Earned Revenues		(2,018)	10,044,992		27,698,426		1,330,000	(425,000)	38,646,400
Net Program Costs	7,230,879,644	5,307,115,025	104,622,573	9,950	121,858,478	0	8,854,122	17,046	12,773,356,838
Costs Not Attributable to Program Costs									0
Less Earned Revenues Not Attributable to Program Costs					34,984				34,984
Net Cost of Operations	$7,230,879,644	$5,307,115,025	$104,622,573	$9,950	$121,823,494	$0	$8,854,122	$17,046	$12,773,321,854
Statement of Changes in Net Position for the Period Ended September 30, 2017									
Net Position Beginning of Period	$129,447,393	$25,443,962,165	$59,595,092	$15,419,157	$32,882,558	$11,735,660	$418,036		$25,693,460,061
Appropriations Received				715,043,016					715,043,016
Expended Appropriations				714,902,967					714,902,967
Other Adjustments				(104,744)					(104,744)
Appropriations Used				(714,902,967)					(714,902,967)
Taxes and Non-Exchange Revenue	2,839,923,123	3,160,334,285	104,064,942		458	26,550,940	69	17,046	6,130,890,863
Other Financing Sources	4,851,395,463	47,233,202	11,122,629	(714,893,016)	119,881,549	(26,575,476)	10,323,817		4,298,488,168
Transfers In From NRRIT		1,821,000,000							1,821,000,000
Change in NRRIT Assets		1,345,443,594							1,345,443,594
Net Cost of Operations	(7,230,879,644)	(5,307,115,025)	(104,622,573)	(9,950)	(121,823,494)		(8,854,122)	(17,046)	(12,773,321,854)
Change in Net Position	460,438,942	1,066,896,056	10,564,998	35,306	(1,941,487)	(24,536)	1,469,764		1,537,439,043
Net Position End of Period	$589,886,335	$26,510,858,221	$70,160,090	$15,454,463	$30,941,071	$11,711,124	$1,887,801		$27,230,899,105

*rounding difference

17. 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 Category B direct obligations are $13,977,989,501 and the reimbursable obligations are $32,359,654. These are reported under *New obligations and upward adjustments* on the SBR in the amount of $14,010,349,155 which combines the direct and reimbursable obligations.

This disclosure agrees with the aggregate of RRB direct and reimbursable obligations as reported on the RRB's fiscal year 2018 year-end SF-133, *Report on Budget Execution and Budgetary Resources*, and line 2190 in the Statement of Budgetary Resources.

18. Terms of Borrowing Authority Used

The 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 and Hospital Insurance 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 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.

19. 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 $4,194,529,480.

20. 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.

21. Subsequent Events

There was an increase of $101.9 million in NRRIT net assets from the SOSI, October 1, 2017, valuation date and the September 30, 2018, balance sheet date. Other than this event, no other material events or transactions have occurred subsequent to September 30, 2018, that we are aware of. We have evaluated subsequent events through November 15, 2018, the date the financial statements were released.

22. Permanent Indefinite Appropriations

In fiscal year 2018, the Railroad Retirement Board had the following permanent indefinite appropriations that were available until expended:

a. 60X0113 – 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 a fund from dedicated collections. This account has no basis in law.

b. 60X8010 – Social Security Equivalent Benefit 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 a fund from dedicated collections. Our authority to use these collections is 45 USC §231n-1(c)(1).

c. 60X8011 – Railroad Retirement 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 a fund from dedicated collections. Our authority to use these collections is 45 USC §231f(c)(1).

d. 60X8051.001 – 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 a fund from dedicated collections. Our authority to use these collections is 45 USC §360.

e. 60X8051.002 – 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 a fund from dedicated collections. 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.

23. Net Adjustments to Unobligated Balance, Brought Forward, October 1

The unobligated balance brought forward, October 1 was adjusted for $14,666,742 due to the agency returning funds to the Department of the Treasury.

RAILROAD RETIREMENT BOARD
Note 24, Budget and Accrual Reconciliation
For year ended September 30, 2018
(in Dollars)

	Intra-governmental	With the public	Total FY 2018
NET COST	$99,991,118	$12,951,082,102	$13,051,073,220
Components of Net Cost That Are Not Part of Net Outlays:			
Other	0	0	0
Increase/(decrease) in assets:			
Accounts receivable	(5,042,425,000)	4,085,246	(5,038,339,754)
Investments	0	0	0
Other assets	(525,272)	(440,166)	(965,438)
(Increase)/decrease in liabilities:			
Accounts payable	(106,657,663)	(29,330,707)	(135,988,370)
Salaries and benefits	41,167	(156,676)	(115,509)
Insurance and guarantee program liabilities	0	0	0
Environmental and disposal liabilities	0	0	0
Other liabilities	756,888,680	(251,767)	756,636,913
Other financing sources:			
Federal employee retirement benefit costs paid by OPM and imputed to the agency	(7,213,652)	0	(7,213,652)
Transfers out (in) without reimbursement	775,575,865	0	775,575,865
Total Components of Net Cost That Are Not Part of Net Outlays	(3,624,315,875)	(26,094,070)	(3,650,409,945)
Components of Net Outlays That Are Not Part of Net Cost:			
Effect of prior year agencies credit reform subsidy re-estimates	0	0	0
Acquisition of capital assets	0	0	0
Acquisition of inventory	0	0	0
Acquisition of other assets Debt and equity securities	0	0	0
Other	(7,328)	(674,433,562)	(674,440,890)
Total Components of Net Outlays That Are Not Part of Net Cost	(7,328)	(674,433,562)	(674,440,890)
Other Temporary Timing Differences	0	0	0
NET OUTLAYS	($3,524,332,085)	$12,250,554,470	$8,726,222,385

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 I payroll taxes are coordinated with social security taxes so that employees and employers pay tier I taxes at the same rate as social security taxes. In addition, both employees and employers pay tier II taxes that are used to finance railroad retirement benefit payments over and above social security levels. The tier II 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.

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 additional amount of social security payroll and income taxes which social security would have received 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 $81.9 billion, or 36.0 percent of the estimated future revenue of $227.8 billion. Although the contributions and expenditures related to the FI have historically been included in the Statement of Social Insurance (SOSI) they are in effect primarily contributions and expenditures of SSA that are administered by the RRB.

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, 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 SOSI presents an actuarial analysis of the financial position of the railroad retirement system as of October 1, 2017. The figures in the table are based on the 27th Actuarial Valuation extended through fiscal year 2092. The present values of estimated future revenue and expenditures in the table are based on estimates of revenue and expenditures through the fiscal year 2092. The estimates include revenue 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 27th Actuarial Valuation. Under employment assumption II, starting with an average 2017 employment of 223,000, (1) railroad passenger employment is assumed to remain level at 48,000, 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:

- Revenue: sources of revenue are payroll taxes, income taxes, investment income, and financial interchange transfers.

- Revenue excluding interest[a]**:** revenue, as defined above, excluding the investment income from assets of the trust fund.

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[a] Interest income in this section refers to total investment income including dividends and capital gains.

- Expenditures**:** benefit payments and administrative expenses.

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

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

The SOSI and the required supplementary information are based on actuarial and economic assumptions used in the 27th Actuarial Valuation extended through fiscal year 2092, the RRA, and the Railroad Retirement Tax Act and, for the Financial Interchange, the Social Security and Federal Insurance Contributions Acts. The charts in the required supplementary information are on a calendar year basis. This information includes:

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

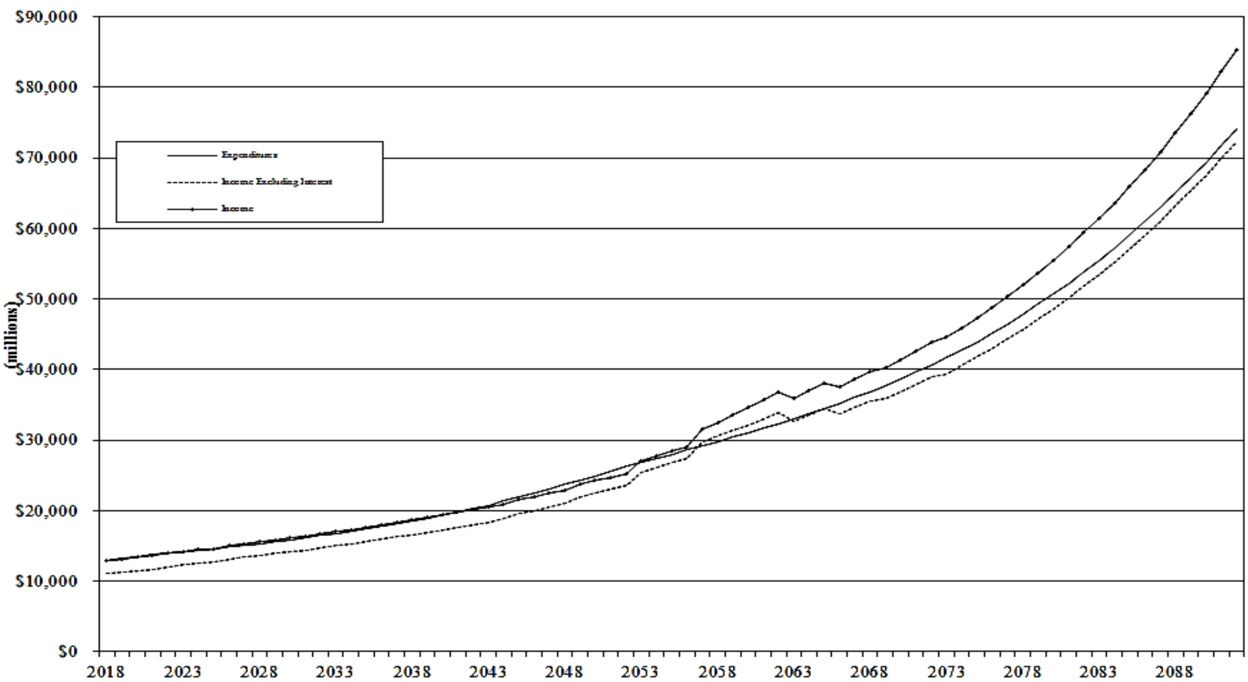
(2) estimated annual revenue excluding interest and expenditures in nominal dollars and as a percentage of taxable payroll;

(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.

Estimated future revenue and expenditures are generally based on a 75-year projection period. Estimated future revenue and expenditures extending far into the future are inherently uncertain, with uncertainty increasing with time.

Chart 1: Estimated Income and Expenditures

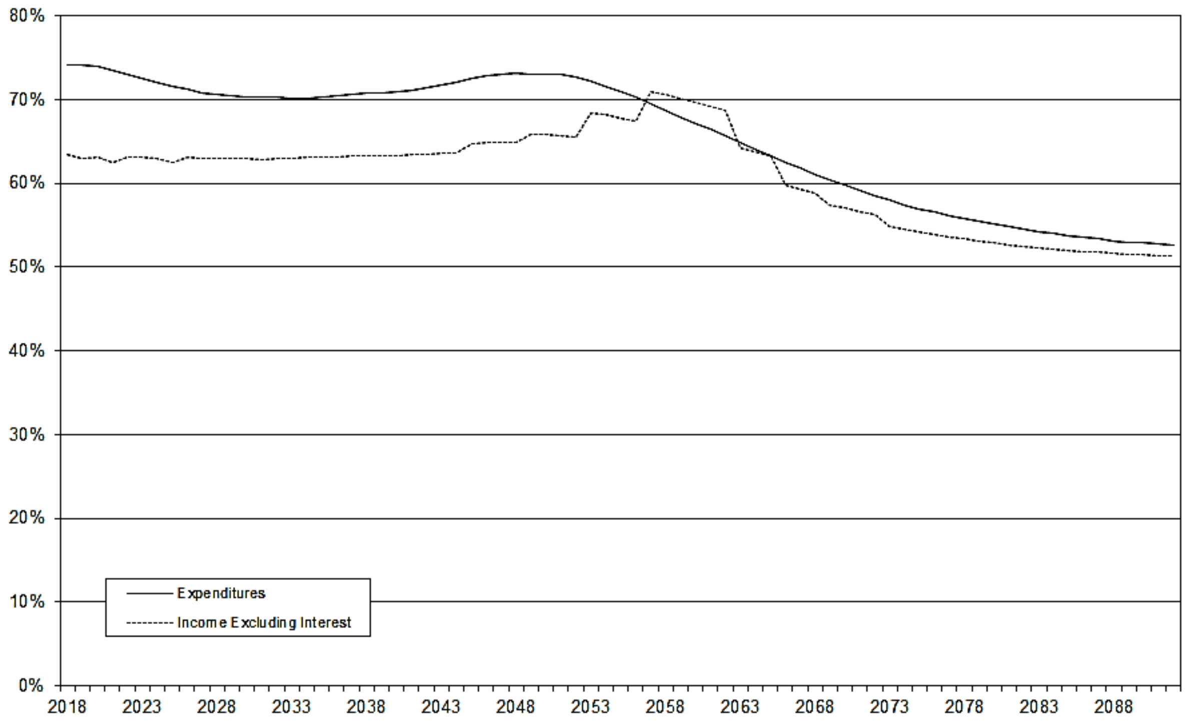


Cashflow Projections – Chart 1 shows actuarial estimates of railroad retirement annual revenue, revenue excluding interest, and expenditures for 2018-2092 in nominal dollars. The estimates are for the open-group population, which includes all persons projected to participate in the railroad retirement 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 who already have been 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 revenue exceeds annual expenditures except in 2019 through 2022 and 2040 through 2052. Without investment income, however, annual expenditures are greater than annual revenue except in 2057 through 2062. Reasons for this pattern include participant demographics, the assumed drop in railroad employment, and the automatic tier II 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 II tax rates respond automatically to changing account balances.

Percentage of Taxable Payroll – Chart 2 shows estimated annual revenue excluding interest and expenditures for the railroad retirement program expressed as percentages of taxable payroll. Expenditures as a percentage of payroll range between 70 percent and 74 percent through 2057, after which the percentage decreases until reaching 53 percent in 2087-2092. This is largely due to the projected decline in the number of annuitants per full-time employee. Except for the revenue from tier I payroll taxes, the sources of revenue vary as a percentage of payroll.

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



Sensitivity Analysis -- 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, spouse 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 October 1, 2017, and are based on estimates of revenue and expenditures during the fiscal years 2018-2092 projection period.

Employment: Average employment in the railroad industry has generally been in decline for some years. Although employment has increased in recent years, it began to decrease again in 2015 and is generally expected to continue declining in future years. Since employment is a key consideration, projections of revenue and expenditures using three different employment assumptions have been made. The SOSI 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 calendar year 2017 is equal to 223,000. 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 48,000 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 40,000 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.

Table 1 shows the excess of assets and the estimated present value of revenue over the estimated present value of expenditures for the three employment assumptions.

Table 1
Excess of Assets and Estimated Present Value of Revenue over Estimated Present Value of Expenditures for Three Employment Assumptions, 2018-2092
(in billions)

Employment Assumption	I	II	III
Present Value	$2.1	$1.2	$(1.4)
Average Tier II tax rate[a]	16.7%	18.8%	20.8%

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

Chart 3a: Combined Balance of the RR Account, NRRIT and SSEB Account under Three Employment Assumptions

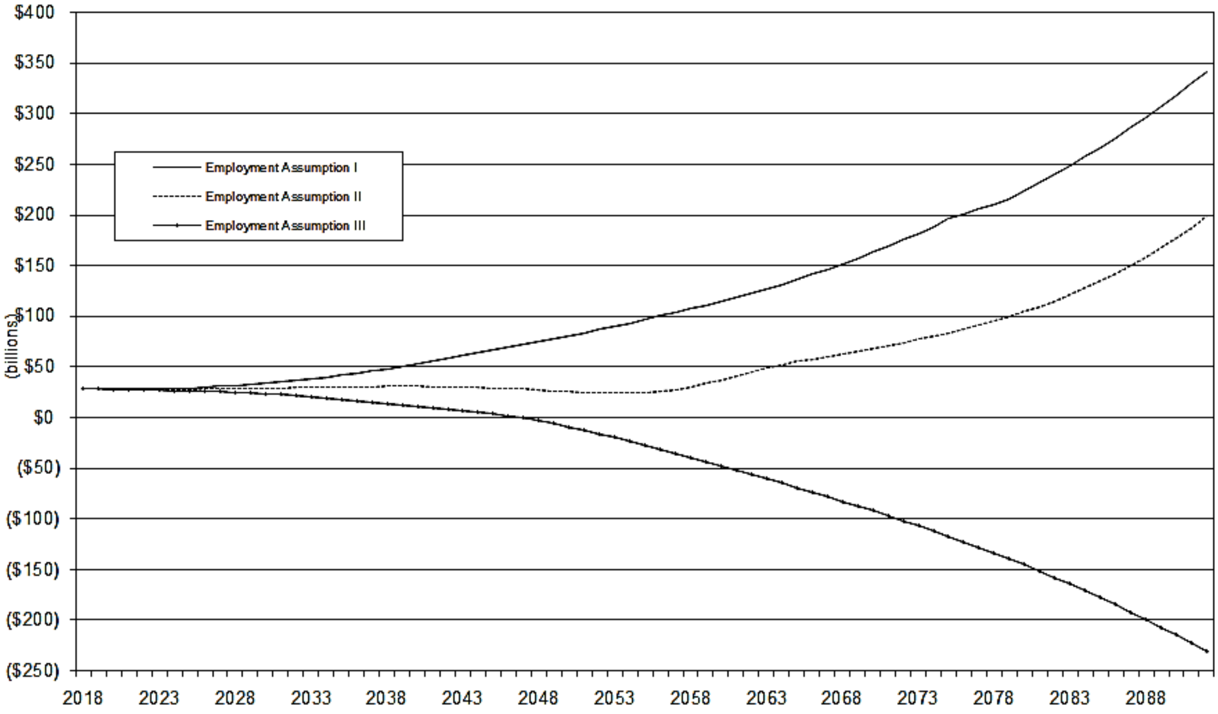
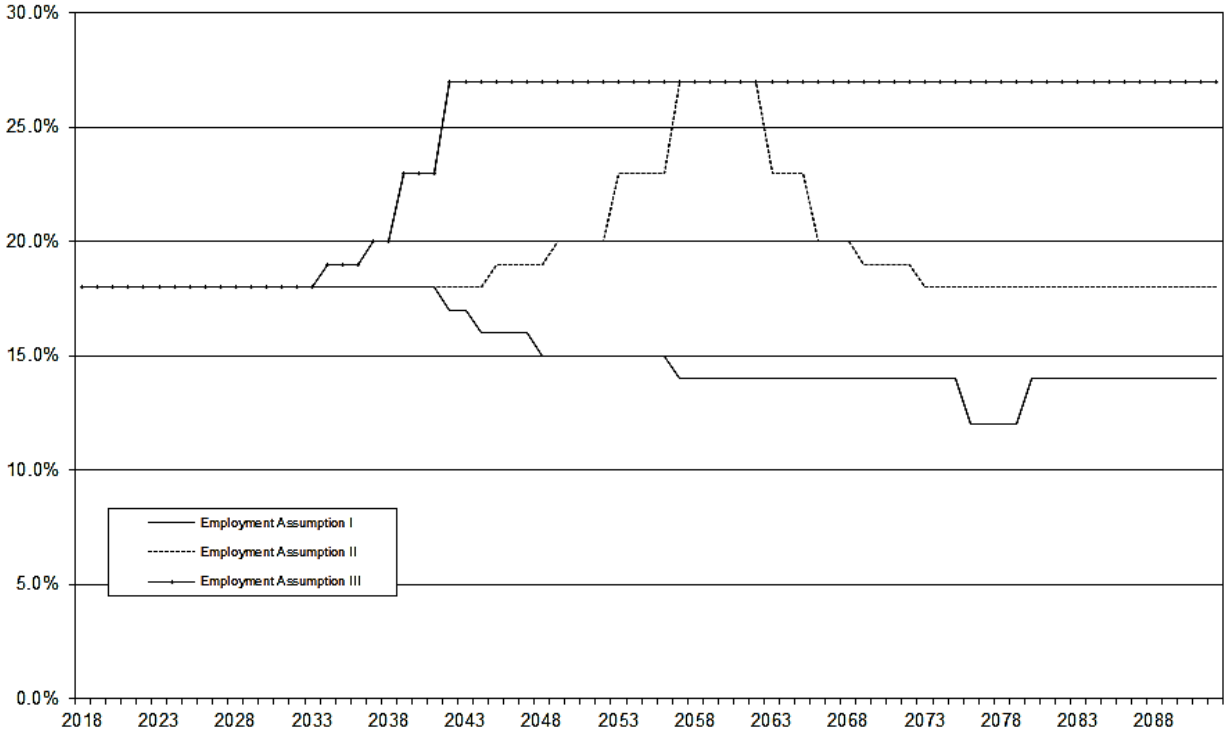


Chart 3a shows the combined balance of the accounts under each of the three employment assumptions. Note that the combined account balance is positive throughout the entire period for assumptions I and II but becomes negative in 2047 for assumption III and remains so throughout the remainder of the period. Negative after-transfer balances under employment assumption III indicate the amount that would be owed, including interest, if unreduced benefits were paid by borrowing.

Chart 3b shows the tier II tax rate under these employment assumptions. The tax rate reaches 12 percent in 2076 under employment assumption I and remains between 12 percent and 14 percent through the end of the projection period. Under employment assumption II, the tax rate first increases to 27 percent in 2057 through 2062 and then decreases until it reaches 18 percent in 2073, remaining at that level through the end of the projection period. Under employment assumption III, the tax rate reaches the maximum of 27 percent in 2042, remaining at that level through the rest of the 75-year period.

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



The tier II 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 the NRRIT to the total benefits and administrative expenses paid from the RR Account and the NRRIT. Therefore, the tier II tax rate will be affected by employment assumption. The tier II tax rate adjustment mechanism reduces but does not eliminate the risk of insolvency. The tier I 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 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 10 percent. Table 2 shows the excess of assets and the estimated present value of revenue over the estimated present value of expenditures for the three investment return assumptions. If the tier II tax rate were fixed, the actuarial surplus would increase with increasing investment return. However, the tier II 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 10 percent scenario.

Table 2
Excess of Assets and Estimated Present Value of Revenue over Estimated Present Value of Expenditures for Three Investment Return Assumptions, 2018-2092
(in billions)

Investment Return Assumption	4%	7%	10%
Present Value	$5.7	$1.2	$1.0
Average Tier II tax rate	21.7%	18.8%	15.6%

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

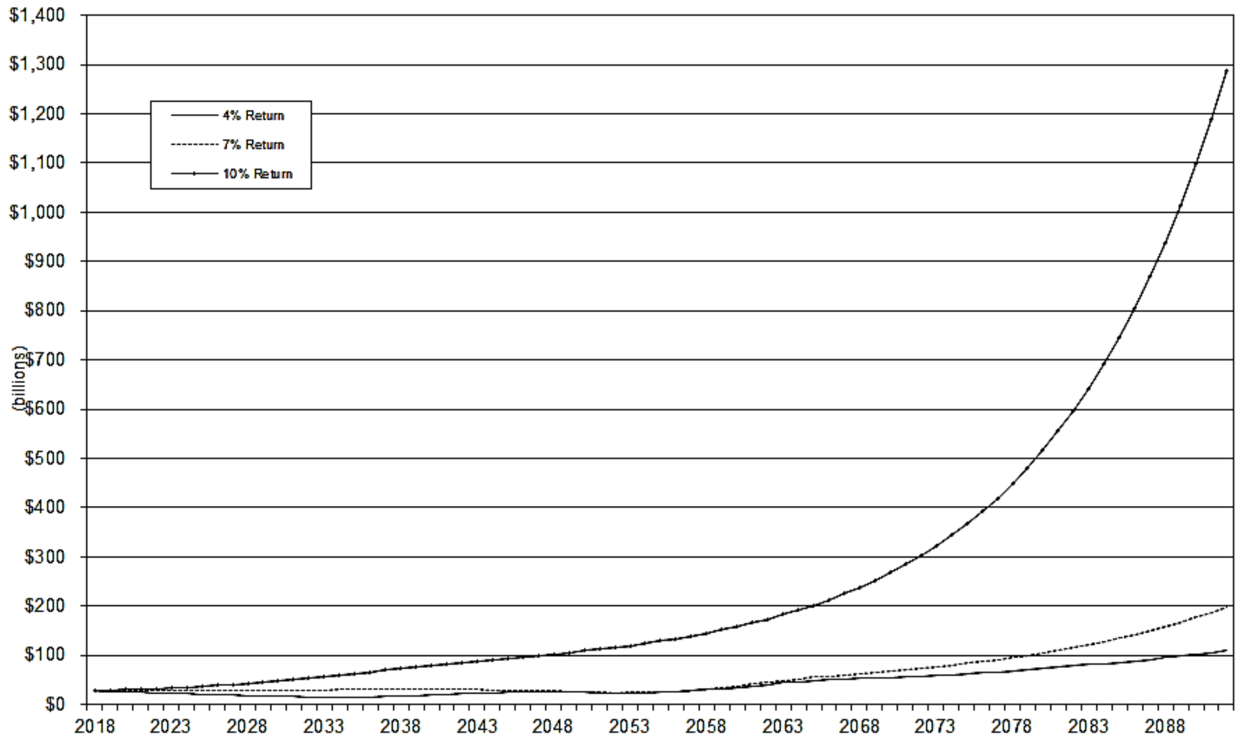
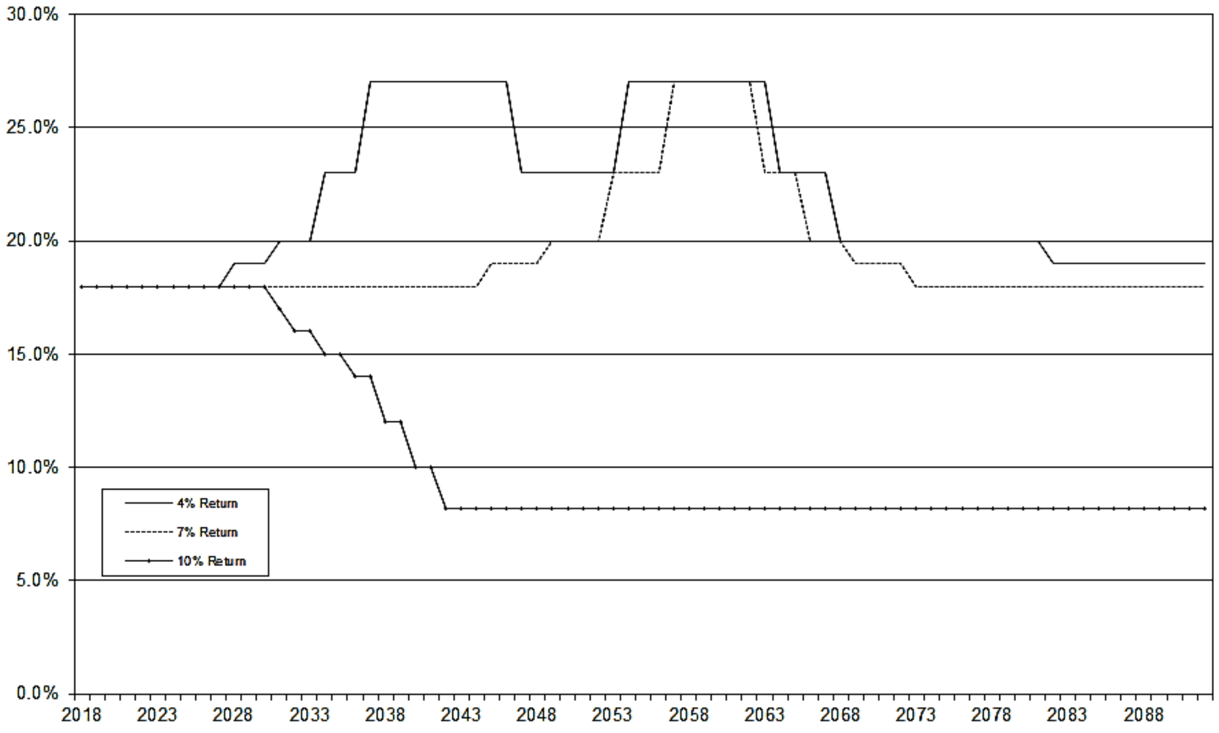


Chart 4a shows the combined account balance under the three investment return assumptions for the projection period. At a 4 percent investment return, the account balance remains positive, reaching its lowest value in 2033, and then increases until 2046, decreases through 2053, and then increases again through the remainder of the projection period. With a 7 percent investment return, the account balance remains fairly level until 2027, increases until 2039, decreases until 2052, after which it increases again through the remainder of the projection period. A 10 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, 2018.

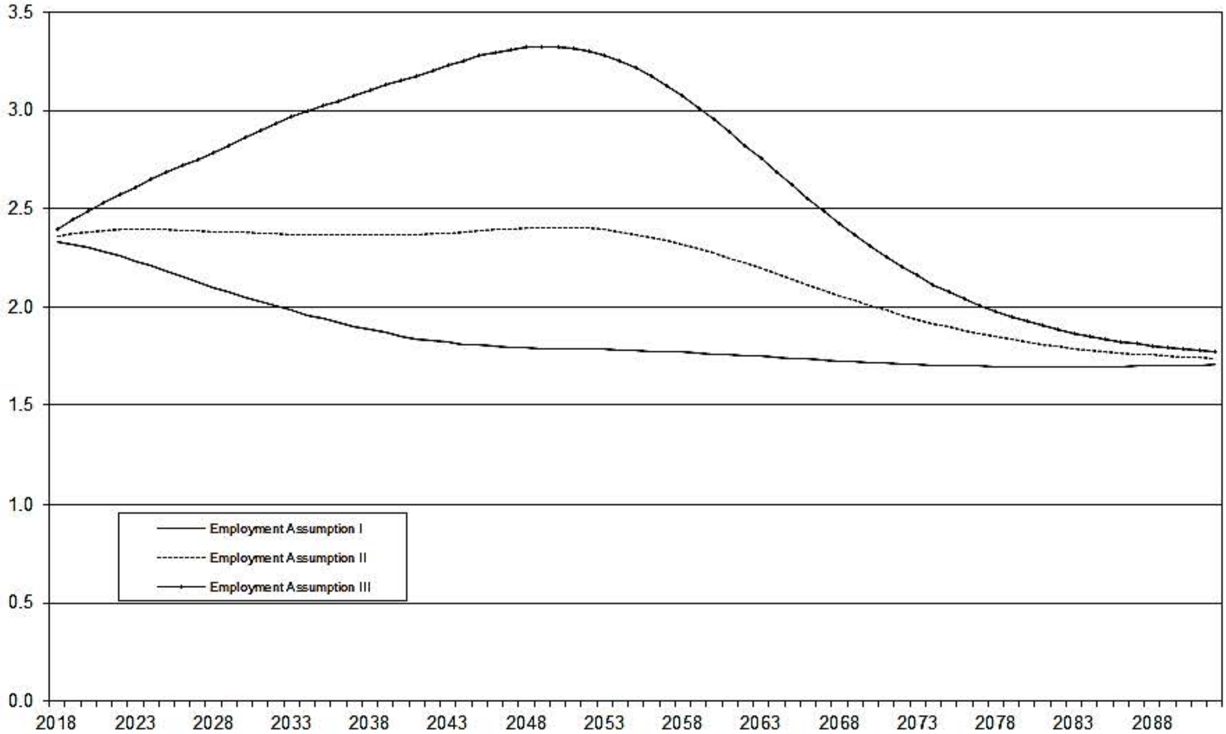
Chart 4b shows the tier II tax rate under the same three investment return assumptions. With a 4 percent investment return, the maximum tier II tax rate applies in 2037 through 2046 and 2054 through 2063. With the 7 percent investment return, the maximum tax rate applies between 2057 and 2062. With a 10 percent investment return, the maximum tax rate is never applicable, and the minimum tax rate of 8.2 percent is paid beginning in 2042. As mentioned above, the tier II 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 I tax rates will not.

Chart 4b: Tier II 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 2018. For assumption II, the ratio is fairly level between 2018 and 2056, but highest in 2051. For assumption III, the ratio increases until it is highest in 2049 before decreasing. For all three employment assumptions, the average number of annuitants per employee declines to between 1.7 and 1.8 at 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
COMBINING STATEMENT OF BUDGETARY RESOURCES
FOR THE YEAR ENDED SEPTEMBER 30, 2018
(in dollars)

	COMBINED RAILROAD RETIREMENT PROGRAM	COMBINED RAILROAD UNEMPLOYMENT AND SICKNESS INSURANCE PROGRAM	LIMITATION ON THE OFFICE OF INSPECTOR GENERAL	COMBINED TOTALS
Budgetary Resources				
Unobligated balance from prior year budget authority, net (discretionary and mandatory)	$24,243,104	$141,976,168	$1,543,185	$167,762,457
Appropriations (discretionary and mandatory)	9,525,777,347	112,348,271	-	9,638,125,618
Borrowing authority (discretionary and mandatory) Note 19	4,194,529,480	-	-	4,194,529,480
Spending authority from offsetting collections (discretionary and mandatory)	154,783,318	11,493,846	12,705,434	178,982,598
Total budgetary resources	**$13,899,333,249**	**$265,818,285**	**$14,248,619**	**$14,179,400,153**
Memorandum (non-add) entries:				
Net adjustments to unobligated balance brought forward, Oct. 1 Note 23	($14,666,742)	$0	$0	($14,666,742)
Status of budgetary resources				
New obligations and upward adjustments (total) Note 17	$13,874,445,986	$123,870,330	$12,032,838	$14,010,349,155
Unobligated balance, end of year				
Apportioned, unexpired accounts	12,465,344	65,683	607,687	13,138,714
Unapportioned, unexpired accounts	3,230,588	141,882,272	-	145,112,860
Unexpired unobligated balance, end of year	15,695,932	141,947,955	607,687	158,251,574
Expired unobligated balance, end of year	9,191,330	-	1,608,094	10,799,424
Unobligated balance, end of year (total)	24,887,262	141,947,955	2,215,781	169,050,998
Total budgetary resources	**$13,899,333,249**	**$265,818,285**	**$14,248,619**	**$14,179,400,153**
Outlays, net				
Outlays, net (total) (discretionary and mandatory)	$13,675,084,656	$111,751,642	($579,787)	$13,786,256,511
Distributed offsetting receipts (-)	(5,060,034,126)	-	-	(5,060,034,126)
Agency outlays, net (discretionary and mandatory)	**$8,615,050,530**	**$111,751,642**	**($579,787)**	**$8,726,222,385**

UNITED STATES RAILROAD RETIREMENT BOARD

OFFICE OF INSPECTOR GENERAL

Independent Auditor's Report

To Board Members:

Report on the Financial Statements

We were engaged to audit the accompanying balance sheet of the Railroad Retirement Board (RRB) as of September 30, 2018 and 2017; the related statements of net cost, changes in net position, budgetary resources for the years then ended, the related notes to the financial statements, and the sustainability financial statements. The sustainability financial statements are comprised of the statement of social insurance as of October 1, 2017, October 1, 2016, October 1, 2015, January 1, 2015, and January 1, 2014, the statement of changes in social insurance amounts for the period ended September 30, 2017; and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on an audit conducted in accordance with auditing standards generally accepted in the United States of America. As described in the Basis for Disclaimer of Opinion paragraphs we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis for Disclaimer of Opinion

The National Railroad Retirement Investment Trust (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. The Office of Inspector General (OIG) has not audited the books and

844 N RUSH STREET CHICAGO IL 60611-1275

records of the NRRIT, nor had any input into the selection of the independent accountant retained by the NRRIT. The financial statements of the NRRIT were audited by other auditors, whose audit reports were received within the timeframes established for the audit of the RRB's financial statements. Pursuant to the group financial statement audit requirements promulgated by the American Institute of Certified Public Accountants (AICPA) in AICPA Professional Standards in AU-C section 600, *Special Considerations - Audits of Group Financial Statements*, we made an inquiry requesting communication with and cooperation from NRRIT auditors. In response, the RRB's Chief Financial Officer informed us that contact between RRB OIG and NRRIT auditors is inconsistent with the independent status of the NRRIT under section 15(j) of the Railroad Retirement Act. As a result, NRRIT auditors were unable to comply with the group financial statement audit requirements. Consequently, we were unable to perform the specified AU-C section 600 group audit procedures and have determined that undetected misstatements, which could be material and pervasive, could exist.[1]

The net assets of the NRRIT represent approximately $26.6 billion and $26.5 billion or 79 and 80 percent of the total assets reported for the RRB for fiscal years 2018 and 2017, respectively. NRRIT assets also represent approximately 95 percent of the Treasury securities and assets held by the Railroad Retirement program as of October 1, 2017 and October 1, 2016, respectively. Related changes in the net value of investments held by the NRRIT are reported as a source of financing which contributed a net gain of approximately $102 million during fiscal year 2018 and a net gain of $1.3 billion during fiscal year 2017.

On July 13, 2018, OIG notified RRB management that NRRIT auditors' system of quality control received a peer review rating of pass with deficiency, for the year ended March 31, 2017. This created a situation in which the independent public accountant (IPA) might not have reasonable assurance of performing or reporting in conformity with applicable professional standards. The deficiency was identified in the IPA's system of quality control whereby actions by senior audit management and other individuals failed to comply with the firm's quality control policies and procedures related to its leadership responsibilities, relevant ethical

[1] Misstatements in the National Railroad Retirement Investment Trust net assets could be both material and pervasive. American Institute of Certified Public Accountants (AICPA) AU-C 705.06 defines pervasive as, "[a] term used in the context of misstatements to describe the effects on the financial statements of misstatements or the possible effects on the financial statements of misstatements, if any, that are undetected due to an inability to obtain sufficient appropriate audit evidence." In context to the RRB's financial statements, the "[p]ervasive effects on the financial statements are those that, in the auditor's professional judgment" are confined to specific elements, accounts, or items of the financial statements, and "represent or could represent a substantial proportion of the financial statements."

requirements and monitoring and potentially negating the reasonable assurance of performing or reporting in conformity with applicable professional standards. We also informed RRB management that the Public Company Accounting Oversight Board's (PCAOB) 2015 Inspection of the NRRIT's auditors, identified deficiencies in the IPA's audit work and defects or potential defects in its system of quality controls and determined that the IPA had not obtained sufficient appropriate audit evidence to support its opinions. Deficiencies related to control testing and substantive testing in the audits inspected were identified in 29 instances and impacted 20 of the audit opinions. These IPA audit opinions were issued without obtaining reasonable assurance as to whether the financial statements were free of material misstatement. Of notable concern to the NRRIT, the IPA's procedures related to the valuation and disclosure of investments and derivatives, including those without readily determinable fair values, were not sufficient. In one example, the IPA identified a fraud risk related to the valuation of hard-to-value financial instruments but failed to test any controls that reviewed the valuation of these investments and derivatives.

According to the United States Government Accountability Office's (GAO) *Government Auditing Standards*, [a]n audit organization's system of quality control encompasses the audit organization's leadership, emphasis on performing high quality work, and the organization's policies and procedures designed to provide reasonable assurance of complying with professional standards and applicable legal and regulatory requirements.[2]

RRB OIG auditors are required to obtain an understanding of, "[a] component auditor's professional competence" in accordance with AICPA standard AU-C section 600.22 (b), Understanding a Component Auditor.

Section 615.20 of GAO's *Financial Audit Manual, Using the Work of Others, 615 – Evaluating the Objectivity, and Competence of Other Auditors or Specialists* provides guidance in responding to peer review rating of pass with deficiencies:

> Where the other auditors' or specialists' firm receives a peer review or inspection report rating of pass with deficiencies or fail, the auditor should evaluate whether the quality control system has since been strengthened to allow the auditor to use the other auditors' or specialists' work. The auditor may review the firm's action plan for improving quality controls and inspection results in determining whether quality controls have improved since the peer review. The auditor should evaluate the effect of remaining weaknesses in determining the nature and extent of procedures to be performed.[3]

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[2] United States Government Accountability Office (GAO), *Government Auditing Standards, 2011 Revision,* GAO-12-331G, Paragraph 3.83 (Washington, DC: December 2011).

[3] GAO *Financial Audit Manual, Volume 2,* GAO-18-601G (Washington D.C.: June 2018).

To facilitate the OIG's evaluation of the IPA's quality control system, we requested that RRB provide the IPA's action plan for improving its quality controls, the current status of its efforts, and the results of its inspections subsequent to the peer review. In addition, we requested an explanation of the IPA's post-inspection progress and corrective actions addressing the quality control deficiencies and defects reported by PCAOB and identify those specific actions which serve to strengthen reliance on the IPA's financial reporting.

In response to our request, RRB management provided their professional opinion but did not provide the IPA's action plan or post-inspection progress and corrective actions as requested. RRB management believes there is no cause for IPA concern and offered their point of view.

RRB management stated:

> Notwithstanding the aforementioned facts, a search of publicly available documents indicates that [the IPA] effectively addressed all deficiencies identified in the referenced peer review report and Public Company Accounting Oversight Board (PCAOB) inspection report. Therefore, there is no basis upon which to either revise prior financial statement disclaimers or support a disclaimer on the Railroad Retirement Board's financial statements for the fiscal year ending 2018.

RRB management also cited the Peer Review Committee:

> As the governing body under which the peer review process was conducted has determined that [the IPA] has taken corrective actions that are sufficient and no additional action is needed, per the governing body the deficiency has been resolved. Accordingly, "the reviewed firm has reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects."

RRB management dismissed the PCAOB's reporting of the 29 most significant deficiencies that resulted in the IPA's issuance of 20 of 52 audit opinions on financial statement presentation and internal control over financial reporting without obtaining sufficient appropriate audit evidence to support its opinion. RRB management also did not express concern with the fraud risk related to the valuation of hard-to-value financial instruments as it impacted only a single audit. RRB management also mistakenly believes that PCAOB's publicly reported deficiencies are not critical to the IPA's system of quality control as the nonpublic portions of the PCAOB's report have not yet been released.

RRB management stated:

> Therefore, it is a reasonable expectation that the nonpublic portions of the report, and not the pubic portion, contain the inspection results that the PCAOB deems to be the most critical and/or demonstrate potential defects in the Firm's system of quality control, and are therefore the deficiencies the PCAOB is most interested in remediating.

RRB management also believes that because NRRIT is not an "issuer" or public company with SEC reporting obligations, the IPA's defects in its system of quality control would not impact them.

RRB management's response did not offer tangible proof or IPA support to alleviate our audit concerns. While the IPA may perform the current audit of NRRIT for fiscal year 2018 under its current rating of "pass with deficiency," the remedial actions taken did not specifically address prior audit work or reports. Overall, we believe the significance of the deficiency warrants close monitoring of the IPA. This is not possible as the RRB will not permit communication with and cooperation from NRRIT auditors.

Further, the PCAOB has not released follow-up inspection reports for 2016 or 2017. The delay in the issuance of the PCAOB's follow-up inspection reports has only increased our concerns. In addition to the known fraud risk that was not tested by the IPA, the PCAOB also identified three additional audits with IPA deficiencies impacting investments and derivatives and numerous less significant IPA deficiencies that may indicate a defect in the IPA's quality control system. The IPA's prevalent failure to perform sufficient audit procedures, the material significance of the reported IPA issues, the absence of PCAOB follow-up inspection, and the inability to assess the IPA's post-inspection progress and corrective actions directly impacts the RRB's reporting of its fiscal year 2015, 2016, and 2017 financial statements including its Statement of Social Insurance, and other NRRIT supported financial information.

Disclaimer of Opinion

Due to the significance of the matters described in the Basis for Disclaimer of Opinion paragraphs, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the financial position of the RRB, its consolidated net cost of operations and changes in net position, and combined budgetary resources as of September 30, 2018 and 2017; and the financial condition of the Railroad Retirement program as of October 1, 2017, October 1, 2016, October 1, 2015, January 1, 2015, and January 1, 2014, and changes in the financial condition of the program for the period ended September 30, 2017. Accordingly, we do not express an opinion on these financial statements.

Emphasis of Matter

As discussed in Note 14 to the financial statements, the sustainability financial statements are based on management's assumptions. These sustainability financial statements present the actuarial present value of the RRB's estimated future income to be received and future expenditures to be paid using a projection period sufficient to illustrate long term sustainability. The sustainability financial statements are intended to aid users in assessing whether future resources will likely be sufficient to sustain public services and to meet obligations as they come due. The Statements of Social Insurance and Changes in Social Insurance Amounts are based on income and benefit formulas in current law and assume that scheduled benefits will continue after any related trust funds are exhausted. The statements of long term fiscal projections are based on the continuation of current policy. The sustainability financial statements are not forecasts or predictions. The sustainability financial statements are not intended to imply that current policy or law is sustainable. In preparing the sustainability financial statements, management considers and selects assumptions and data that it believes provide a reasonable basis to illustrate whether current policy or law is sustainable. Assumptions underlying such sustainability information do not consider changes in policy or all potential future events that could affect future income, future expenditures, and sustainability, for example, implementation of policy changes to avoid trust fund exhaustion or unsustainable debt levels. Because of the large number of factors that affect the sustainability financial statements and the fact that future events and circumstances cannot be estimated with certainty, even if current policy is continued, there will be differences between the estimates in the sustainability financial statements and the actual results, and those differences may be material. Our opinions are not modified with respect to this matter.

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 from the Social Security Administration's Old Age and Survivors Insurance and Disability Insurance trust funds and transfers to the Federal Health Insurance trust fund represented approximately $4.3 billion (net), or about 32 percent of the financing sources reported on the RRB's statement of changes in net position for fiscal year 2018 before considering the change in the reported value of NRRIT net assets. For fiscal year 2017, financial interchange transfers of approximately $4.1 billion (net) represented about 32 percent of the financing sources reported before considering the reduction in the reported value of NRRIT assets. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the following required supplementary information be presented to supplement the basic financial statements: Management Discussion and Analysis section beginning on page 7, Social Insurance beginning on page 87, and Combining Statement of Budgetary Resources on page 97. Such information, although not a part of the basic financial statements, is required by the Federal Accounting Standards Advisory Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information 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 our 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 us with sufficient evidence to express an opinion or provide any assurance.

Other Information

The RRB's other information contains a wide range of information, some of which is not directly related to the financial statements. This information is presented for purposes of additional analysis and is not a required part of the financial statements or the required supplementary information. We read the other information included with the financial statements in order to identify material inconsistencies, if any, with the audited financial statements. Our audit was conducted for the purpose of forming an opinion on the RRB's financial statements. We did not audit and do not express an opinion or provide any assurance on the other information.

Report on Other Legal and Regulatory Requirements

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in U.S. Government Auditing Standards, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 19-01, *Audit Requirements for Federal Financial Statements.*

Report on Internal Control over Financial Reporting

Management's Responsibility

RRB management is responsible for (1) maintaining effective internal control over financial reporting, including the design, implementation and maintenance of internal control relevant to the preparation and presentation of financial statements that are free from material misstatements, whether due to fraud or error, and (2) evaluating the effectiveness of internal control over financial reporting, based on criteria established under the Federal Managers' Financial Integrity Act (FMFIA).

Auditor's Responsibility

In planning and performing our audit, we considered the RRB's internal control over financial reporting to design audit procedures that are appropriate to express an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of internal control. Accordingly, we do not express an opinion on the effectiveness of internal control over financial reporting. We did not consider all internal controls relevant to operating objectives as broadly established under FMFIA, such as those controls relevant to preparing performance information and ensuring efficient operations.

Our audit procedures would not necessarily identify all deficiencies in internal controls, including those that might be material weaknesses or significant deficiencies.[4] Although not considered to be material weaknesses or significant deficiencies, we will report other matters involving internal control and its operation to RRB management in a separate letter.

Inherent Limitations of Internal Control over Financial Reporting

Because of inherent limitations, internal control over financial reporting may not prevent, or detect and correct, misstatements due to fraud or error. We also caution that projecting any evaluation of effectiveness 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 policies or procedures may deteriorate.

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[4] A *material weakness* 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 *significant deficiency* 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.

Intended Purpose of Report on Internal Control over Financial Reporting

The purpose of this report on internal control over financial reporting is solely to describe the scope of our consideration of internal control over financial reporting, and the results of our procedures, and not to provide an opinion on the effectiveness of internal control over financial reporting. This report on internal control over financial reporting is an integral part of an audit performed in accordance with U.S. generally accepted government auditing standards. Accordingly, this report on internal control over financial reporting is not suitable for any other purpose.

Material Weaknesses

Financial Reporting

- Ineffective Controls

This portion of the overall material weakness was initially reported in fiscal year 2014 and we made recommendations for improvement.[5] During our current audit, we continue to see the need for internal control improvements because some of the corrective actions related to this material weakness remain open. We also found that monetarily significant vouchers were approved in the RRB's financial reporting system without adequate review of supporting documentation.

- Communication with the NRRIT's Auditor

RRB OIG auditors have rendered disclaimer opinions on the RRB's financial statements since fiscal year 2013 because of RRB management's unwillingness to provide OIG auditors with cooperation and communication from NRRIT auditors. This lack of cooperation and communication prevents OIG auditors from obtaining sufficient appropriate audit evidence regarding the RRB's financial statements. Although AICPA Group 600 guidance requires that the group auditor (OIG) communicate with and receive cooperation from the component auditor (NRRIT's auditor), RRB management continues to prevent this from occurring, citing section 15 (j) of the Railroad Retirement Act as the basis for denial. During fiscal year 2014, we recommended that an independent committee be established to identify a functional solution that would enable communication between OIG and NRRIT's auditors.[6] Although RRB management did not concur with this recommendation, we will continue to cite this issue and the need for corrective action.

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[5] Railroad Retirement Board (RRB) Office of Inspector General (OIG), *Report on the Railroad Retirement Board's Fiscal Year 2014 Financial Statements*, Report No. 15-01 (Chicago, IL: November 17, 2014).
[6] RRB OIG, *Fiscal Year 2014 Financial Statement Audit Letter to Management*, Report No. 15-05 (Chicago, IL: March 31, 2015).

Deficient Internal Controls at the Agency Wide Level

GAO's *Standards for Internal Control in the Federal Government* identify the five required components of internal control:[7]

- Control Environment - The foundation for an internal control system. It provides the discipline and structure to help an entity achieve its objectives.
- Risk Assessment - Assesses the risks facing the entity as it seeks to achieve its objectives. This assessment provides the basis for developing appropriate risk responses.
- Control Activities - The actions management establishes through policies and procedures to achieve objectives and respond to risks in the internal control system, which includes the entity's information system.
- Information and Communication - The quality information management and personnel communicate and use to support the internal control system.
- Monitoring - Activities management establishes and operates to assess the quality of performance over time and promptly resolve the findings of audits and other reviews.

The five components represent the highest level of the hierarchy of standards for internal control in the federal government. The five components of internal control must be effectively designed, implemented, and operating, and operating together in an integrated manner, for an internal control system to be effective.[8]

Table 1. Effectiveness of RRB System of Internal Control

Internal Control Component	Designed & Implemented	Operating Effectively
1. Control Environment	Yes	Ineffective
2. Risk Assessment	No	Ineffective
3. Control Activities	No	Ineffective
4. Information and Communication	No	Ineffective
5. Monitoring	No	Ineffective
Are all Components operating together in an integrated manner?	**No**	**Ineffective**

Source: RRB OIG

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[7] GAO, *Standards for Internal Control in the Federal Government*, GAO-14-704G (Washington D.C.: September 2014).

[8] GAO, GAO-14-704G, Section OV2.04.

Although the RRB's control environment was assessed at the agencywide level, we have other concerns with the control environment. The control environment had been identified in prior audit opinions as a separate material weakness. This year it is included in the overall material weakness for deficient internal controls at the agencywide level. The control environment material weakness had originally been reported in fiscal year 2016. During a separate audit, we found that the remaining four components of internal control were never assessed by the RRB in conformance with GAO and OMB requirements at the agencywide level.[9]

During that audit, RRB management stated that its evaluation of internal controls was driven by the Federal Manager's Financial Integrity Act and that its approach for reviewing internal controls at the assessable unit level satisfies most of the 17 GAO principles. RRB management made an effort to design and implement internal controls for the control environment component by completing a risk profile and evaluation, but had not established its operating effectiveness. RRB management had also not made a determination of whether the remaining four control components, risk assessment, control activities, information and communication, and monitoring were designed, implemented, and operating effectively.

OMB Circular A-123 states:

> If an internal control principle is not designed, implemented, and operating effectively, management is unable to conclude that the internal control component is operating effectively.
>
> If one or more internal control components are not operating effectively, a material weakness must be reported.

GAO's Green Book states:

> The five components of internal control must be effectively designed, implemented, and operating, and operating together in an integrated manner, for an internal control system to be effective. [OV2.04]
>
> To determine if an internal control system is effective, management assesses the design, implementation, and operating effectiveness of the five components and 17 principles. If a principle or component is not effective, or the components are not operating together in an integrated manner, then an internal control system cannot be effective. [OV3.03]
>
> A control cannot be effectively implemented if it was not effectively designed. [OV3.05]

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[9] RRB OIG, *Enterprise Risk Management Process at the Railroad Retirement Board Was Not Fully Effective*, Report No. 18-07 (Chicago, IL: July 9, 2018).

OMB Circular A-123 states that an evaluation of internal controls must be performed for the agency as a whole. If control principles or components have not been fully designed and implemented they cannot be tested and must be considered ineffective. Because each of the required components were not designed, implemented, and operating effectively, consistent with GAO and OMB guidance, RRB OIG must conclude that the overall system of internal control was not operating effectively and an entity-level control material weakness must be reported.[10] Our specific concerns with the RRB's internal control components as observed are discussed below.

- Control Environment

This material weakness was initially reported in fiscal year 2016.[11] We determined that 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 the RRB and at governmentwide levels. A significant example is RRB management's determination that the NRRIT should be a disclosure entity that would result in removal of its net assets of approximately $26.6 billion as of September 30, 2018 from RRB and governmentwide financial statements. RRB management also determined that the RRB has no ownership interest in the NRRIT. These determinations were made in regard to Federal Accounting Standards Advisory Board's Statement of Federal Financial Accounting Standards 47, *Reporting Entity*, that became effective this fiscal year. The RRB's General Counsel issued a legal opinion stating that the NRRIT meets the characteristics of a disclosure entity more than a consolidating entity.[12] Bureau of Fiscal Operations management concluded that NRRIT classification as a disclosure entity would resolve the basis for RRB financial statement disclaimers because such classification would remove NRRIT net assets from the RRB's financial statements.

RRB OIG auditors determined that the NRRIT should be classified as a consolidating entity, which would result in continuance of its net assets being reported in the RRB's financial statements. The Department of Treasury made its own determinations and has classified the NRRIT as a consolidated entity in its financial statement guidance for fiscal year 2018. As a result of this determination,

[10] Office of Management and Budget (OMB), *OMB Circular No. A-123, Management's Responsibility for Enterprise Risk Management and Internal Control*, M-16-17, Section IV.D (Washington D.C.: July 2016).
[11] RRB OIG, *Report on the Railroad Retirement Board's Fiscal Year 2016 Financial Statements*, Report No. 17-01 (Chicago, IL: November 15, 2016).
[12] RRB General Counsel, *National Railroad Retirement Investment Trust Assets Statement of Federal Financial Accounting Standards 47, Reporting Entity*, Legal Opinion 2016-53 (Chicago, IL: October 31, 2016).

NRRIT net assets will continue to be reported in RRB and governmentwide financial statements. In response to the US Department of Treasury, the RRB management concurred with the classification of consolidation entity concerning the NRRIT for the purposes of government-wide financial statements only. They also stated that until further official guidance is received, the RRB will continue to serve as a pass-through entity reporting only the NRRIT's net asset value within its financial statements.

- Other Internal Control Components

In a separate audit conducted during fiscal year 2018, we found that the RRB's enterprise risk management (ERM) process was not fully effective.[13] RRB had not complied with all of the internal control requirements in OMB A-123 and did not implement the ERM process agencywide. OMB revised Circular A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control* (OMB A-123) in July 2016.[14] ERM is a discipline that deals with identifying, assessing, and managing risks. It provides an enterprise wide, strategically aligned portfolio view of organizational challenges that provides better insight about how to most effectively prioritize resource allocations to ensure successful mission delivery. ERM implementation requirements became effective in fiscal year 2017. Revised OMB A-123 emphasizes the importance of coordinating ERM activities with the strategic planning and review process, and internal controls required by the FMFIA and GAO's *Standards for Internal Control in the Federal Government.*[15] We also determined that our recommendations were not being addressed timely. We reported that recommendations that the agency concurred with remained open for an average length of time of four and a half years as of September 30, 2017.

In addition, we reported that RRB management had not always communicated matters of audit significance with RRB OIG auditors. AICPA AU-C section 260, *The Auditor's Communication With Those Charged with Governance*, explains the importance of communication between auditors and agency management and indicates that inadequate two-way communication may indicate an unsatisfactory control environment, thereby impacting the risk of material misstatements.[16] In response to one of our recommendations in March 2018, the Executive Committee directed RRB management to provide OIG auditors with timely notification of significant matters that could impact the financial statements.

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[13] RRB OIG, Report No. 18-07.
[14] OMB, M-16-17.
[15] GAO, GAO-14-704G.
[16] AICPA, AICPA Professional Standards, *The Auditor's Communication With Those Charged with Governance*, AU-C Section 260 (New York, NY: June 1, 2016).

In prior year audits, RRB had not agreed with the material weakness for the control environment and therefore did not make some of the recommended corrective actions. Recommendations for the ERM process were included in RRB OIG audit report number 18-07. Most of those recommendations remain open. We continue to see the need to implement all of our recommended corrective actions as related to these material weaknesses.

Report on Compliance with Laws, Regulations, and Contracts

In connection with our audit of the RRB's financial statements, we tested compliance with selected provisions of applicable laws and regulations consistent with our auditor's responsibility discussed below. Contracts were considered for compliance testing. Grant agreements are not applicable for RRB operations. We caution that noncompliance may occur and not be detected by these tests. We performed our tests of compliance in accordance with U.S. generally accepted government auditing standards.

Management's Responsibility

RRB management is responsible for complying with laws, regulations, and contracts applicable to the RRB.

Auditor's Responsibility

Our responsibility is to test compliance with selected provision of laws, regulations, and contracts that have a direct effect on the determination of material amounts and disclosures in the RRB's financial statements and perform certain other limited procedures. Accordingly we do not test compliance with all laws, regulations, and contracts applicable to the RRB.

Results of our Tests of Compliance with Laws and Regulations

Our tests of the RRB's compliance with selected provisions of laws and regulations for fiscal year 2018 disclosed no instances of noncompliance that are reportable under auditing standards generally accepted in the United States of America. 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. Specifically we 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 effect on the determination of material amounts and disclosures in RRB's financial statements, including:

- 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)).

Intended Purpose of Report on Laws, Regulations, and Contracts

The purpose of this report is solely to describe the scope of our testing of compliance with selected provisions of laws, regulations, and contracts and the results of that testing, and not to provide an opinion on compliance. This report is an integral part of an audit performed in accordance with U.S. generally accepted government auditing standards in considering laws, regulations, and contracts. Accordingly, this report on laws, regulations, and contracts is not suitable for any other purpose.

RRB MANAGEMENT'S RESPONSE AND OUR COMMENTS

Agency management commented that they reject the material weaknesses identified in our audit opinion and continue to disagree that a disclaimer of opinion on the agency's financial statements is necessary. They also stated that to strengthen the disclaimer of opinion, the OIG communicated NRRIT auditor deficiencies to the RRB. Their response also stated that the IG contends that AICPA professional standards take legal precedence over the NRRIT's establishing statue and that the IG refuses to accept that the AICPA stated that the corrective actions taken by the NRRIT's auditor were sufficient to resolve the cited deficiencies. The response also states that the IG refused to acknowledge a public statement of assurance from the Chairman of the Securities and Exchange Commission that the NRRIT's auditor's reports can be relied upon. They also stated that the OIG has no statutory grounds for interacting with NRRIT auditors.

We disagree with the comments provided in RRB management's response. RRB management's comments concerning the AICPA and SEC were incorrect. The OIG has never asserted that the AICPA's professional standards take legal precedence over the NRRIT's establishing statute. We have evaluated the NRRIT's establishing statute and issued the resulting disclaimer of opinion in accordance with the AICPA's professional standards because communication with the component auditors did not occur as required. NRRIT legislation was written many years prior to the creation of this AICPA professional standard that requires the aforementioned communication. As a result, NRRIT legislation does not address or prevent this communication.

The IG does not refute and never questioned the AICPA's acceptance of NRRIT's peer review report and rating of "pass with deficiency." Acceptance of the peer review report by the AICPA's Peer Review Committee does not remove the peer review rating of "pass with deficiency." AICPA stated that "[c]ompliance with these actions will be monitored during your firm's next review." As such, NRRIT auditor's peer review rating of "pass with deficiency" will be in effect until at least September 30, 2020.

The RRB's statement that the NRRIT's report can be relied upon is counterfactual because the NRRIT's report was not specifically addressed in the statement provided by the SEC. The SEC continues to monitor this matter and further action may be necessary. The IG does not refute and never questioned the statement of the Chairman of the SEC. As required by the GAO and AICPA professional standards for peer review ratings of "pass with deficiencies," OIG requested an action plan, post-inspection progress, and corrective actions addressing the NRRIT auditor's deficiencies. In response to our request, RRB did not provide the information required to address the professional auditing standards. While remedial action is taking place, the PCAOB's findings could have had a collateral effect on the performance of the NRRIT's financial statement audit. As of the date of this audit opinion, a follow-up report has not been issued by the PCAOB to alleviate our audit concerns.

Our independent audit opinion reflects performance and compliance in accordance with GAO *Government Auditing Standards* and AICPA Professional Standards. These standards require us to obtain an understanding and evaluate the objectivity and competence of the component auditor. As stated in our audit opinion, when deficiencies are present, the GAO's *Financial Audit Manual* requires us to evaluate whether the quality control system has since been strengthened to allow the auditor to use the other auditors' or specialists' work and to evaluate the effect of remaining weaknesses in determining the nature and extent of procedures to be performed. The disclaimer of opinion and reported material weaknesses were established and fully supported in accordance with these standards.

Pending required communication with the NRRIT's auditor or additional audit assurance addressing the AICPA and PCAOB deficiencies, the OIG's audit opinion and supporting facts continue to stand. As we are prohibited by law from auditing the NRRIT, we have not sought to audit the NRRIT but have requested only required communication with their auditors as necessary to comply with professional auditing standards and to enable us to render an audit opinion without a disclaimer.

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 and, accordingly, we express no opinion on the response.

Martin J. Dickman
Inspector General
Chicago, Illinois

November 8, 2018 except for matters relating to the net assets of the NRRIT as of September 30, 2018 as to which the date is November 15, 2018

UNITED STATES GOVERNMENT
MEMORANDUM

FORM G-115f(1-92)
RAILROAD RETIREMENT BOARD

November 13, 2018

TO: Debra Stringfellow-Wheat
Deputy Assistant Inspector General for Audit

FROM: Shawna R. Weekley
Chief Financial Officer

SHAWNA WEEKLEY Digitally signed by SHAWNA WEEKLEY DN: c=US, o=U.S. Government, ou=Railroad Retirement Board, cn=SHAWNA WEEKLEY, 0.9.2342.19200300.100.1.1=60001000028909 Date: 2018.11.14 08:20:12 -06'00'

SUBJECT: Fiscal Year 2018 Financial Statement Audit – Draft Auditor's Report

My office reviewed the Office of Inspector General's draft audit report. We reject the material weaknesses that your office identified and we continue to disagree that a disclaimer of opinion on the agency's financial statements is necessary. The Office of Inspector General (OIG) has no statutory grounds for interacting with the National Railroad Retirement Investment Trust's auditors, a fact that the OIG acknowledges within the draft report and the United States Government Accountability Office (GAO) has affirmed by entering into a Memorandum of Understanding[1] directly with the National Railroad Retirement Investment Trust (NRRIT). In an attempt to strengthen the justification for the disclaimer, and to gain access to the NRRIT auditors, the OIG provided a memorandum dated July 13, 2018, in which the Inspector General (IG) communicated NRRIT auditor deficiencies to the Railroad Retirement Board (RRB). Details of this memorandum were included in the subject draft report of audit. RRB's response to the July 13, 2018 memorandum is attached in its entirety.

One noteworthy detail is that the IG contends that the American Institute of Certified Public Accountants (AICPA) professional standards in AU-C section 600, *Special Considerations – Audits of Group Financial Statements* take legal precedence over the NRRIT's establishing statute. However, the IG refuses to accept that the AICPA stated that the corrective actions taken by the NRRIT auditor were sufficient to resolve the cited deficiencies. Further, the IG refused to acknowledge a public statement of assurance from the Chairman of the Securities and Exchange Commission (SEC) that the NRRIT auditor's reports can be relied upon.

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. We have devoted substantial resources to strengthen internal controls. We will continue to implement solutions that enable us to safeguard our customers' trust funds. While, the RRB continues to be dismayed by the fluidity of the OIG's rationale for the disclaimer of opinion and material weaknesses, as always, we will work in good faith with your office throughout the audit process.

cc: The Board
Executive Committee

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[1] MOU for the *NRRIT Inclusion in Government-Wide financial Statements and GAO Access to Information*, entered into by the National Railroad Retirement Investment Trust (NRRIT) and the U.S. Government Accountability Office (GAO), dated October 31, 2018.

UNITED STATES GOVERNMENT
MEMORANDUM

FORM G-115f (1-92)
RAILROAD RETIREMENT BOARD

August 2, 2018

TO: Martin J. Dickman
Inspector General

FROM: Shawna R. Weekley
Chief Financial Officer

SHAWNA WEEKLEY
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DN: c=US, o=U.S. Government, ou=Railroad Retirement Board, cn=SHAWNA WEEKLEY, 0.9.2342.19200300.100.1.1=60001000028809
Date: 2018.08.02 14:23:23 -05'00'

Ana M. Kocur
General Counsel

ANA KOCUR
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Date: 2018.08.02 14:20:03 -05'00'

SUBJECT: Response to Inspector General's Letter Dated July 13, 2018

We have reviewed your letter dated, July 13, 2018, sent to the Office of the Chairman, concerning the National Railroad Retirement Investment Trust (NRRIT) auditor, KPMG LLP (KPMG). As you are aware, the Railroad Retirement and Survivors' Improvement Act of 2001 (RRSIA)[1] amended the Railroad Retirement Act (RRA) by adding section 15(j) that provided for the establishment of the NRRIT.[2] NRRIT was created to "manage and invest"[3] the funds of the railroad retirement system for the sole purpose of providing railroad retirement benefits administered by the Railroad Retirement Board.[4] As we reiterated in our June 29, 2018 memo to your Office on a similar topic, the statute provides that NRRIT is not a "department, agency, or instrumentality of the United States Government and shall not be subject to title 31, United States Code."[5] Title 31 governs monetary and financial matters within the federal government.[6] By inclusion of the provision that NRRIT "shall not be subject to title 31," Congress made clear that control normally exercised over government agencies through the budgeting, appropriation, and auditing functions of the federal government would not apply to NRRIT. Again, we herein restate that contact between your Office and the NRRIT auditor is inconsistent with section 15(j) of the RRA, which provides for an independent status of the NRRIT.

Notwithstanding the aforementioned facts, a search of publicly available documents indicates that KPMG effectively addressed all deficiencies identified in the referenced peer review report[7] and Public Company Accounting Oversight Board (PCAOB) inspection report[8]. Therefore,

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[1] Pub. L. 107-90, 115 Stat. 878 (2001).
[2] *See* section 15(j) of the RRA, 45 U.S.C. § 231n(j).
[3] *Id.* § 15(j)(1).
[4] *Id.* § 15(j)(4)(G).
[5] *Id.* § 15(j)(2).
[6] 31 U.S.C. *et. seq.*
[7] PricewaterhouseCoopers, LLP, *Report of the Firm's System of Quality Control* (New York, NY: March 21, 2018) (on file with the AICPA Peer Review Web Program at https://peerreview.aicpa.org/public_file_search.html)
[8] Public Company Accounting Oversight Board, *Report on 2015 Inspection of KPMG LLP* (Headquartered in New York, New York), Release No. 104-2016-175 (Washington, DC: November 9, 2016).
(on file with the PCAOB https://pcaobus.org/Inspections/Reports/Documents/104-2016-175-KPMG.pdf).

there is no basis upon which to either revise prior financial statement disclaimers or support a disclaimer on the Railroad Retirement Board's financial statements for the fiscal year ending 2018.

In regard to the referenced 2018 peer review report, through review of publically available documents the National Peer Review (NPR) Committee under the American Institute of Certified Public Accountants (AICPA) accepted the peer review report rating of pass with deficiency and KPMG's response thereto. Specifically, the Chair of the NPR Committee stated in a letter addressed to KPMG that "[t]he Committee determined that the corrective actions taken by the firm are sufficient such that no additional remedial action is needed."[9] As the governing body under which the peer review process was conducted has determined that KPMG has taken corrective actions that are sufficient and no additional action is needed, per the governing body the deficiency has been resolved. Accordingly, "the reviewed firm has reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects."[10]

We further note with regard to the particulars of the deficiency set forth in the referenced peer review report, the Chairman of the Securities and Exchange Commission, issued a public statement on January 22, 2018, that reads, in part "[t]oday, the U.S. Department of Justice and the SEC initiated enforcement actions against six former KPMG LLP and PCAOB personnel related to an alleged misappropriation of confidential PCAOB inspection information."[11] "Based on discussions with the SEC staff, I do not believe that today's actions against these six individuals will adversely affect the ability of SEC registrants to continue to use audit reports issued by KPMG in filings with the Commission or for investors to rely upon those required reports. I do not expect that these actions will adversely affect the orderly flow of financial information to investors and the U.S. capital markets, including the filing of audited financial statements with the Commission."[12]

As you also noted in your letter, on November 9, 2016 the PCAOB released to the public Part I of their *Report on 2015 Inspection of KPMG LLP*, and portions of Appendices B, C, and D. As stated in the referenced inspection report, the full version contains information that was not made public. The referenced inspection report states that "if the nonpublic portions of the report [Parts II and III] discuss criticisms of or potential defects in the Firm's system of quality control, those discussions also could eventually be made public, **but only to the extent the Firm fails to address the criticisms to the Board's satisfaction within 12 months of the issuance of the report.**"[13] Therefore, it is a reasonable expectation that the nonpublic portions of the report, and not the pubic portion, contain the inspection results that the PCAOB deems to be the most critical and/or demonstrate potential defects in the Firm's system of quality control, and are therefore the deficiencies the PCAOB is most interested in remediating. The current publicly

[9] Letter from Michael Fawley, Chair, National Peer Review Committee, to Lynne M Doughtie, CPA, KPMG LLP (March 27, 2018) (on file with the AICPA Peer Review Web Program at https://peerreview.aicpa.org/public_file_search.html)
[10] PRP Section 1000, AICPA Standards For Performing And Reporting On Peer Reviews, paragraph, .70(c) (December 2017).
[11] *See* Public Statement, Jay Clayton, Chairman U. S. Securities and Exchange Commission, Statement on Charges Against Former KPMG and PCAOB Personnel (January 22, 2018), https://www.sec.gov/news/public-statement/statement-clayton-012218
[12] *See Id.*
[13] *See* PCAOB; Release No. 104-2016-175, at pg. 1 (emphasis added).

available version of the aforementioned inspection report was not amended to include previously unpublished portions (Parts II and III). Therefore, per PCAOB procedure, it is reasonable to conclude that KPMG LLP, effectively addressed deficiencies within the required timeframe.

Finally, specifically in regard to the referenced PCAOB inspection report, you state in your letter that "[o]f notable concern to the NRRIT, KPMG LLP's procedures related to valuation and disclosure of investments and derivatives, including those without readily determinable fair values, were not sufficient." You then state that "[i]n one example, KPMG identified a fraud risk related to the valuation of hard-to-value financial instruments but failed to test any controls that reviewed the valuation of these investments and derivatives." The Sarbanes-Oxley Act authorizes the PCAOB to inspect registered firms for the purpose of assessing compliance with certain laws, rules, and professional standards in connection with a firm's audit work for clients that are "issuers," and a firm's audit work for clients that are securities brokers or dealers.[14] Additionally, the PCAOB's "inspections are designed and performed to provide a basis for assessing the degree of compliance by a firm with applicable requirements relating to auditing issuers."[15] With respect to the referenced PCAOB inspection report "[t]he inspection procedures included reviews of portions of 49 issuer audits performed by the Firm [KPMG LLP] and a review of the Firm's [KPMG LLP's] audit work on three other issuer audit engagements in which the Firm [KPMG LLP] played a role but was not the principal auditor."[16]

However, the PCAOB inspection report attributes both the deficiency pertaining to the notable concern above, as well as your cited fraud related example solely to their review of KPMG LLP's audit work for one specific issuer, referred to as "Issuer C."[17] It bears mentioning that, the NRRIT is not an "issuer"[18] pursuant to its establishing statute.[19] Again, we emphasis that Congress created the NRRIT to "manage and invest its assets"[20] and "transfer money to the disbursing agent [Railroad Retirement Board]... to pay benefits under this Act from the assets of the Trust [NRRIT]."[21] Therefore, the deficiency of notable concern and the cited example are not applicable and do not pertain to KPMG's audit of the NRRIT.

cc: Walter Barrows, Labor Member
Steven J. Anthony, Management Member
Martha P. Rico-Parra, Secretary to the Board
Heather J. Dunahoo, Assistant Inspector General for Audit

[14] Public Company Accounting Oversight Board (PCAOB), Inspections, https://pcaobus.org/inspections/Pages/default.aspx (last visited July 20, 2018).
[15] *See* PCAOB; Release No. 104-2016-175, at pg. 1.
[16] *See* PCAOB; Release No. 104-2016-175, at pg. 2.
[17] *See* PCAOB; Release No. 104-2016-175, at pg. 11.
[18] "The term "issuer" means an issuer (as defined in Section 3 of the Securities Exchange Act of 1934), the securities of which are registered under Section 12 of that Act, or that is required to file reports under section 15(d), or that files or has filed a registration statement that has not yet become effective under the Securities Act of 1933, and that it has not withdrawn." See PCAOB, Inspections, Inspected Firms, https://pcaobus.org/Inspections/Pages/InspectedFirms.aspx (last visited July 20, 2018).
[19] *See* section 15(j) of the RRA, 45 U.S.C. § 231n(j).
[20] *Id.* § 15(j)(1).
[21] *Id.* § 15(j)(4)(G).

OTHER INFORMATION

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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 (OMB) Circular A-136, which requires that the Inspectors General identify what they consider the most serious management challenges facing their respective agencies and briefly assess the agency's progress in addressing those challenges.

Congress created the railroad retirement system more than 80 years ago. The Railroad Retirement Act (RRA) created a nationwide retirement system for railroad workers to provide income security in their old age. Over the years, the program has been expanded to include disabled workers, spouses and divorced spouses of retired workers, widows, children, and parents of deceased railroad workers. In 1938, Congress enacted the Railroad Unemployment Insurance Act (RUIA) which added a nationwide system of unemployment insurance, and later a program of sickness insurance. During fiscal year 2017, the Railroad Retirement Board (RRB) paid about $12.5 billion, in retirement and survivor benefits to approximately 548,000 beneficiaries, and approximately $106 million in unemployment and sickness benefits, to approximately 28,000 claimants.[1]

RRB also administers aspects of the Medicare program and has administrative responsibilities under the Social Security Act and the Internal Revenue Code.[2] In fiscal year 2017, RRB enrolled more than 26,400 beneficiaries for Medicare. At the end of 2017, approximately 465,900 persons were enrolled in the Part A plan, and 446,400 of those persons were also enrolled in Part B.[3]

[1] United States Railroad Retirement Board (RRB), *An Agency Overview* (Chicago, IL: January 2018).
[2] RRB, *2018 Annual Report* (Chicago, IL).
[3] RRB *An Agency Overview*.

Our identification of challenges facing RRB management is based on recent audits, evaluations, investigations, and current issues of concern to the Office of Inspector General (OIG). RRB OIG identified the following seven major management challenges facing RRB during fiscal year 2018.

Most Serious Management and Performance Challenges Facing RRB as of October 1, 2018 (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	*Assessing Payment Accuracy and Transparency*
Challenge 5	*Human Capital Management*
Challenge 6	*Material Weaknesses Related to Financial Statement Reporting and the Control Environment*
Challenge 7	*RRB Oversight of the National Railroad Retirement Investment Trust*

Challenge 1 – Program Integrity to Strengthen Disability Programs

There are two types of disability awards administered by RRB, the occupational disability annuity and the total (and permanent) disability annuity. A railroad employee is considered to be occupationally disabled if a physical or mental impairment permanently disqualified them from performing his or her regular railroad occupation (even though the employee may be able to perform other kinds of work). Occupational disability annuities are payable to qualified applicants at or after the age of 60 with 10 years of service, or at any age if the employee has at least 20 years of service. According to RRB's 2018 Annual Report, in fiscal year 2017, occupational disability annuities totaling approximately $772 million were paid to approximately 18,300 annuitants. The approval rate for occupational disabilities was approximately 98 percent in fiscal year 2017 and has remained relatively consistent for the months in fiscal year 2018 for which rates have been reported. A total disability annuity is payable, regardless of age, to employees with at least 10 years of service but requires that the applicant not be able to perform any substantial gainful activity in the U.S. economy. In fiscal year 2017, total disability annuities worth over $243 million were paid to approximately 9,600 railroad annuitants.[4]

The occupational disability program remains the subject of sustained scrutiny by the Congress, OIG, and the Government Accountability Office (GAO) as a result of continued program vulnerabilities and ineffective oversight from RRB. The inability of RRB to effectively manage the disability program leaves over $1 billion in annuity payments at increased risk.

In 2007, OIG initiated a joint investigation with the Federal Bureau of Investigation that identified a far reaching occupational disability fraud scheme perpetrated by a number of Long Island Rail Road (LIRR) retirees, doctors, and disability facilitators. This case was prosecuted by the U.S. Attorney's Office for the Southern District of New York. All 33 people charged in connection with the LIRR disability fraud scheme have either pled guilty (28 individuals) or been convicted at trial (5 individuals). OIG estimates that approximately 700 individuals may have been involved in this fraud scheme and investigations are ongoing.

Through the LIRR investigation and subsequent work, significant deficiencies were identified within the occupational disability program and OIG has made numerous recommendations for improvement through audits, OIG Alerts, and investigative activity. Further, according to a 2009 GAO audit of RRB's occupational disability program, "a nearly-100 percent approval rate in a federal disability program is troubling, and could indicate lax internal controls in RRB's decision-making process weaknesses in program design, or both."[5]

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[4] RRB, *2018 Annual Report* (Chicago, IL).
[5] United States Government Accountability Office (GAO), *Railroad Retirement Board: Review of Commuter Railroad Occupational Disability Claims Reveals Potential Program Vulnerabilities*, GAO-09-821R (Washington, D.C.: September 2009).

The OIG remained so concerned by RRB's failure to address deficiencies in its occupational disability program that in February 2014, the Inspector General (IG) issued a seven-day letter to Congress alerting RRB and Congress of its concerns and outlined particularly serious or flagrant problems, abuses, and deficiencies relating to the occupational disability program.[6] The IG urged the agency to institute substantial and meaningful corrective actions.

In May 2015, the U.S. House of Representatives Committee on Oversight and Government Reform's Subcommittee on Government Operations convened a hearing to examine if RRB was doing enough to prevent fraud in its occupational disability program and to assess RRB's process for determining which workers are eligible for benefits.[7] In testimony, the IG detailed the systemic deficiencies within RRB's occupational disability program, as well as several key OIG recommendations aimed at addressing these deficiencies.

Additionally, in August 2015, an RRB contractor issued a report titled, *Benefit Payment Program Fraud Prevention/Detection Assessment/Advisory Services*, which provided an overview of RRB's control procedures for its four major benefit paying programs, including disability. This report outlined vulnerabilities related to the disability program that could limit RRB's ability to identify and prevent fraud and payment errors in the program, such as lack of monitoring of providers who submit medical evidence; lack of analytic monitoring and screening of applicants; limited electronic data collection; limited use of continuing disability reviews; reviews for occupational disability only cases; gaps in employer provided vocational information; and inadequate accountability and information for medical providers. Although this report did not make recommendations, the vulnerabilities listed are similar to concerns outlined in OIG and GAO reports.

As a result of the IG's seven-day letter, congressional hearing, the contractor's report, oversight by the OMB, and recommendations by GAO and OIG, RRB established a Disability Program Improvement Plan (DPIP) to track improvements to its disability program. RRB's DPIP consists of 18 initiatives with related tasks assigned, aimed at improving program integrity within RRB's disability program.

As part of the DPIP, RRB hired a Chief Medical Officer, to assist in providing medical guidance to the disability program's adjudication staff. However, the position of Chief Medical Officer is currently vacant after being filled for only ten months.

These enhancements to the disability program, if thoroughly implemented, could have generated improvements in program integrity.

[6] RRB Office of Inspector General (OIG), *Seven-Day Letter to Congress* (Chicago, IL: February 10, 2014).
[7] U.S. House of Representatives Committee on Oversight and Government Reform's Subcommittee on Government Operations Hearing, *Is the Railroad Retirement Board Doing Enough to Protect Against Fraud?* (Washington D.C.: May 1, 2015).

However, foundational flaws and a culture seemingly entrenched in defending its disability program at the expense of strengthened program integrity have resulted in little significant improvement or change.

While the current DPIP indicates progress being made in its implementation, further review of the plan indicates that due dates are being changed without the original due date being noted and, more concerning, tasks are being labeled as closed when no more action is anticipated on the task and not necessarily when the task has been implemented.

The current DPIP, dated August 31, 2018, indicates that many of the initiatives were closed and specifies they were closed timely. From an oversight and program improvement perspective, the DPIP does not accurately reflect definite implementation of program improvements, which present a challenge for the Congress, as well as other oversight entities that rely on the DPIP to reliably identify which tasks have been implemented.

The OIG also remains concerned that RRB has not taken adequate steps to assure the collection of information on disability applicants' job duties from their railroad employers. In May 2016, the IG issued an alert to the Board revisiting a critical program vulnerability previously identified by OIG. Specifically, the alert reiterated that RRB's continued failure to verify self-reported job information with a third party (i.e., railroad employers) during the occupational disability adjudication process jeopardizes program integrity and does not comply with RRB regulations.[8] In 2016, RRB published their intent to replace the current job verification forms (G-251a and G-251b) with a singular version.[9] While this form has undergone extensive revisions as part of the DPIP, language in the Federal Registrar stated twice that completion of this form is voluntary. This is incongruent with RRB regulations that state RRB "shall also consider the employer's description of the physical requirements and environmental factors relating to the employee's regular railroad occupation, as provided by the employer on the appropriate form." This, among other third party verifications, is an important program integrity step that RRB has not fully implemented. In 2017, about 35 percent of disability determinations included an employer provided form. From January through August 2018, employers provided job description information in approximately 54 percent of cases, with about 54 percent also doing so in August 2018 (the month with most recently reported data).[10] An increase in submission of this information is promising but until RRB makes this information mandatory and based on the individual's specific job duties, it cannot fully assess an applicant's eligibility.

[8] OIG Alert Number 16-03, *Systemic Vulnerability within the Railroad Retirement Board's Occupational Disability Program* (Chicago, IL: May 11, 2016).
[9] Form G-251 is the "Vocational Report" where the disability applicant self reports all information related to their disability. Forms G-251a and G-251b are the "Job Information" forms that are sent to the employer to verify the job information submitted by the applicant on form G-251. In 2016, RRB proposed to combine the G-251a and G - 251b into one form, a revised G-251a, to be sent to the railroad employer to verify the job information reported by the applicant on Form G-251.
[10] The 54 percent includes submission of the G-251a and "Other (Employer Job Description)", as reported by RRB.

In addition, in September 2017, the IG issued an alert to the Board regarding the Occupational Disability Certification Form RL-8A.[11] This alert restated the IG's concerns with the Board's inaction to enact an annual eligibility questionnaire that requires a certified response from all disability annuitants. In August 2017, RRB's Office of Programs issued Procedure Transmittal 17-65, *New Disability Forms RL-8/RL-8A and Revised Form G-254*, which detailed RRB's newly enacted annual occupational disability certification procedure. Subsequently, the Office of Programs issued Informational Bulletin 17-27, *Form RL-8A – Occupational Disability Certification Annual Release Notification*, stating that it has, based on very specific and limited RRB developed criteria, identified 229 occupational disability cases that will be subject to RRB's new procedure. Out of these 229 cases, 77 will receive Continuing Disability Reviews (CDR) and 152 will receive the new *Occupational Disability Certification* (Form RL-8A).

RRB indicated that they've completed 72 out of the 77 CDRs and all but one were continuances. The remaining five CDRs were not completed because the high-risk CDR program was terminated in August 2018 based upon a recommendation from GAO "to reallocate resources used for high-risk CDRs to other CDR efforts that produce more effective outcomes." The 152 RL-8As resulted in one termination.

OIG contends that RRB's high-risk CDR program was cursory at best and OIG is not surprised by its lackluster results. Prior to implementation, OIG recommended a more robust disability certification program including a more comprehensive Form RL-8A; however, RRB did not agree and implemented the high-risk program as designed. OIG believes that, if implemented effectively, this program would have provided much needed oversight and increased program integrity.

In February 2018, GAO issued a report in which it concluded that "RRB's continued reliance on outdated earnings information to identify beneficiaries who, at the time a CDR is conducted, may no longer be eligible for benefits, increases the likelihood of making improper benefit payments and having to try to recover the money in the future. In addition, even for those overpayments that RRB identifies, it lacks a standard for processing them in a timely manner, which increases the potential loss of federal dollars." It further stated that "RRB's lack of routine data collection and analysis hampers its ability to monitor program performance and determine what changes, if any should be made to improve the CDR program, including determining the number of beneficiaries in each medical improvement category and the costs and benefits of conducting the various types of reviews. While paper files and disparate data systems present challenges to collecting and analyzing program data

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[11] In November 2016, OIG recommended that proposed Form RL-8A be amended to gather additional information regarding medical improvement including whether the annuitant requires continued treatment/medications. This recommendation was not implemented despite the fact that 20 CFR § 220.179, *Exceptions to Medical Improvement*, lists an annuitant's failure to follow, without good cause, prescribed treatment which would be expected to restore their ability to engage in substantial gainful employment as a potential reason to terminate an annuitant's disability.

and may hinder its oversight efforts, RRB could be doing more with the data it has to identify potential gaps in oversight."[12]

Another program improvement that has not been fully implemented is action to prevent occupational disability adjudications based on the simple task standard or one job aspect for railroad employees. In May 2015, OIG issued an alert to RRB's Office of the Chairman recommending improvements to the disability program. One of the recommended improvements was that RRB should formalize and implement procedures clarifying that an occupational disability application should be assessed against an applicant's permanent inability to perform the essential functions of their regular railroad occupation and not just a single task or function.[13] RRB implemented a portion of the recommendation by agreeing to provide refresher training to disability examiners to clarify that occupational disabilities should be awarded only to applicants whose conditions are such that they are unable to perform their regular railroad occupation. However, the portion of the recommendation pertaining to formalizing procedures so that an occupational disability application is not assessed based on inability to perform just a single task or function, was not fully implemented.

The action taken—to review the disability procedures and verify that they do not include allowing an individual to be found occupationally disabled for an inability to perform a nonessential job task or function—rather than formalizing and implementing procedures clearly stating this, did not effectively address the IG's recommendations and does not leave claims examiners unequivocal guidance should they face such a situation.

OIG remains significantly concerned with RRB's inaction regarding the recovery of potentially fraudulent payments made to LIRR annuitants. Specifically, OIG has recommended RRB use its fraud or similar fault authority to collect payments made to annuitants based on fraudulent or misleading information. After the LIRR fraud was uncovered and prosecutions were ongoing, RRB terminated benefits of annuitants who applied using medical documentation supplied by specific healthcare providers convicted of fraud. The annuitants were subsequently allowed to reapply with new medical information and more than 80 percent did. This resulted in an approval rate of over 90 percent for the terminated LIRR beneficiaries who refiled.

According to RRB, as of September 2018, $1,593,668 of the approximately $5.9 million in outstanding court ordered restitution related to the LIRR convictions had been returned to RRB. This amount ($5.9 million), however, is not an accurate reflection of the LIRR related court ordered restitution. It appears that RRB still has not established account receivables on some of the criminally convicted LIRR defendants, which represents more than $150 million in additional court ordered restitution. It remains imperative that RRB use every avenue to recover payments

[12] GAO, *Railroad Retirement Board, Actions Needed to Improve the Effectiveness and Oversight of Continuing Disability Reviews*, GAO-18-287 (Washington, D.C.: February 2018).
[13] OIG Alert Number 15-05, *Recommended Improvements to the Disability Program* (Chicago, IL: May 8, 2015).

lost due to fraud or similar fault and to prevent the continued abuse of its occupational disability program. Allowing individuals to commit fraud against the program, with no repercussions, only encourages future fraud and abuse of the program.

As responsible public stewards, RRB management must effectuate comprehensive and meaningful procedural and cultural change to ensure that disability benefits are adjudicated accurately; awarding benefits only to those who are eligible after an independent and thorough review of the application and all required supporting documentation. RRB should not simply take applications at face value, but assess the veracity of the information by validating with appropriate third parties. Further, RRB must work to ensure programmatic improvements, even those requiring legislative changes, are made expeditiously. If implemented properly, the OIG's prior recommendations provide valuable steps to improve program integrity. Without these changes, RRB's propensity to inaccurately adjudicate disability applications will continue to cost taxpayers millions in unwarranted expenses annually. RRB's culture has been to focus on paying benefits, which increases the likelihood of abuse in the disability program and creates an environment that leaves the program susceptible to fraud and abuse. This type of culture can result in weakened internal controls, which allows fraud and abuse to continue and fails to protect the program for those who may truly need it in the future.

To prioritize paying benefits quickly, rather than paying benefits accurately, does not support RRB's fiduciary responsibility to the railroad community, in ensuring the correct benefit amounts are being paid to the right people.

Challenge 2 – Information Technology Security and System Modernization

With information technology (IT) security risks developing constantly, federal agencies, including RRB, are challenged as to how to modernize and maintain their systems in a secure environment. RRB is incorporating new technologies and enhancing existing ones, as well as implementing new systems, to effectively strengthen and improve IT security projects and their overall modernization efforts.

While OIG acknowledges RRB's efforts, there are still concerns that these efforts are not robust enough to adequately address innate risks involving IT security and developments.

In the RRB's Fiscal Year 2019 Budget Justification, RRB states that the RRB is continuing the effort and the process of undertaking major IT initiatives. The initiatives that RRB considers most critical are the implementation of the Enterprise Infrastructure Solutions (EIS) contract and Legacy Systems Modernization Services (LSMS).

In the budget justification, RRB states that successful implementation of EIS will allow RRB to consolidate network services, as well as re-architect and modernize RRB's network infrastructure. RRB states that the agency considers the LSMS project critical because the cost and resources needed to maintain RRB systems in the legacy environment are unsustainable. The LSMS implementation will modernize RRB's systems in order to mitigate cybersecurity risks; improve fraud prevention and detection abilities; and support a more effective, efficient, and leaner workforce.

Because of the difficulty in managing IT projects, acquisitions, and modernization, GAO has continually included IT in its High Risk Series Report.[14] GAO reports that federal IT investments too frequently fail or incur cost overruns and schedule slippages, while contributing little to mission related outcomes; often suffering from a lack of disciplined and effective management, such as project planning, requirements definition, and program oversight and governance. In addition, GAO testified that the federal government has spent billions of dollars on these failed IT investments. In GAO testimony, GAO reported that "IT projects have also failed due to a lack of oversight and governance. Executive-level governance and oversight across the government has often been ineffective, specifically from Chief Information Officers (CIOs)."[15]

Most recently, on May 15, 2018, the President signed Executive Order 13833, *Enhancing the Effectiveness of Agency Chief Information Officers*.[16] Among other things, this executive order is intended to better position agencies to modernize their IT systems, execute IT programs more efficiently, and reduce cybersecurity risks.

RRB has embarked on a legacy systems modernization that is one of the largest IT projects ever undertaken by RRB and estimates the project to cost approximately $15.7 million. This modernization is essential to sustaining agency operations. This project is expected to take several years during which approximately 12 million lines of code are to be translated to more modern computer language, followed by a systems reengineering project. However, based on a review of the Fiscal Year 2018 Capital Plan, the existing mainframe at RRB will reach the end of its useful life before the legacy systems modernization project is complete. The Capital Plan states that RRB is to utilize the National Information Technology Center for its mainframe operations, temporarily, until the legacy systems modernization project is completed.

RRB "Office in the Cloud Plan," cloud technology for a mobile workforce, has long term considerations of cost and data access, as well as the risks involved in operating in a cloud environment. In fiscal year 2018, the RRB reported that the tax system was successfully moved from the mainframe environment to the new

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[14] Government Accountability Office (GAO), High Risk Series*: Progress on Many High-Risk Areas, While Substantial Efforts Needed on Others,* GAO-17-317 (Washington, D.C.: February 2017).
[15] GAO, *INFORMATION TECHNOLOGY: Continued Implementation of High-Risk Recommendations Is Needed to Better Manage Acquisitions, Operations, and Cybersecurity*, GAO-18-566T (Washington, D.C.: May 2018).
[16] Executive Order No. 13833, *Enhancing the Effectiveness of Agency Chief Information Officers* (May 15, 2018).

platform. These types of projects of such size, length, security, and costs can come at significant risks of cost overruns and can result in project failure, which are concerns to OIG.

In a June 2018 audit report, OIG reported on information security at RRB.[17] The audit included testing the effectiveness of the information security policies, procedures, and practices of a representative subset of the agency's information systems; assessing the effectiveness of RRB's information security policies, procedures, and practices; and preparing a report on selected elements of the agency's information security program in compliance with OMB's fiscal year 2017 Federal Information Security Management Act (FISMA) reporting instructions.

The audit determined that although RRB implemented changes in the information security program, a security program that meets the requirements of FISMA has not been achieved. RRB has not produced a fully effective security program with related information security policies, procedures, and practices. OIG issued 21 detailed recommendations for improvement.

For fiscal year 2017, OIG completed an evaluation of RRB's Cybersecurity Framework and rated each of the framework functions as "Not Effective."

Our FISMA audits will continue to assess RRB's efforts, and this will remain a management challenge until our work corroborates that RRB's system of controls achieves expected outcomes. To that end, RRB needs to effectively address information technology security deficiencies, continue to provide mitigating controls for vulnerabilities, and implement planned actions to correct system weaknesses.

RRB reported significant progress towards addressing longstanding information technology security weaknesses. However, we continue to identify significant weaknesses in our annual FISMA audits—despite RRB's reported corrective actions to address our prior recommendations.

Challenge 3 – Management of Railroad Medicare

Social Security Administration legislation gave RRB direct legislative authority to administer certain provisions of the Medicare program for Qualified Railroad Retirement Beneficiaries and active Railroad employees.[18] These provisions included enrollment, premium collection, and selection of a carrier to process Medicare Part B claims nationwide. RRB is responsible for administering its contract with Palmetto GBA, its Part B carrier. In fiscal year 2017, RRB withheld approximately $671 million in premiums, and Palmetto processed about $850 million in payments for services covered by Medicare Part B. Since 1983, the Centers for

[17] RRB OIG, *Fiscal Year 2017 Audit of Information Security at the Railroad Retirement Board*, Report No.18-06 (Chicago, IL: June 5, 2018).
[18] The Centers for Medicare & Medicaid Services (CMS), a branch of the Department of Health and Human Services, is the federal agency that runs the Medicare Program.

Medicare and Medicaid Services (CMS) has reimbursed RRB for Medicare program related work performed. This reimbursement was approximately $27.2 million in fiscal year 2017.[19]

In 2016, OIG conducted an audit to determine if RRB's cost allocation plans and Medicare reimbursement calculations were accurate and supported in accordance with federal requirements. The audit determined that the controls to ensure the plans and reimbursement calculations were accurate and supported were not adequate and RRB's Medicare cost allocation policies and procedures were not effective in preventing errors. Labor costs were reimbursed based on RRB management's professional judgment and indirect costs had not been formally approved by CMS. 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.[20]

The audit resulted in 26 recommendations to address the weaknesses identified. RRB's management concurred with 10 of the 26 recommendations. OIG was concerned by the significant nonconcurrence from RRB management and conducted subsequent discussions, but RRB management made no revisions in its official responses to the audit report.

Most of RRB's nonconcurrence was with recommendations that would require retroactive assessment of the accuracy of reimbursements received from CMS and one that called for an assessment to determine whether the Antideficiency Act had been violated.[21] OIG and RRB also have a fundamental disagreement on the applicability of and RRB's compliance with OMB Circular A-87.[22] This circular established principles and standards for allowable cost reimbursements between governmental units that RRB was required to follow, based on its agreement with CMS. OIG believes that RRB should take all necessary steps to implement these recommendations in order to assure the accuracy of prior and future reimbursements.

In 2018, RRB completed corrective actions resulting in the closure of four recommendations. RRB officials have since attended training on OMB Circular A-87 and in February 2018, submitted a revised draft cost allocation plan for fiscal years 2015 and 2016. However, CMS has not approved the use of RRB's cost allocation plan for future reimbursements.

In May 2018, OIG informed CMS that RRB had received $7.9 million in Medicare contract overpayments during the period of fiscal year 2013 through

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19 RRB, *2018 Annual Report*.

20 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).

21 The Antideficiency Act is codified in several sections of title 31 of the United States Code (USC) including 31 USC 1341(a), 1342, 1349-1351, 1511(a), and 1512-1519.

22 Federal Management Circular 74-4 was reissued in 1981 as OMB Circular A-87 and codified as 2 Code of Federal Regulations (CFR) Part 225 in 2005. OMB has consolidated and streamlined its guidance located at 2 CFR Part 200.

fiscal year 2017. OIG estimated that an additional $20 million, for a total of $27.9 million, in overpayments may be owed to CMS since the contract's inception. In addition, OIG is concerned that Railroad Medicare is not using the CMS Fraud Prevent System (FPS). Implemented in July 2011 by CMS, FPS is utilized by CMS to assist in reducing improper Medicare payments.[23] While FPS has been integrated with CMS contractor systems that process claims, it has not been integrated with the payment processing system used for Railroad Medicare claims. In 2016, Railroad Medicare was approved for onboarding to FPS, with implementation planned for December 2016 or January 2017. In August 2018, we were notified that onboarding was in process and FPS was expected to be functional by the end of September 2018.

OIG is concerned that RRB's Medicare program modernization plan has not been effective and recommends that RRB continue to improve controls and provide effective oversight over approximately $850 million in Railroad Medicare payments made on behalf of its beneficiaries.

Challenge 4 – Assessing Payment Accuracy and Transparency

In 2015 through 2017, OIG reported that RRB was not in compliance with the Improper Payments Elimination and Recovery Act of 2010 (IPERA), which amended the Improper Payments Information Act of 2002 (IPIA).[24] In May 2015, OIG issued an audit report to assess RRB's fiscal year 2014 compliance with IPERA. The audit determined that RRB was not in full compliance with IPERA reporting requirements.[25] Specifically, RRB did not comply with the risk assessment requirements because it did not assess risks for all of the programs that it administers. As a result, OIG was unable to assess compliance for the publication requirement for improper payment estimates for all of the programs and activities identified as susceptible to significant improper payments under the risk assessment. The audit also reported that improvements were needed for the RRA program and the RUIA program, to ensure completeness of reported amounts for the RRA, as well as the accuracy of the reported improper payment amounts for the RRA and the RUIA programs. This includes the understatements and insufficient supporting documentation. RRB developed a risk assessment plan in response to the OIG's determination that RRB was not in compliance with IPERA.

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[23] GAO, Medicare Fraud Prevention: *CMS Has Implemented a Predictive Analytics System, but Needs to Define Measures to Determine Its Effectiveness,* GAO-13-104 (Washington, D.C.: October 2012).
[24] Public Laws 111-204 and 107-300.
[25] RRB OIG, *Audit of the Railroad Retirement Board's Compliance with the Improper Payments Elimination and Recovery Act of 2010 in the Fiscal Year 2014 Performance and Accountability Report*, Report No. 15-06 (Chicago, IL: May 15, 2015).

In May 2016, OIG determined that RRB remained noncompliant with IPERA for the second consecutive year, for the risk assessment requirement.[26] Specifically, risk assessment documentation did not meet the minimum requirements specified in OMB guidance. OIG also determined that improvement was still needed to ensure the accuracy of reported improper payment amounts for RRA and RUIA programs because both programs reported understated amounts of approximately $12 million and $904,000. In addition, OIG identified other improper payment reporting deficiencies, which made RRB's improper payments report incomplete.

In May 2017, OIG issued a report on RRB's compliance with the IPERA that resulted in six recommendations.[27] Because it was the third year of noncompliance with IPERA, OIG recommended corrective actions needed for improvement and implementation to ensure proper compliance with IPERA guidance.

In May 2018, OIG reported that RRB remains challenged to complete improper payment initiatives intended to reduce improper payments and to intensify its efforts to successfully prevent and identify improper payments.[28] RRB was compliant with IPERA requirements, when applicable, for the RRA and RUIA programs for its fiscal year 2017 reporting.[29] OIG determined that RRB was compliant with IPERA because risk assessments that addressed all of the factors required by OMB guidance were completed for two programs that RRB administers: vendor payments and employee payments.

RRB did not report improper payment amounts for the Medicare Part B program in the payment integrity section of RRB's fiscal year 2017 Performance and Accountability Report (PAR). However, the PAR stated that CMS established the Comprehensive Error Rate Testing (CERT) program to estimate improper payment error rates. CMS uses the error rates from the CERT program to reduce or eliminate improper payments through various corrective actions. It was also stated that the Medicare error rate was not available when the payment integrity report was published. RRB plans to begin reporting Medicare Part B improper payment data in the fiscal year 2018 PAR.

Although noncompliance was no longer cited, RRB had not yet taken the corrective actions required by IPERA to address the OIG's determination of noncompliance for three consecutive years for its risk assessments. IPERA requires an agency to submit reauthorization proposals for each discretionary program or activity that has not been in compliance for three or more consecutive years; or submit proposed

[26] RRB OIG, *Audit of the Railroad Retirement Board's Compliance with the Improper Payments Elimination and Recovery Act of 2010 in the Fiscal Year 2015 Performance and Accountability Report*, Report No. 16-07 (Chicago, IL: May 13, 2016).
[27] RRB OIG, *Audit of the Railroad Retirement Board's Compliance with the Improper Payments Elimination and Recovery Act of 2010 in the Fiscal Year 2016 Performance and Accountability Report*, Report No. 17-05 (Chicago, IL: May 12, 2017).
[28] RRB OIG, *Audit of the Railroad Retirement Board's Compliance with the Improper Payments Elimination and Recovery Act of 2010 in the Fiscal Year 2017 Performance and Accountability Report*, Report No. 18-05 (Chicago, IL: May 9, 2018).
[29] RRB OIG, Report No. 18-05.

statutory changes to bring the program or activity into compliance, when its Inspector General determines it is noncompliant with IPERA for three consecutive years. Because RRB management did not concur with our recommendation for third year noncompliance, they did not make the corrective actions required by IPERA. By not taking the required corrective actions, RRB management neither afforded the Congress an opportunity to address RRB noncompliance for the third consecutive year, nor complied with IPERA.

We found that improvements were needed to ensure that improper payment amounts are accurate and complete for the RRA and RUIA programs. We determined that the reported improper payment amounts were understated by approximately $20.8 million and $1.6 million for the RRA and RUIA programs, respectively. We also found that the reported recaptured payments were understated by an estimated $5.5 million for the RRA program. In addition, we determined that RRB improper payment methodologies used for the RRA and RUIA programs result in inaccurate improper payments reported for both programs. This impacts the completeness of the reported data for both programs.

A reliable and accurate program evaluation process is imperative for identifying improper payments and their root causes, so action may be taken to prevent improper payments in the future.

<u>Transparency</u>

The Digital Accountability and Transparency Act of 2014 (DATA Act) amended the Federal Funding Accountability and Transparency Act of 2006 (FFATA), which required OMB to ensure the existence and operation of a single searchable website of federal award information, accessible by the public at no cost.[30,31]

The DATA Act expanded FFATA and:

- required disclosure of direct federal agency expenditures and linkage of federal contract, loan, and grant spending information to federal programs so taxpayers and policy makers can more effectively track federal spending;
- established governmentwide data standards for financial data to provide consistent, reliable, and searchable governmentwide spending data that are displayed accurately for taxpayers and policy makers;
- simplified reporting for entities receiving federal funds by streamlining reporting requirements and reducing compliance costs while improving transparency;

[30] Public Law 113-101 (May 9, 2014).
[31] Public Law 109-282 (September 26, 2006).

- improved the quality of data submitted by holding federal agencies accountable for the completeness and accuracy of the data submitted; and
- applied approaches developed by the Recovery Accountability and Transparency Board to spending across the Federal Government.

The DATA Act charged OMB and the U.S. Department of the Treasury (Treasury) with issuing guidance on the data standards needed to implement the DATA Act and required full disclosure of federal funds on the public website USASpending.gov (or a successor system) no later than May 2017.[32] The DATA Act further required the Secretary of the Treasury, in consultation with the Director of OMB, to ensure that the information is posted to the public website at least quarterly, but monthly when practicable. The DATA Act did not provide any additional funding dedicated to its implementation.

OIGs were encouraged to undertake DATA Act readiness reviews at their respective agencies, well in advance of the first November 2017 report. In 2016, OIG conducted a review of RRB's readiness for the implementation of the DATA Act, and reported it findings in a memorandum to RRB's three member Board on October 4, 2016.[33]

In the October 2016 memorandum outlining the results of its readiness review, the OIG raised concerns to RRB management related to RRB's heavy reliance on its contractor as its solution for implementing the DATA Act. In that memorandum, OIG made four recommendations to the Bureau of Fiscal Operations to take action to ensure that RRB would be ready to meet the requirements for their first DATA Act submission in May 2017. The recommendations included: developing milestones to facilitate better oversight of the contractor; holding regular status meetings; forming a formal DATA Act work group with appropriate levels of management; and expediting system changes to prepare for DATA Act implementation. In response to the readiness review, RRB management only partially concurred with OIG's recommendations, and did not submit any corrective actions for review.

In November 2017, OIG reported on the status of RRB's implementation of the DATA Act.[34] In this report, OIG determined that RRB made its initial certified DATA Act submission by the required due date and implemented the required data standards. However, the data files were not complete or accurate and did not agree to RRB's source systems.

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[32] Office of Management and Budget (OMB), *Increasing Transparency of Federal Spending by Making Federal Spending Data Accessible, Searchable, and Reliable*, OMB Memorandum 15-12 (Washington, D.C.: May 8, 2015).
[33] RRB OIG, *Memorandum: Digital Accountability and Transparency Act of 2014 Readiness Assessment for the Railroad Retirement Board* (Chicago, IL: October 4, 2016).
[34] RRB OIG, *Audit of the Railroad Retirement Board's Initial DATA Act Submission, While Timely, Was Not Complete or Accurate*, Report No. 18-01 (Chicago, IL: November 8, 2017).

Because RRB's initial DATA Act submission was not accurate or complete, OIG is concerned that it did not meet the intent of providing transparent, consistent, reliable, and searchable spending data for which taxpayers and policy makers can base their decisions.

Challenge 5 – Human Capital Management

Human capital management is the process to acquire, train, and manage the skills of the workforce to advance an organization's mission and goals. As part of its human capital management process, an agency must continually review its plans to retain employees and elevate the skills of the existing employees allowing them to effectively contribute to the organization. Succession planning is key to the continuing and uninterrupted operations of an agency.

In July 2017, Office of Personnel Management (OPM) issued a human capital (HC) management evaluation of RRB.[35] The evaluation was conducted because of two critical human capital challenges that RRB is facing; an increasing retirement eligibility rate due to an aging workforce and high field office turnover rates. In April 2018, OPM reported that RRB had taken corrective action to close the remaining open recommendations from the 2017 OPM evaluation. However, human capital management remains a challenge for RRB.

RRB has an aging workforce, with about 50 percent of its employees having 20 or more years of service. Additionally, as of November 2017, RRB reported that about 30 percent of the agency's current workforce will be eligible for retirement by the end of fiscal year 2019.[36]

In addition to retirement among personnel, RRB has experienced high turnover in its leadership. The agency is overseen by a three member Board (the Board), including a Chairman. The Office of Chairman has been vacant for three years, since the retirement of the Chairman in August 2015. In addition, in August 2018, the Management Member of the Board's term expired and the Labor Member of the Board expressed his intention to retire.

Lastly, RRB has experienced multiple retirements and separations of its senior executive staff. One major priority for the agency's leadership will be to ensure the transfer of knowledge to guarantee continuing and uninterrupted operations of the agency.

In June 2017, the RRB filled the position of General Counsel. In March 2018, the RRB named a Chief Financial Officer and a Director of Equal Opportunity.[37] On July 27, 2018, The President issued his intent to nominate an individual for the position of

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[35] U.S. Office of Personnel Management, *Human Capital Management Evaluation Railroad Retirement Board* (Washington D.C.: July 19, 2017).
[36] RRB, *2018 Annual Report*.
[37] RRB, *2018 Annual Report*.

Chairman of RRB, for a five-year term expiring on August 28, 2022. However, this nominee has not yet been confirmed by the Senate.

With succession planning, an agency can identify potential leaders with the skills and abilities to fill vacant positions or develop them for advancement to vital roles in the organization. In developing a successful succession plan, the strategy must ensure that employees are consistently being developed to move into key roles.

In September 2011, OIG reported that RRB had identified staff attrition as an ongoing concern.[38] The report also stated that these changes would impact every aspect of the agency's operations, to include senior level management. While RRB has a Human Capital Management Plan and Succession Plan, historically it has not been funded. Also, while the plan identified RRB's need to maintain and replace employees, the impact of declining budgetary resources was not considered. OIG concluded that RRB management should enhance the plan by evaluating the possibility of staff and financial reductions and then by establishing a contingency plan to address staff and funding necessities for plan readiness.

RRB should take advantage of its attrition and turnover to recruit and train new employees to assist the agency in promoting new perspectives. With the incorporation of new employees, the addition of innovative and different viewpoints are presented along with new skills and approaches, which can alter the agency's culture.

In addition to the human capital management issues already identified, OIG has become aware of an additional area of concern related to staffing.

Audit and Compliance Section

Within RRB, the Audit and Compliance Section (ACS) conducts external audits of employers to ensure compliance under the RRA and RUIA, and verifies the accuracy of reported compensation and contributions. Although the section does not have the authority to audit taxes under the Railroad Retirement Tax Act, its staff reviews the compensation amounts on which these payroll taxes are based. According to BFO's Fiscal Year 2018 Audit Plan, the ACS audit universe consists of 712 railroad employers and labor organizations. Also according this audit plan, as of February 2017, railroad employers and labor organizations submitted approximately 272,000 employee reports valued at nearly $18 billion in Tier I creditable compensation for 2016. According to RRB statistical data, the total Tier I and Tier II compensation for fiscal year 2016 was approximately $35 billion.[39] The RRA program has a two-tiered benefit payment structure.

[38] RRB OIG, *Office of Inspector General's Proposal to Improve Business Efficiency at the Railroad Retirement Board,* (Chicago, IL: September 21, 2011).
[39] Tier I is based on a combined railroad retirement and social security earnings, using social security benefit formulas.

ACS also gathers, verifies, and analyzes activities of employers and employees in support of the Board's coverage determinations under the RRA and the RUIA. ACS submits coverage cases to the Office of General Counsel, which drafts a preliminary decision that is forwarded to the Board for a formal determination.

Prior to 1991, the OIG had developed and implemented a program to audit the payroll records of railroad employers. During the course of litigation to enforce an OIG subpoena to a railroad employer, the OIG had been advised that railroad audits could be justified as spot checks by the OIG to evaluate the efficiency of procedures used by RRB. However, the U.S. District Court for the Northern District of Texas ruled that the OIG railroad employer audits went beyond spot checks and oversight, and refused to enforce the subpoena. As a result of this ruling, OIG ceased doing audits of railroad employers. Therefore, ACS remains the only RRB organization conducting external audits of railroad employers at this time.

Recently, OIG has become concerned about the ACS's ability to meet their mission of conducting railroad employer audits due to sustained staffing shortages. For example, in fiscal year 2010, ACS completed 12 audits, in fiscal year 2013, they completed only 4 audits, and by fiscal year 2016, although 3 audits were in progress, none were completed.

According to RRB's most recent Federal Managers' Financial Integrity Act report for ACS:

- The annual staffing and administrative budget for personnel compensation was $312,605 for fiscal year 2016. The unit was staffed with 2.36 full time equivalents.
- Status of Workloads and Backlogs - ACS's fiscal 2017 Audit Plan was submitted to the Board on September 2, 2016. It outlined that due to sustained reduction in audit staff, audit projects were reprioritized to focus on completing backlog audits. It also stated that a fiscal year 2016 audit assignment was re-characterized as a fiscal year 2017 audit.
- The most recent Management Control Certification for Employer Audits dated October 20, 2017 included the following statement that was made by the responsible certification official:

> "Due to sustained staffing shortages and inadequate coverage of the entities which we are responsible for auditing, I cannot state that the unit's mission is being effectively accomplished. However, I do believe that the quality of the audits conducted is excellent."

RRB is not prioritizing audits of employer compensation reporting. RRB has decreased the number of staff assigned to employer audits and has also decreased the budget for these audits. As a result, RRB is not giving sufficient audit coverage to employer compensation reporting.

Challenge 6 – Material Weakness Related to Financial Statement Reporting and the Control Environment

OIG is mandated to audit RRB's consolidated balance sheet, as well as the related statements of net cost, changes in net position, budgetary resources, the statement of social insurance, the statement of changes in social insurance, and the related notes to the financial statements. RRB management's responsibility is the preparation and fair presentation of said financial statements in accordance with accounting principles generally accepted in the United States of America. Upon RRB's completion of these financial statements, OIG is responsible for expressing an opinion on the financial statements, which are based on the audit being conducted in accordance with the auditing standards generally accepted in the United States of America.

OIG reported a material weakness for financial reporting for fiscal years 2014, 2015, 2016, and again in 2017. To address our audit recommendation for development and implementation of new controls for financial reporting, RRB management stated that they developed new controls, conducted training, and updated procedures. During our fiscal year 2017 audit, we found that although these actions were taken, additional internal control improvements were needed because we identified approximately $503.2 million of recorded and approved financial transactions that lacked adequate supporting documentation in the agency's official records for these transactions.

The material weakness for financial reporting also includes the lack of communication with the National Railroad Retirement Investment Trust's (NRRIT) auditor. The lack of communication with NRRIT's auditor has resulted in the OIG's continuous rendering of a disclaimer opinion for RRB's financial statements since 2013. This lack of cooperation and communication has prevented OIG auditors from obtaining sufficient appropriate audit evidence regarding RRB's financial statements.

In fiscal year 2016, OIG reported a new material weakness which continued in fiscal year 2017. We reported that 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 at governmentwide levels. OMB issued guidance defining management's responsibility for ensuring that an organization is committed to sustaining an effective control environment.[40] This finding provided examples of our audit concerns regarding the control environment.

One of the most significant concerns involves ownership of NRRIT net assets. NRRIT was established in 2001 by the Railroad Retirement and Survivors' Improvement Act 2001 (RRSIA). NRRIT's sole purpose is to manage and invest railroad retirement assets. The RRSIA authorizes NRRIT to invest railroad retirement assets in a diversified investment portfolio in the same manner as those of private sector retirement plans. NRRIT's net assets represented $26.5 billion or approximately 80 percent of the total assets reported for fiscal year 2017. Approximately $1.8 billion was transferred in fiscal year 2017 from NRRIT to the U.S. Treasury for the payment of railroad retirement benefits throughout the year.

RRB indicated that it has no ownership interest in NRRIT in its assertion that NRRIT should be classified as a disclosure entity for financial statement reporting purposes under Federal Accounting Standards Advisory Board's Statement of Federal Financial Accounting Standards 47 (SFFAS 47), *Reporting Entity*. Based on RRB's classification of NRRIT as a disclosure entity, NRRIT net assets would not be included in RRB or governmentwide financial statements beginning in fiscal year 2018.

OIG disagreed with RRB's assertion and determined that NRRIT should be classified as a consolidating entity, which would result in NRRIT net assets remaining in RRB and governmentwide financial statements. When the U.S. Department of the Treasury (Treasury) finalized its SFFAS 47 determinations, Treasury guidance classified the NRRIT as a consolidating entity, which will result in NRRIT net assets remaining in RRB and governmentwide financial statements.

Other OIG concerns regarding the control environment included (1) lack of corrective action and acknowledgement for inaccurate Medicare cost reimbursements and nonadherence with applicable authoritative guidance, and (2) RRB management's inaccurate improper payment definitions, which continue to result in understated reported improper payments.

The material weakness in control environment does not only apply to financial statement reporting, but is found in other areas. In April 2017, OIG issued a report related to RRB's compliance with the Federal Travel Regulation (FTR).[41] This audit was conducted to determine if RRB was in compliance with the FTR and implemented and enforced adequate internal controls. The audit revealed that RRB did not always comply with the FTR because internal controls were not always enforced or adequate. OIG made 19 recommendations that related to improving,

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[40] OMB, *Management's Responsibility for Enterprise Risk Management and Internal Control*, Circular A-123, M-16-17 (Washington, D.C.: July 15, 2016).
[41] RRB OIG, *Audit of the Railroad Retirement Board Did Not Always Comply with the Federal Travel Regulation*, Report No. 17-04 (Chicago, IL: April 11, 2017).

strengthening, enforcing, and conducting training on RRB's travel policies and the travel management system.

In this report, there were several significant findings related to the Board whose travel policies and procedures for their staff tend to be less stringent and much less likely to be enforced. These policies and procedures, called "Board Orders," allowed Board Members and subordinate staff to approve travel for themselves, their respective staff, and to authorize their own travel vouchers. Agencies are permitted to establish their own travel policies and procedures as long as they are compliant with the FTR. However, because so many of these findings related to the Board's travel, it further brings into question the agency's leadership and their contribution to RRB's weakened control environment.

GAO's internal control standards state that the oversight body and management should demonstrate a commitment to integrity and ethical values. One attribute of this principle is "Tone at the Top," which contributes to the design, implementation, and operating effectiveness. This principle conveys that management should demonstrate the importance of integrity and ethical values through their directives, attitudes, and behavior. Agency management, who is ultimately responsible for setting the tone at the top, should demonstrate and communicate these values that will create a culture by which all employees will adhere.

Challenge 7 – RRB Oversight of the National Railroad Retirement Investment Trust

NRRIT was established by the RRSIA to manage and invest railroad retirement assets. As a tax-exempt entity, NRRIT is independent of the federal government and authorized to invest the federal assets entrusted to it in a diversified investment portfolio in the same manner as private sector retirement plans. NRRIT is also responsible for transferring funds to RRB to pay benefits that are not funded through current tax receipts from railroad employees or employers. Approximately $26.5 billion in assets were invested by NRRIT on behalf of railroad retirees and their families at the end of fiscal year 2017.[42]

OIG continues to express concerns that the oversight of NRRIT is inadequate. OIG contends that oversight and transparency of NRRIT could be improved if independent performance audits were conducted in full compliance with Generally Accepted Government Accounting Standards, (GAGAS) along with IT audits, independent investigations, financial evaluations, and risk assessments, as appropriate and equivalent with Employee Retirement Income Security Act covered plans.

[42] RRB, *Performance and Accountability Report, Fiscal Year 2017* (Chicago, IL: November 2017).

The following outlines the specific challenges related to NRRIT.

RRB Component Auditor Deficiencies Have Resulted in a Disclaimer of Opinion on RRB Financial Statements

As a result of OIG's lack of access to NRRIT's auditor, OIG issued a disclaimer of opinion for fiscal years 2013 through 2017. OIG is required by law to audit the financial statements of RRB, and NRRIT is a significant component of RRB. In order to comply with the AICPA group financial statement auditing standard, OIG contacted NRRIT requesting direct communication with, and cooperation from, their auditor. To date, there has been no communication or cooperation from NRRIT's auditor, directly or indirectly.

Because OIG cannot obtain sufficient appropriate audit evidence with respect to NRRIT, we cannot issue an opinion on RRB's financial statements. To prevent future disclaimers of opinion, it is imperative that RRB management counsel NRRIT regarding its auditor's responsibilities to comply with the AICPA's group financial statement requirements.

Performance Audits

NRRIT had commissioned four external reviews since its creation, with the first being in 2004 and the most recent in 2012, but had not established an objective and independent policy for conducting performance audits. There is no indication that the reviews commissioned by NRRIT were performed in accordance with GAGAS, which provides a framework for conducting high quality audits. NRRIT also self-selects the areas to be audited, which is a major concern. Other comparable federal programs, such as the Pension Benefit Guaranty Corporation's single-employer insurance program and the Thrift Savings Plan, are subjected to externally initiated and conducted performance audits by one or more independent oversight organizations. In contrast, to these entities, NRRIT selects the objective and scope of its reviews.

OIG believes NRRIT's self selection of review decreases the independence of the reviews and prevents thorough oversight to fully protect RRB assets held by NRRIT. OIG opposes any arrangement that allows NRRIT to control the performance audits. It is also the OIG's opinion that a statutory amendment requiring performance audits would have greater effectiveness, since NRRIT could not opt to alter the policy without legal justification.

In October 2014, in response to a May 2014 GAO report, NRRIT signed a Memorandum of Understanding (MOU) with RRB to delineate responsibilities and procedures for (i) Financial Audits and (ii) Performance Assessment Evaluations with respect to assets held by NRRIT. This MOU states that "performance reviews should be regularly scheduled every three years beginning in calendar year 2015, with the understanding that additional reviews could be scheduled, if warranted."[43]

Although the MOU clearly states that NRRIT has agreed to these performance reviews, the MOU does not require them to be performed and continues to permit self selection. As of November 2017, RRB management disclosed that in December 2015, the NRRIT engaged the independent firm of KPMG to conduct the first audit addressing the October 2014 performance review agreement, on the topic of Corporate Governance Framework. In September 2016, NRRIT provided RRB with a copy of the report and advised that the audit had identified no significant gaps in the corporate governance framework of the NRRIT. The NRRIT noted that it agreed with several auditor recommendations to strengthen the existing governance policies and procedures.

OIG plans to continue oversight in all areas emphasized in this letter through audits, investigations, and other follow-up activities. We encourage RRB to take meaningful action on these challenges in order to prevent fraud, waste, and abuse in the programs and operations of RRB, and to reduce improper payments in all of its programs.

Original Signed By:

Martin J. Dickman
Inspector General

October 15, 2018

[43] Memorandum of Understanding between National Railroad Retirement Investment Trust and the Railroad Retirement Board signed in October 2014.

Management's Comments

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

Challenge 1 - Program Integrity to Strengthen Disability Programs

RRB has demonstrated and documented its commitment to continuously improving the quality of systems, policies, procedures and processes that support disability decisions. In response to Office of the Inspector General (OIG) recommendations and ad hoc communications, as well as Government Accountability Office (GAO) audit findings, and internal quality assurance reviews, the RRB has taken meaningful actions to strengthen critical aspects of the program. Yet, the OIG continues to rehash the same grievances over the program despite being well aware that it is administered according to existing law and regulations. OIG repeatedly criticizes the RRB for not adopting some of its suggestions regarding the Occupational Disability Program, ignoring the fact that many of its suggestions would require legislative changes to the Railroad Retirement Act (RRA), which neither rail labor, rail management nor their respective constituencies seek.

The OIG's animus towards the Occupational Disability Program is evidenced in its reliance on outdated findings. For instance, the OIG relies on a dated GAO Report, *Railroad Retirement Board: Review of Commuter Railroad Occupational Disability Claims Reveals Potential Program Vulnerabilities (GAO-09-821R)*, September 9, 2009, that cites the approval rate of the occupational disability program as potential indicators of continued weaknesses in program decision making. Further, the Seven-Day Letter to Congress, dated February 10, 2014, recommended that the RRB employ a licensed medical doctor to oversee the entire disability program and that the RRB replace their current disability claims examiners with licensed medical staff to adjudicate disability applications. This recommendation completely ignores the fact that the application of complex vocational rules and earnings information is critical to the adjudication of occupational disability clams. The OIG further recommended that without those changes, the occupational disability program should be eliminated and disabled railroad workers apply for sickness benefits and ultimately a total and permanent disability. Finally, it recommended that if the occupational program continued, it should be a one year temporary program. The flawed basis of this logic is consistent with its citation of work related to disability programs established under different laws for vastly different workers who are typically much younger, better educated, and in sedentary-to-light exertional level jobs when they become disabled; and in industries that are far more able to create and accommodate light duty work.

The RRB remains steadfast in its approach to administering the disability programs so as to maintain or improve program integrity and protect the National Railroad Retirement Investment Trust. Many of the recommendations and suggestions made by the OIG for program improvement have been incorporated into the way cases are processed and adjudicated. Yet, the OIG continues to point to the eleven year old Long Island Rail Road (LIRR) physician assisted fraud scheme, that was first disclosed in a 2008 news article, as proof that the program is ineffective, in spite of the fact that out of more than 700 cases identified, only 28 of the 33 actions resulted in criminal charges against LIRR annuitants. OIG likewise fails to mention the unique characteristics of LIRR's private pension plan, which have since been modified, that may have incentivized fraudulent disability applications. While the RRB agrees that no amount of fraud committed against the program is acceptable, the OIG fails to address the impact of the improvements in case processing and monitoring. Further, the RRB, in performing its due diligence, has in recent years, referred a variety of cases and potential issues to the OIG. Included among those was an instance where another medical practitioner was evidencing a pattern of possible fraudulent behavior. To date, the RRB has not been informed of any legal actions that have occurred as a result of this referral more than six years ago.

Current Disability Program Issues

The OIG alleges that foundational flaws and a culture "seemingly entrenched in defending its disability program at the expense of strengthened program integrity have resulted in little significant improvement or change." It further states that the RRB is unable to effectively manage the disability program leaving over $1 billion in annuity payments at increased risk. We strongly disagree with these groundless statements. The OIG has failed to demonstrate through its own investigations that $1 billion dollars in annuity payments are at risk. Since 2007, no additional instances of widespread, systemic fraud has been brought to the attention of RRB management.

To address concerns regarding program integrity, the RRB established a Fraud Task Force comprised of subject matter experts, senior agency officials, and representatives from the Board Offices, charged with identifying and evaluating changes to the disability program which would enhance program integrity. To assist in this mission, a Disability Program Improvement Plan (DPIP) was developed, tracking activities related to 18 separate initiatives, with multiple tasks, which have been implemented, such as form revisions, enhanced examiner training, use of a second level authorizer, and tracking of physicians. The OIG raises concerns that the due dates on the plan sometimes change and that some initiatives are closed, without being implemented. The due dates for the various tasks were subject to change depending upon availability of agency resources and budget. The decision not to implement an initiative was made only after a careful analysis and a determination that implementation would not bring significant benefit or was not cost effective. The DPIP is a living document and the Board continues to meet as needed to address issues that arise concerning the disability program.

Pursuant to the OIG's recommendation that the RRB employ a Chief Medical Officer (CMO) to oversee the disability program, a physician was hired in 2017. Unfortunately, this CMO left after ten months to accept a job with greater pay at a private insurance company. The CMO position has been reposted and applications are currently under review. In the meantime, the RRB continues to use independent medical contractors to assist in the review and interpretation of medical evidence submitted as proof of a disability.

Another OIG recommendation that was implemented involved the revision of the forms used to obtain job information from railroad employers. While the OIG acknowledges RRB management's extensive revisions to, and intent to replace the current job verification forms (G-251a and G-251b) with a singular version, the OIG contends that voluntary completion of the forms is "incongruent with RRB regulations…." In support of this contention, the OIG has noted that the regulations of the RRB state that the RRB "shall also consider the employer's description of the physical requirements and environmental factors relating to the employee's regular railroad occupation, as provided on the appropriate form." Omitted from the regulatory citation is the fact that the regulations provide that examiners must also consider the employee's own description, as well as other sources, such as the Dictionary of Occupational Titles. The intent of this regulation is to identify what information disability examiners should consider if available, not to mandate that employers must provide vocational information. This is not only apparent from the logical reading of the regulation, but was also emphasized when the policy was established in 1997. As noted at the time the procedure was introduced, it was to allow for employers to “offer the applicant’s railroad employer the opportunity **to voluntarily provide** [emphasis added] information on the applicant’s job duties which may be utilized in determining the applicant’s eligibility to an occupational disability.” Determining Disability, 62 Fed. Reg. 50056 (proposed Sept. 24, 1997) (to be codified at 20 CFR 220).

The OIG notes that in 2017, approximately 34 percent of disability determinations included an employer provided form. It further notes that in 2018, the percent of employer provided job information rose to 54 percent of cases. This result highlights the RRB’s ongoing effort to encourage employers to provide job information. Although it was never envisioned that it would be mandatory for employers to provide vocational information, the RRB appreciates a need for the adjudicating staff to have an understanding of the various railroad occupations. Consequently, to further address this issue, staff now attends classroom and onsite training facilitated and led by industry representatives to aid in assuring that staff has an acceptable understanding of the functions of the various railroad occupations.

In response to a recommendation from the OIG, the Form RL-8A, *Occupational Disability Certification*, was developed and implemented. This form requires recipients to self-certify their continued entitlement to a disability annuity, by providing current information regarding their impairments and work activity. The OIG is critical of the manner in which the RRB has implemented the form, asserting that its use is too narrow and that completion of the form should be required of all occupational disability annuitants. In developing the criteria for selecting who would receive the RL-8A certification, the RRB used the profile identified in the LIRR cases to include annuitants who: 1) had an occupational entitlement; 2) did not have a disability freeze; 3) had an orthopedic or mental impairment; 4) was under age 55 as of the form release date. Including all 18,300 occupational annuitants in an RL-8A certification process as the OIG suggests would have been unduly burdensome and unnecessary, as well as impractical to monitor. The initial result of the High Risk Continuing Disability Review (CDR) program resulted in one discontinuance after a full CDR and one discontinuance based on the completion of the RL-8A. Accordingly, this ineffective effort was rolled back.

The OIG calls this result lackluster and blames the design and implementation as the reason that the results were not higher. While OIG acknowledges that the GAO issued a report in February 2018 recommending that the RRB focus on reallocating resources used for high-risk CDR’s to other CDR efforts that produce more effective outcomes, he ignores the many steps that the RRB has routinely used in adjudicating and monitoring disability cases. Each year, the RRB releases the Forms RL-4, *Employee Disability Reminder Notice*, and RL-5, *Survivor Disability Reminder Notice* to remind disabled annuitants of their responsibility to report any event that may impact their disability annuity. The RRB also releases the RL-7*, Disability Reminder Notice – Annuitant Under Earnings* Notice to disabled annuitants reminding those who are under the full retirement age to notify the RRB of earnings for any month in which they exceed the monthly earnings limit, or if their total earnings exceed the annual earnings limit. Additionally each year, the RRB receives earnings information for RRB disability annuitants from SSA which is used to identify any case where the earnings exceed the annual earnings limit. Effective August 1, 2017, disability post examiners are also required to obtain and verify employment and income using The Work Number (TWN) for all Railroad Retirement Act disability claims and all Social Security Act disability claims when developing for CDR. Information obtained from the TWN employment and income report must be taken into consideration when determining continuing eligibility for disability benefits. TWN is also being used in conjunction with other sources reporting income (earnings or wages) information (example, DEQY, EDM, and SEQY) to obtain both past and recent income information. TWN is checked by the initial claims examiner at the onset of the case and prior to adjudication. Finally, DBD uses State Wage Match, a program in which wage and unemployment benefit information is obtained from a State under a contract agreement in accordance with the Computer Matching Act. As a result of our continuing efforts in program integrity we have found that the vast majority of disability annuitants are not working and are receiving a benefit to which they are legally entitled.

The OIG asserts that "another program improvement that has not been fully implemented is action to prevent occupational disability adjudications based on the simple task standard for railroad employees." This is factually incorrect. Requests for examples of situations where a disability annuity has been awarded to someone on the basis of an inability to perform a simple task have gone unanswered. In accordance with section 2(a)(2) of the Railroad Retirement Act (45 U.S.C. § 231(a)(2)), "the Board shall determine whether the employee's condition is disabling for work in his *regular occupation* by determining whether under the practices generally prevailing in industries in which such occupation exists such condition is a permanent disqualification for work in such occupation." The RRB has been and shall continue to follow the statute and regulations as part of the adjudication process. Claims examiner training includes a review of how impairments are assessed to determine whether there is sufficient objective medical evidence to determine restrictions caused by impairments. The sequential evaluation process used in the training is found in 20 CFR 220.13(b)(2)(iv). These regulations are included in RRB's Disability Claims Manual Part 13, along with the Independent Case Evaluation process where medical information is reviewed to establish the functional limitations of the condition. As functional limitations are established and job demands determined, the two are compared and reviewed to determine if the claimant is capable of performing the essential job duties of their regular railroad occupation. In summary, contrary to the OIG's claim, disability staff is trained extensively on the proper adjudication of occupational disability annuities in accordance with the statutes and regulations on the topic.

The OIG continues to take exception to the grant rate within the disability program and is critical of what he describes as a culture concerned with "paying benefits quickly" with little regard to paying them accurately. As noted previously, the OIG has repeatedly demonstrated animus towards the program, and has provided no evidence to support his claims that the grant rate demonstrates that occupational annuities are being awarded in error. And while it is common for benefit paying agencies to focus on timeliness, RRB's data reflects that benefits are certainly not being awarded quickly. For fiscal year 2018, it took on average 331 days to process a disability case due in part to various steps that were added to the adjudication process to strengthen our program integrity. And some recommendations that were piloted such as the increased use of specialty exams to strengthen the decision, have been proven to add excessive cost without any discernible concomitant improvements to the technical quality of the adjudicative process.

As mentioned previously, the OIG fails to consider differences in the population of railroad employees applying for disability benefits. The average age and years of service of an RRB disability applicant, is 58.3 years with approximately 27 years of service. This is relevant because railroad workers with 30 years of service are eligible for full age annuities as young as age 60 – as are their spouses, whereas the spouse of a disabled annuitant with less than 360 months of service is not eligible for an annuity until both parties are age 62, and that spouse annuity will be reduced for age unless the spouse defers retirement until attaining full retirement age (age 66 or 67, depending upon date of birth). In addition, the exertional level of typical railroad work for most applicants is in the medium to heavy level, exacerbating the normal wear and tear on the body that occurs with aging. The point is, outside from the added incentive that previously existed with employees of Long Island Railroad, collecting a disability pension is not financially advantageous.

LIRR Restitution

The OIG points out that "as of September 2018, only $1,593,668 of the approximately $5.9 million in court ordered restitution related to the LIRR convictions had been returned to the RRB." It states that the RRB has not established accounts receivables on some of the criminally convicted LIRR defendants, which represent more than $150 million in additional court ordered restitution. The OIG goes on to say that the RRB should use every avenue to recover payments lost due to fraud or similar fault to prevent the "continued" abuse of the occupational disability program. Yet, the OIG is well aware, once restitution is ordered by the court, the Department of Justice is responsible for collecting restitution payments and delegates these activities to the Financial Litigation Units (FLU) within each U.S. Attorney's Office.

According to the United States General Accountability Office (GAO), in a report dated February 2018, titled "*Federal Criminal Restitution, Most Debt is Outstanding and Oversight of Collections Could Be Improved,"* the GAO pointed out the challenges faced by the FLU in collecting federal criminal restitution. The GAO concluded that many victims are unlikely to receive any meaningful portion of court-ordered restitution owed to them because of the offenders' inability to pay theses debts. The RRB is appreciative of the efforts of the U.S. Attorney's Office, Financial Litigation Unit (FLU) in facilitating the collection of the $1,593,668 in court ordered restitution and will continue to work closely with the FLU to receive funds as they are collected.

With respect to the defendants who were not RRB annuitants, the Bureau of Fiscal Operations has established debts representing the $150 million in restitution which was assessed against two individuals. These two defendants were doctors who fraudulently charged railroad workers a "fee" outside of regular payments for the exams they performed. The assessment includes amounts attributable to "potential" losses had the scheme not been stopped, and not an actual amount paid from the trust to the two individuals from whom this restitution was ordered to be paid. However, while the statute and language of the Sentencing Agreements require non-government entities to receive payments first, should the FLU collect on these debts, the RRB is prepared to receive the payments.

The RRB has never "allowed" individuals to commit fraud against the program without repercussions. Referrals are made to the OIG regularly when fraud is suspected. When allowed by statute, annuities are stopped or offset to recover funds. The RRB has not and does not simply take an application at face value. As has been repeatedly shared with the OIG, the claims examiners review signs, symptoms and laboratory findings in assessing a case. Examiners consult with the onsite contracted doctor and order additional examinations as needed. Examiners review the description of the job and confirm findings when possible. The programmatic changes that have been implemented over the past ten years have greatly increased the strength of the occupational decisions which can be further demonstrated by the OIG's inability to find continued, systemic, massive fraud in the occupational disability program.

Challenge 2 - Information Technology Security and System Modernization

With ever increasing Information Technology (IT) security and privacy risks, we understand your concerns to make our IT systems and processes more robust. Our legacy systems are built using an architecture that was deemed vigorous 40 years ago, but stand no chance exposed to the modern security threats and real time interactions of today. The OIG's assessment of our

Cybersecurity framework suggests the current controls as not effective. Although OIG recommendations are directed towards better vulnerability management and fixing current infrastructure, policies and procedures, the agency's Chief Information Officer (CIO) strongly believes that the right way to solve this problem is to modernize, transform and simplify these complex legacy systems to enable a robust and secure environment. Our goal is to build the right partnerships with external cloud service providers who can provide more secure, better, cheaper solutions, and therefore, we effectively mitigate the risk in the current legacy systems.

During this transformation period, we have enhanced our Continuity of Operations with the USDA/NITC partnership. The RRB is more confident than ever that our systems will function normally in the event of a disaster, and the restoration of applications and critical services from this alternate site is a matter of hours, not days.

Given that our mission essential functions are performed today in a legacy mainframe environment that is costly and extremely resource heavy to protect customer data from increasing cyber threats, we signed up with the Department of Homeland Security for Continuous Diagnostics and Mitigation (CDM). The CIO believes in the CDM program as a way to address these cybersecurity risks. The CIO considers cybersecurity as not a onetime activity, but rather a continuous effort requiring vigilance at all times. We continue to manage the risk of the critical infrastructure considering asset management, remote access, identity management, and network protection. We have started the incremental and iterative process to transform our legacy mainframe software systems, and with the anticipated funding in the coming fiscal years we will accelerate this transformation. We anticipate that in the next 5 years we will gradually reduce our dependence on the mainframe operations.

Being proactive on the IT modernization program, we have discussed with the Federal CIO office (EOP/OMB/FCIO) for a recurring monthly meeting, primarily for a review and oversight of the projects in this program. We have also brought onboard an IT Program Manager consultant to work with both the RRB Project Managers and the contractors to ensure the projects are completed on time and on budget.

Without strong project management, it is true that complex projects with large federal IT investments frequently fail or incur cost overruns. To mitigate such risks our Legacy Systems Modernization Services contracts are performed as Firm Fixed Price (FFP). The RRB will continuously monitor, measure, and perform value driven services to ensure the predictable outcome of a successful migration. To achieve this successful migration, we are deploying agile principles such as breaking up multi-yearlong projects into a series of short releases focused on the most critical or key performance indicators to increase the opportunity for success, as well as ensuring frequent standup meetings, or daily scrums, as an effective means to convey information and to facilitate quick resolution of identified risks and issues. Early this year, the legacy tax system and dependent applications were successfully transformed to a modern technology. This project was on a FFP and there was no cost overrun. After go-live, the net result was a system that RRB has gained confidence in its operation, and is able to maintain and operate daily without the support from the systems integrator.

We are making good progress on the Enterprise Infrastructure Solutions projects. Proposals are being evaluated for a task award on content delivery and website migration services. We are conducting market research to understand marketplace capabilities for data and unified communications services for the planned acquisitions.

We are deploying all citizen-centric digital solutions using strong authentication via GSA/ Login.gov. These external self service solutions are being transformed to use secure communications with multi-factor authentication and identity management. We also understand the necessity to block unauthorized hardware from accessing the RRB network for effective network protection. Our enrollment in the CDM program will assist in this purpose.

We recognize that our cybersecurity program is still in need of improvement. Our goal is to remediate the cybersecurity risks at the earliest, with a comprehensive cybersecurity strategy to address our deficiencies. This will supplement the risk mitigation capabilities of EINSTEIN III (E3A) that the RRB currently has in place.

The objective of our roadmap is to modernize IT legacy systems to meet railroad community expectations, and to protect the sensitive information they trust us to maintain. By modernizing the legacy systems, we ensure that the enterprise architecture is stable for years to come, is flexible to accommodate new innovations, and enables the encryption and security aspects to keep customer data safe. Adherence to NIST standards for encryption and FIPS 140-2 for Data in Transit and Data at Rest, ensures enterprise network security outside of the RRB network. As part of our defense in depth strategy, we have deployed Web Application and Database Firewalls in addition to the standard Network Firewalls. With the anticipated funding in future years, we will complete the implementation of the roadmap to ensure data security and sustainability of our operations in the years to follow. We, therefore, continue to deliver better citizen-centric services, provide excellent customer service, effectively steward taxpayer dollars, and safeguard trust fund assets

Challenge 3 - Management of Railroad Medicare

Bureau of Fiscal Operations Response: As previously stated in fiscal year 2017, the OIG's Cost Allocation Plan (CAP) audit (audit report 16-10) was fundamentally flawed and, therefore, should be rescinded. The OIG was concerned by the significant non-concurrences related to the CAP audit report, 16-10. Significant non-concurrence, from an audit perspective, is driven by inaccurate and unreliable audit results.

Again, the RRB believes that the OIG's CAP audit was fundamentally flawed because the guidance used as the basis for review, OMB Circular A-87 (revised May 10, 2004), ***Cost Principles for State, Local, and Indian Tribal Governments,*** provides guidance for grant recipients at the state, local and Indian tribal government level. The RRB is not a grant recipient, nor is it a state, local, or Indian tribal government. The RRB has administrative responsibility under the Social Security Act for railroad workers' Medicare coverage and certain benefit payments. The RRB performs Medicare program-related work on behalf of the Centers for Medicare & Medicaid Services (CMS), U.S. Department of Health and Human Services (HHS) and, by virtue of an agreement between the RRB and the HHS, the RRB is reimbursed for that work.

The IG asserted that "labor costs were reimbursed based on RRB management's professional judgment." The statement is disingenuous and misleading because the OIG also acknowledged in the report that employee profiles were initially developed by an agency workload committee. Additionally, the OIG auditors acknowledged that the employee profiles are reviewed annually and updated as needed. The auditors should have discovered during the audit that all employee profiles are validated quarterly and a statistically valid sample of employee profiles are tested as part of an annual review. Relative to the IG's assertion that indirect costs had not been formally approved by CMS, again, the statement is disingenuous and misleading. CMS reviewed and certified every cost allocation plan submitted since 1983. The notion that RRB's costs (both direct and indirect) are unsupported, and were not approved, is disingenuous and misleading.

The OIG alleges that the "RRB had received $7.9 million in Medicare contract overpayments during the period of fiscal year 2013 through 2017." The OIG further alleges that "an additional $20 million, for a total of $27.9 million, in overpayments may be owed to CMS since the contract's inception." Prior to publication of the OIG's FY 2018 Management and Performance Challenges document, RRB was unaware that the OIG had made a determination and communicated the results to CMS. Upon inquiry into this matter, the OIG stated that they were drafting a document to describe the audit results; the OIG ultimately transmitted such results in Priority Audit Memorandum (PAM) 19-01 – Excess Medicare Reimbursements on October 17, 2018. The audit results discussed in PAM 19-01, are incorrect and demonstrate a fundamental lack of understanding of the governing documents and processes related to the Medicare contract. The RRB has provided a robust and comprehensive response, to both educate the OIG and refute the OIG's unreliable, misleading, and invalid allegations. However, the details of which cannot be discussed herein as, for an unspecified reason, the OIG has restricted the distribution of PAM 19-01.

The OIG expressed concerns that Railroad Medicare is not using the CMS Fraud Prevention System (FPS). The OIG notes that Railroad Medicare was approved for onboarding to FPS with implementation in December 2016 or January 2017. As December 2016 approached, CMS contacted Palmetto GBA and informed Palmetto GBA that implementation was being delayed. This delay was until August 2018 which was the earliest implementation date for FPS. In late August 2018, Palmetto GBA was granted access to FPS, however, the system did not provide a drop down option for the SMAC jurisdiction to have full functionality of FPS. Palmetto is currently waiting for the FPS contractor to provide training on a work around while they resolve the drop down issue.

Challenge 4 - Assessing Payment Accuracy and Transparency

Since 2015, in response to OIG recommendations, we have made improvements and undertaken corrective actions in our improper payments analysis and reporting. We have reevaluated and improved our methodologies to ensure all appropriate areas are included in our improper payment computations for the RRA program and improved our estimation of RUIA underpayments by changing from a judgmental sample review of 20 cases to a statistically valid sample review of 100 cases. The Medicare program is now reflected in all appropriate tables and charts in the P&AR. We have also strengthened controls to ensure the accuracy of supporting data by improving our documentation and validation processes for the RRA and RUIA analysis and updated our procedures to reflect these enhancements.

The following is a timeline of the OIG findings and RRB corrective actions taken to address risk assessment non-compliance with IPERA:

- In May 2015, the OIG *Audit of the Railroad Retirement Board's Compliance with IPERA of 2010 in the Fiscal Year 2014 Performance and Accountability Report* indicated the RRB had not prepared risk assessments for all programs the agency administers.
- In May 2016, the OIG *Audit of the Railroad Retirement Board's Compliance with IPERA of 2010 in the Fiscal Year 2015 Performance and Accountability Report* indicated the RRB's risk assessment documentation did not meet the minimum requirements specified in OMB guidance.

- We took corrective action as part of our fiscal year 2016 IPERA analysis and reporting. We updated our risk assessment documents for the RRA, RUIA and Medicare programs to include the nine specific risk factors developed by OMB which are likely to contribute to improper payments.
- In May 2017, the OIG determined the RRA, RUIA and Medicare risk assessments were compliant with IPERA per OIG *Audit of the Railroad Retirement Board's Compliance with IPERA of 2010 in the Fiscal Year 2016 Performance and Accountability Report*. Risk assessment compliance for these programs occurred within two years of the initial OIG finding in May 2015.
- In addition, in fiscal year 2017 we updated our risk assessments for vendor payments and employee payments prior to the issuance of the OIG's May 2017 IPERA audit report.
- In May 2018, the OIG determined the vendor and employee payment risk assessments were compliant with IPERA per OIG *Audit of the Railroad Retirement Board's Compliance with IPERA of 2010 in the Fiscal Year 2017 Performance and Accountability Report*.

As stated previously in the Fiscal Year 2016 Performance and Accountability Report and the fiscal year 2017 and fiscal year 2018 OIG IPERA audit response, we would like to reiterate that RRB's categorization of underpayment accruals for both the RRA and RUIA programs are in full compliance with OMB's guidance and the definition of improper payments. Based on the Office of General Counsel's legal opinion L-2015-54 dated November 20, 2015 (RRA), we made some modification to the categorization of various underpayment accruals found in our Quality Assurance review cases and therefore, are now in compliance. Based on the Office of General Counsel's (OGC) legal opinion L-2016-23 dated June 17, 2016 (RUIA), we obtained verification that our methodologies for categorization of underpayment accruals were already in compliance with IPERA. The RRB obtained OMB approval of our RUIA methodology in February 2014 and our RRA methodology in August 2016, further confirming that we are compliant with OMB IPERA guidance.

In July 2018, OMB granted the RRB reporting relief for the RRA and RUIA programs since these programs have had consistent estimated improper payments, which fall under the statutory threshold.

IPERA: Despite having confirmed that the RRB is compliant with IPERA, the IG continues to bemoan lack of corrective action taken in response to a finding and recommendation with which the RRB did not concur. The RRB did not concur with the IG's assertion that the RRB was non-compliant with IPERA for a third consecutive year and therefore, did not agree with recommended actions because the RRB completed the revisions to the referenced risk assessments in accordance with OMB guidance prior to issuance of OIG audit report 17-05. However, the OIG refused to evaluate them because the risk assessments were not published in the RRB's Fiscal Year 2016 Performance and Accountability Report. The risk assessments in question were published in the Fiscal Year 2017 Performance and Accountability Report and determined to be compliant.

Transparency: While the RRB disagreed with the OIG's characterization of our oversight role and efforts during their readiness review, the RRB concurred with the recommendations addressed to the Bureau of Fiscal Operations in the draft report relating to the RRB's initial DATA Act submission. The RRB has taken significant corrective action and believes that our actions fully address our recommendations in the November report of audit. Specifically, in response to OIG recommendations from the November report, we developed comprehensive procedures titled Data Act Process Flow in cooperation with CGI support staff, the Contracting Officer's Representative and principle stakeholders from the Bureau of Fiscal Operations, Bureau of the Actuary and Research and Acquisition Management. To improve the accuracy and timeliness of railroad retirement and unemployment and sickness payment data that update the USA Spending site and Federal Assistance Award Data System, files submitted rely on payment data contained in the Master Benefit File and UI/SI MACRO system. Additionally, designated contacts in the Bureau of the Actuary and Research participate in the "pre" and "post" broker reviews as outlined in the "Data Act Process Flow" and certify data for upload into the Broker. Designated contacts in Acquisition Management also participate in the "pre" and "post" broker reviews as outlined in the "Data Act Process Flow" and certify data for upload into the Broker.

All actions required to ensure that data in the DATA Act files are complete and accurate prior to submission and certification are described in the "Data Act Process Flow." Comprehensive controls and procedures covering the submission and certification of RRB's DATA Act files are incorporated in the "Data Act Process Flow." We also assessed staff training needs and arranged for CGI staff to conduct on-site training for Data Act reporting. Finally, the Chief Financial Officer (CFO) designated staff who act as file submitter, certifier and their alternates. No files are submitted without the written assurance of bureau POC's attesting to the completeness and accuracy of the files.

Challenge 5 - Human Capital Management

Federal agency Human Capital/Human Resources policies and practices are evaluated on a periodic basis by another regulatory Federal agency, the Office of Personnel Management (OPM). For some agencies, OPM conducts a limited audit focusing more on an agency's hiring decisions and adherence to merit system principles (to include job postings and veterans preference). OPM also has the authority to guide, enable and assess agency strategic human capital management processes and audit an agency's human capital system to include reviewing RRB's Strategic Alignment, Leadership and Knowledge Management, Results-Oriented Performance Culture, Talent Management and Accountability. This type of audit is called a Human Capital Management Evaluation (HCME).

In October 2016, OPM was on-site at the RRB conducting this more detailed HCME. OPM was last on-site at the RRB in 2011. Contrary to the OIG's statement, OPM was not conducting the audit because of RRB turnover rates or our aging workforce; rather, OPM was conducting a HCME in accordance with prescribed OPM timeframes. The HCME assesses the use of personnel management authorities at the RRB, adherence to merit system principles, and compliance with human capital management laws and regulations. As a result of this audit, all of the required actions have been resolved and the recommended actions have been implemented. The RRB has never been found in violation of merit systems principles since OPM has been conducting audits of the RRB.

In response to our aging workforce and high attrition rates, coupled with static budget levels, the Executive Committee has focused their efforts on succession management, specifically, developing the agency's current human capital and fulfilling mission critical hiring goals to meet the agency's needs. Focusing on these two strategies, the agency has succeeded at dealing with periods of high retirement eligibility of its workforce. While it is important to bring in new personnel with fresh perspectives, we still believe that an important contributor to our success in meeting our mission is the quality and experience of our current workforce. Since 2015, RRB has instituted several human resources flexibilities and authorities within the Federal environment to include reinstituting a training and development section within our HR office in order to develop processes, training and systems that can maximize the growth potential for current employees and new hires. RRB also implemented a Learning Management System (LMS) referred to as RRB University. Through our LMS, we have developed and published several online training sessions as well as purchased an online catalog of more than 1,500 soft skill online training courses to help maximize growth opportunities for our current employees in expanding their knowledge, skills and abilities. In fiscal year 2018, the RRB provided more than 25 course offerings via classroom style training sessions on such topics as Effective Management training, Microsoft Office and Written Communication skills. RRB is in the process of revising our awards program as well as our performance management system in an effort to maximize employee performance.

Although our Human Capital and Succession plans were not fully funded, we have been able to implement key aspects of these plans ensuring continuing and uninterrupted RRB operations, including an Individual Development Plan (IDP) program, the Executive Candidate Development Program (ECDP), and a new supervisor training curriculum. In addition, we continue to utilize the re-employment of retirees to assist in retaining the knowledge of our specialized workforce and to assist in succession planning.

While we appreciate the IG's support for increased staffing in the Audit and Compliance Section (ACS), his narrative is again misleading. The Inspector General states that the "RRB has decreased the number of staff assigned to employer audits and has also decreased the budget for these audits." His choice of words implies that the RRB intentionally reduced staffing and diminished the audit role. The statement is, again, patently false. The fact of the matter is that retirement, a subsequent promotion, and an unexpected long-term absence due to illness has reduced the staffing in the section. Pending Executive Committee approval, the CFO plans to hire two new auditors in fiscal year 2019. Again, we appreciate the IG's support for the matter.

Relative to the coverage function, if the OIG validated the concerns prior to publishing such results, the auditors would have known that following the retirement of the ACS coverage specialist, full responsibility for the function, and the position, were transferred to the Office of General Counsel (OGC). The OGC hired a staff member and assumed full responsibility for the function at the start of fiscal year 2019.

Challenge 6 - Material Weaknesses Related to Financial Statement Reporting and the Control Environment

The OIG continues to assert that two material weaknesses exist; the first, which was cited in prior years, relates to financial reporting and has two components (1) ineffective internal controls and (2) lack of access to the National Railroad Retirement Investment Trust's (NRRIT) auditor.

1. Regarding assertion on ineffective controls: As it relates to FY 2017, and not FY 2018, we reject the characterization that "…approximately $503.2 million of recorded and approved financial transactions lacked adequate supporting documentation in the agency's official records for these transactions." That statement is patently false. Supporting documentation for the referenced transactions was NOT, as the OIG stated, missing. The documentation was, in fact, available for review in hardcopy and promptly provided upon request. Further, the OIG did not take exception with the accuracy or completeness of the documentation the RRB provided to support the validity of the transactions. It is important to note that while the OIG is citing this instance as support

for this material weakness, to date the OIG has not issued a specific finding or recommendation for fiscal year 2018. While the OIG continually criticizes RRB's internal controls, the auditors have not identified any material misstatements in the financials or taken exception to documentation provided in hardcopy.

2. Related to lack of access to the NRRIT: The OIG continues to demand that the American Institute of Certified Public Accountants (AICPA), Clarified Statements on Auditing Standards has legal precedence over the National Railroad Retirement Investment Trust's establishing statute. RRB's position on this matter has been, and will continue to be, that contact between the OIG and the NRRIT auditor is inconsistent with section 15(j) of the RRA, which provides for the independent status of the NRRIT. The Memorandum of Understanding (MOU) dated October 31, 2018,[8] demonstrates GAO's agreement with the RRB's interpretation of NRRIT's establishing legislation. Therefore, the RRB rejects the OIG's inclusion of this matter as both a component of the financial reporting material weakness and as a basis for a disclaimer of opinion.

The OIG asserted that a second material weakness exists, which the OIG has cited since 2016, related to the control environment. Regarding this material weakness, the OIG's four major concerns relate to (1) NRRIT's classification category, (2) Medicare cost reimbursements, (3) improper payment definitions, and (4) compliance with Federal Travel Regulations (FTR).

1. NRRIT classification related to Statement of Federal Financial Accounting Standards (SFFAS) No. 47: the MOU dated October 31, 2018, confirms the RRB's position and approach to SFFAS 47, in that "[n]otwithstanding this MOU, NRRIT has not independently determined that this [consolidation entity classification] is the appropriate classification for the Trust [NRRIT] for purposes of SFFAS 47."[9] The GAO recognizes, NRRIT as an independent entity and, acknowledges that "this MOU is not indicative of NRRIT agreement with this [consolidation entity] classification,"[10] as that classification determination "is solely the determination of the Secretary of the Department of the Treasury and Director of the Office of Management and Budget."[11] GAO accepts that, "[r]ather, NRRIT enters into this MOU merely to facilitate GAO to obtain audit evidence to support NRRIT balances and disclosures included in the U.S. government's financial statements for the purpose of GAO's audits of the U.S. government's financial statements."[12] The MOU further states that "[n]either the classification of the Trust [NRRIT] as a consolidation entity in the U.S. government's financial statements nor anything in this MOU, should be construed to require any changes to the existing reporting practices between NRRIT and the RRB in support of NRRIT net assets."[13] As such, the OIG's "concern" related to this matter is irrelevant, and therefore, rejected.

2. Relative to Medicare Cost Reimbursements: As stated in 2017, the OIG's Cost Allocation Plan (CAP) audit (audit report 16-10) was fundamentally flawed and, therefore, should be rescinded.

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[8] MOU for the *NRRIT Inclusion in Government-Wide financial Statements and GAO Access to Information,* entered into by the National Railroad Retirement Investment Trust (NRRIT) and the U.S. Government Accountability Office (GAO), dated October 31, 2018.
[9] *See id.*
[10] *See id.*
[11] *See id.*
[12] *See id.*
[13] *See id.*

3. Relative to improper payments definitions: RRB management rejects OIG's allegation that inaccurate improper payment definitions continue to result in understated reported improper payments. The RRB secured a legal opinion from its Office of General Counsel in fiscal year 2016 and they agree with our classification of RUIA and RRA payments as proper. The RRB also received approval from OMB for our established methodologies to identify improper payments in the RRA and RUIA benefit payment programs. In August 2016, OMB granted the RRB approval to continue conducting the RRA Improper Payment analysis according to our established methodology. Finally, in July 2018, OMB granted the RRB reporting relief for the RRA and RUIA programs since these programs have had consistent estimated improper payments, which fall under the statutory threshold.

4. Relative to the OIG's Travel Audit: The OIG, using a statistically valid sample, evaluated all RRB Temporary Duty (TDY) travel for a six-year period (2010-2015). Total TDY travel costs during that six-year period was approximately $3.2 million (average annual costs of approximately $540,000). Neither the average annual amount, nor the six-year total dollar value, assuming a 100 percent error rate, are material to financial reporting. Therefore, by definition, citing this example in support of a material weakness related to financial reporting is erroneous. The AICPA defines a material weakness as a deficiency, or a combination of deficiencies, in internal control over financial reporting, 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. To suggest that the materiality of this audit could have a material effect on the RRB's financial statements is nonsensical.

In closing, the OIG has disclaimed the RRB's financial statements and asserted a financial reporting material weakness since 2014. Additionally, in 2016 the OIG began reporting a control environment material weakness due to concerns related to disagreement over audit matters. However, the OIG has not identified any financial reporting impact resulting from the purported material weaknesses.

Challenge 7 - RRB Oversight of the National Railroad Retirement Investment Trust

For fiscal year 2018, the Office of Inspector General (OIG) will again render a disclaimer of opinion on the RRB's financial statements, as has been done since fiscal year 2013. As a basis for the disclaimer of opinion, the OIG contends that they require access to the National Railroad Retirement Investment Trust's auditor in order to comply with American Institute of Certified Public Accountants (AICPA) group financial statement auditing standards.

We continue to reiterate to the OIG that the Railroad Retirement and Survivors' Improvement Act of 2001 (RRSIA)[14] amended the Railroad Retirement Act (RRA) by adding section 15(j) that provided for the establishment of the National Railroad Retirement Investment Trust (NRRIT).[15] NRRIT was created to "manage and invest"[16] the funds of the railroad retirement system for the purpose of providing railroad retirement benefits administered by the Railroad Retirement Board.[17] We further emphasize that the statute provides that NRRIT is not a "**department,**

[14] Pub. L. 107-90, 115 Stat. 878 (2001).
[15] *See* section 15(j) of the RRA, 45 U.S.C. § 231n(j).
[16] *Id.* § 15(j)(1).
[17] *Id.* § 15(j)(4)(G).

agency, or instrumentality of the Government of the United States and shall not be subject to title 31, United States Code."[18] (Emphasis added.) Title 31 governs monetary and financial matters within the federal government.[19] By inclusion of the provision that NRRIT "shall not be subject to title 31," Congress made clear that control normally exercised over government agencies through the budgeting, appropriation, and auditing functions of the federal government would not apply to NRRIT. Further, the MOU between the NRRIT and the U.S. Government Accountability Office (GAO) dated October 31, 2018, states that "[t]here is no other legal basis or requirement for the Trust [NRRIT] to provide financial information to another party outside of that which is specified in the Act [RRSIA]."[20] RRB's position on this matter has been, and will continue to be, that contact between the OIG and the NRRIT auditor is inconsistent with section 15(j) of the RRA, which provides for the independent status of the NRRIT. The MOU dated October 31, 2018, demonstrates GAO's agreement with the RRB's interpretation of NRRIT's establishing legislation; therefore, the RRB rejects the OIG's inclusion of this matter as both a basis for a disclaimer of opinion on RRB's financial statements and as a component of the financial reporting material weakness.

Further, the MOU dated October 31, 2018, demonstrates GAO's acceptance of "the long-standing year-end reporting practices between the Trust [NRRIT] and the RRB, including the existing treatment of the NRRIT net assets on the RRB's balance sheet."[21] The "GAO will independently obtain audit evidence to support NRRIT balances and disclosures included in the U.S. government's financial statements,"[22] which through the government-wide consolidation process are the same, or substantially similar, as included within the RRB's financial statements. Therefore, the OIG should be able to rely on the audit results of the GAO. Accordingly, this provides further support for RRB's conclusion that this situation does not warrant a disclaimer of opinion on the RRB financial statements.

As stated now for various years, the Inspector General (IG) also believes that the Railroad Retirement Board's oversight of NRRIT is inadequate and consequently recommends formal agreement between key parties or amendments to the Act to require independent performance audits, as well as other ERISA-type audits, evaluations, and assessments. RRB management continues to believe the oversight of NRRIT is sufficient under current law.

The language of section 15(j) of the Act and the legislative history leading to its enactment clearly establish the intent of Congress to protect the assets of the Trust and NRRIT itself from political influence. Moreover, in the May 2014 GAO report concerning oversight of NRRIT (GAO-14-312) referenced by the IG, GAO specifically noted that NRRIT was independent of the federal government and exempted from the title 31 of the U.S. Code to protect it from political influence. Further, the GAO report stated that NRRIT is not without oversight beyond mandatory financial audits. In particular, GAO noted the Trust is monitored by the RRB and other federal agencies through regular reports and other communications. GAO also noted that NRRIT on its own initiative commissioned four performance audits since 2002 which were comparable to and in some cases more comprehensive than those of comparable state pension plans.

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[18] *Id.* § 15(j)(2).
[19] 31 U.S.C. *et. seq.*
[20] *See* MOU, October 31, 2018
[21] See id.
[22] *See id.*

Moreover, as also noted by the IG, in fiscal year 2015 the RRB and NRRIT entered into a MOU requiring performance reviews over three-year cycles beginning with calendar year 2015. Contrary to what is stated in the IG's report, per the terms of the MOU, NRRIT does not self-select the objectives and scope of the performance reviews without consultation with the RRB. The key subject areas and timeline, as well as scope of each audit, is only determined after consultation between NRRIT and the RRB.

As we noted in our response to the IG's fiscal years 2016 and 2017 Management and Performance Challenges Reports, in December 2015, NRRIT engaged the independent firm of KPMG to conduct the first audit under the MOU on the topic of Corporate Governance Framework, the results of which audit were reported to the RRB in September 2016. Consistent with the three-year cycle established by the MOU, and after consultation with the RRB, an independent firm will commence a new performance review in November 2018. This performance review will cover NRRIT's investment guidelines, asset allocation, performance benchmarks, and investment plan, and is expected to be completed in 2019. Accordingly, in the RRB's view, the history of continuing cooperation between NRRIT and the RRB on this and other matters renders any amendment to the Act recommended by the Inspector General unnecessary.

Payment Integrity

Introduction

The Improper Payments Information Act of 2002 (Pub. L. 107-300), as amended by the Improper Payments Elimination and Recovery Act of 2010 (IPERA; Pub. L. 111-204), requires agencies to annually report information on improper payments to the President and Congress through their annual Performance and Accountability Reports. A more recent law, the Improper Payments Elimination and Recovery Improvement Act of 2012 (IPERIA; Pub. L. 112-248), amended IPIA.

The enactment of the IPERIA of 2012 provided an opportunity for OMB to re-examine existing guidance to ensure agencies are able to more efficiently reduce their improper payment rates, while also complying with multiple legislative and administrative requirements. The goal of the June 26, 2018, revised version of Appendix C to OMB Circular No. A-123, OMB M-18-20, is to transform the improper payment compliance framework to create a more unified, comprehensive, and less burdensome set of requirements. The RRB has benefit paying and non-benefit paying programs. The benefit paying programs are: railroad retirement and survivor benefit payments, railroad unemployment and sickness insurance benefit payments, and the RRB's Specialty Medicare Administrator Contractor paid Part B Medicare benefits. Non-benefit paying programs include vendor payments and employee payments (payroll, travel, and other reimbursable expenses).

In fiscal year 2017, the RRB's estimated improper payment rate for the RRA and RUIA programs was below the statutory threshold for the sixth consecutive year. The RRB requested reporting relief for these two programs following the guidance in Circular A-123, Appendix C, Part II.A.3. The OMB granted us reporting relief for these two programs in July 2018. Medicare is the only program with Payment Integrity data reported this year.

Additional information on RRB improper payments reporting can be found at www.paymentaccuracy.gov (**Resources** tab, listed under **Links to Agency Annual Financial Reports**).

I. Payment Reporting.

Program	I. a ($ in millions)					I. b ($ in millions)			
	Outlays	Est. of Proper Payments	Est. Of Improper Payments	% of Proper Payments	% of Improper Payments	Over-payment $	Under-payment $	Overpayment %	Underpayment %
RRA	*	*	*	*	*	*	*	*	*
RUIA	*	*	*	*	*	*	*	*	*
RAILROAD MEDICARE	**$852.81**	**$763.03**	**$89.78**	**89.47%**	**10.53%**	**$88.04**	**$1.74**	**98.06%**	**1.94%**

The above Medicare data includes analysis of the fiscal year 2017 Medicare Fee-for-Service improper payment data from the CERT program issued in November 2017 for claims sampled between July 1, 2015 and June 30, 2016.

* In July 2018, OMB granted the RRB reporting relief for the RRA and RUIA programs.

Program	I. c ($ in millions)	
	Estimate of Improper Payments Paid by Government	Amount of Improper Payments Made by Recipients of Federal Money
RRA	*	*
RUIA	*	*
RAILROAD MEDICARE	**$89.78**	**Not Applicable**

The above Medicare data includes analysis of the fiscal year 2017 Medicare Fee-for-Service improper payment data from the CERT program issued in November 2017 for claims sampled between July 1, 2015 and June 30, 2016.

* In July 2018, OMB granted the RRB reporting relief for the RRA and RUIA programs.

I. d Improper Payment Root Cause Categories ($ in millions)

Reason for Improper Payment		RRA Program		RUIA Program		Railroad Medicare Program	
		Overpayments	Underpayments	Overpayments	Underpayments	Overpayments	Underpayments
Program Design or Structural Issue		*	*	*	*		
Inability to Authenticate:	Inability to Access Data	*	*	*	*		
	Data Needed Does Not Exist	*	*	*	*		
Failure to Verify:	Death Data	*	*	*	*		
	Financial Data	*	*	*	*		
	Excluded Party Data	*	*	*	*		
	Prisoner Data	*	*	*	*		
	Other Eligibility Data (explain)	*	*	*	*		
Administrative or Process Error Made by:	Federal Agency	*	*	*	*		
	State or Local Agency	*	*	*	*		
	Other Party (e.g., participating lender, health care provider, or any other organization administering Federal dollars)	*	*	*	*	18.50	1.74
Medical Necessity		*	*	*	*		
Insufficient Documentation to Determine		*		*		69.54	
Other Reason (explain)		*	*	*	*		
Total		*	*	*	*	88.04	1.74
TOTAL @ 2 Decimals		*	*	*	*	**88.04**	**1.74**

The above Medicare data includes analysis of the fiscal year 2017 Medicare Fee-for-Service improper payment data from the CERT program issued in November 2017 for claims sampled between July 1, 2015 and June 30, 2016.

* In July 2018, OMB granted the RRB reporting relief for the RRA and RUIA programs.

Program	I. e Reduction Targets for the next fiscal year ($ in millions)		
	$ Outlays (estimated)	IP %	IP $
RRA	*	*	*
RUIA	*	*	*
RAILROAD MEDICARE	$913.68	9.93%	$90.73

The above Medicare data includes analysis of the fiscal year 2017 Medicare Fee-for-Service payment data from the CERT program issued in November 2017 for claims sampled between July 1, 2015 and June 30, 2016.

The target (9.93%) for lowering the Part B improper payment rate for fiscal year 2018 is recommended by CMS.

* In July 2018, OMB granted the RRB reporting relief for the RRA and RUIA programs.

I. f Corrective Action Plans.

RRA and RUIA programs – not applicable. In July 2018, OMB granted the RRB reporting relief for the RRA and RUIA programs.

Railroad Medicare – The SMAC uses data from the CERT program and other sources of information to reduce improper payments in handling of Part B claims for Railroad beneficiaries and their families. This section includes information on corrective actions taken to address the improper payment rate.

Insufficient documentation contributed to 77.46 percent of the projected overall error rate. Claims are placed into the insufficient documentation category when the medical documentation submitted is inadequate to support payment for the services billed. In other words, the CERT contractor reviewers could not conclude that the billed services were actually provided, were provided at the level billed, and/or were medically necessary. Claims are also placed into this category when a specific documentation element that is required as a condition of payment is missing, such as a physician signature on an order, or a form that is required to be completed in its entirety.

Incorrect coding errors contributed to 22.54 percent of the projected overall error rate which includes overpayments and underpayments. Claims are placed into this category when the provider or supplier submits medical documentation supporting:

1. A different code than that billed,
2. That the service was performed by someone other than the billing provider or supplier,
3. That the billed service was unbundled, or
4. That a beneficiary was discharged to a site other than the one coded on a claim.

Medical Review Strategies – CMS requires Medicare contractors develop medical review strategies using the improper payment data to ensure the areas that are at highest risk and exposure are targeted. The SMAC is responsible for reducing the improper payment rate and performs continuous activities on vulnerabilities identified in their (Improper Payment Reduction

Strategy (IPRS). Some ways this is accomplished include Service Specific Pre-payment reviews, Targeted Probe and Educate (TPE) Process and Post-Payment reviews.
Provider Outreach and Education – The RRB SMAC has instituted several education and outreach processes in relation to CERT reviews. If the CERT contractor identifies an improper payment, the SMAC sends a Teaching and Instruction to Providers (TIP) letter which provides an explanation on the denial.

Comparative Billing Reports (CBRs) and Electronic CBRs – The SMAC mails a CBR, which is a paper document that contains education for specific providers who have been identified as billing outside the norm established by their peers. The results are not indicative of fraud; instead, they give providers information they can use in order to conduct self-audits of their billing patterns. The CBRs are created by examining a range/family of codes and then determining which provider's bill the higher level of codes in the range/family compared to the entirety of the Specialty MAC jurisdiction. In the weeks following the mailing, SMAC staff reaches out to the top 10 percent of providers identified as billing outside the norm compared to their peers.

Fraud Prevention System (FPS) – The CMS FPS is utilized by CMS to assist in reducing improper Medicare payments. The new option year for the FPS began in April 2018 and the RRB contractor is scheduled to be onboard by the end of summer 2018.

United Program Integrity Contractor (UPIC) – The UPIC contractor performs comprehensive problem identification and research to identify potential fraud, waste and abuse by Medicare providers.

II. Recapture of Improper Payments Reporting.

We 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. The RRB notified OMB of our approach in August 2011. Taken as a whole, our full range of current activities constitutes *an effective alternative to* a formal payment recapture program. However, despite 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 2017 was $70,940,133. This balance includes debts classified as currently not collectible. We estimate that approximately 75.1 percent of the RRA receivable balance will be collected and that the remaining 24.9 percent of the RRA debt will eventually be closed as uncollectible. For the period of fiscal years 2008 through 2017, the RRB recovered $467,813,040 in RRA program receivables.

The RRB's account receivable balance for the RUIA program at the end of fiscal year 2017 was $17,101,615. This balance includes debts classified as currently not collectible. We estimate that approximately 80.7 percent of the RUIA receivable balance will be collected and 19.3 percent will eventually be closed as uncollectible. It should be noted that uncollectible RUIA debts may be reinstated for recovery by offset when a debtor files an application for retirement benefits. For the period of fiscal years 2008 through 2017, the RRB recovered $269,495,645 in RUIA program receivables.

The RRB determined that it was not cost effective to include its Vendor and Employee Payment Programs for recapture audit since the RRB's non-benefit paying programs are not susceptible to significant improper payments based on the risk assessments.

The RRB's collection program is in full compliance with the Debt Collection Improvement Act of 1996. Recoveries are made through offset of benefits, reclamation and return of erroneous benefit payments, 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.

Agency Source	Program	Overpayments Recaptured Outside of Payment Recapture Audits ($ in millions)					
		Amount Identified FY 17	Amount Recaptured FY 17	Amount Identified FY 16	Amount Recaptured FY 16	Cumulative Amount Identified FY 08 - FY 17	Cumulative Amount Recaptured FY 08 – FY 17
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.	RRA	$45.09*	$70.22**	$48.68*	$64.42**	$482.60*	$467.81**
	RUIA	$26.00*	$25.95**	$22.82*	$23.19**	$283.75*	$269.50**
	Railroad Medicare	$5.31	$4.69	N/A	N/A	$5.31	$4.69

This is the first year of reporting for the Medicare program. The totals for this program reflect the amounts reported by the RRB SMAC. All identified overpayments (including overpayments identified by the CERT program) are recovered by the RRB SMAC via standard payment recovery methods.

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

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

III. Agency Improvement of Payment Accuracy with the Do Not Pay Initiative.

We have determined that our current business processes, data sources, and the Do Not Pay Initiative are effective in detecting and preventing both benefit and non-benefit overpayments. As a benefit paying agency, the RRB receives pre-payment information regarding benefit entitlement at other agencies and wage information. We have ongoing data sources established and in use for this information, which includes benefit entitlement and wages from SSA, employers, and our application process. We also receive post-payment wage information through established sources such as wage matching programs with the fifty states. In addition, we receive death data directly from SSA and CMS, which provides us with detailed death information.

We continue to look forward to utilizing SSA's Prisoner Update System when it becomes available in the DNP portal. We are also interested in receiving data from the National New Hire Directory should it become available through the DNP Initiative.

In addition to controls to establish vendor and employee payment eligibility, as described in the risk assessments, RRB vendor payment files are screened by the Treasury's Bureau of the Fiscal Service for matches. Results are returned to the agency daily using the Payment Application Modernization (PAM) system. No matches were returned in fiscal year 2017.

IV. Barriers.

RRA and RUIA programs – not applicable. In July 2018, OMB granted the RRB reporting relief for the RRA and RUIA programs.

Railroad Medicare – There are no identified statutory or regulatory barriers that could limit corrective actions for the Medicare program.

V. Accountability.

RRA and RUIA programs – not applicable. In July 2018, OMB granted the RRB reporting relief for the RRA and RUIA programs.

Railroad Medicare – The RRB has accountability in reducing and recovering improper payments by serving as a responsible steward for our customers' trust funds and agency resources, and is one of the top priorities in the RRB Strategic Plan. The RRB works with the SMAC in its commitment to effectively and efficiently establish and implement an Improper Payment Reduction Strategy (IPRS). The IPRS supports the RRB goals to reduce claims payment errors and facilitate payment interventions designed to reduce risks to the Medicare Trust Fund.

VI. Agency Information Systems and Other Infrastructure.

RRA and RUIA programs – not applicable. In July 2018, OMB granted the RRB reporting relief for the RRA and RUIA programs.

Railroad Medicare – CMS provides the information systems and infrastructure that the SMAC utilizes in reducing the claims payment error rate. CMS's systems have the ability to identify aberrant billing patterns based upon a comparison of local payment rates with national rates. The systems at both the Medicare contractor-level (includes the SMAC) and the CMS-level are linked by a high-speed, secure network that allows for the rapid transmission of large data sets between systems. In addition, the linked system allows for the implementation of automated edits based on national coverage determinations, medically unlikely units billed, and other relevant parameters to prevent improper payments on a prepayment basis.

VII. Sampling and Estimation.

RRA and RUIA programs – not applicable. In July 2018, OMB granted the RRB reporting relief for the RRA and RUIA programs.

Railroad Medicare – The Comprehensive Error Rate Testing (CERT) program is used to estimate the Medicare FFS improper payments. The CERT program evaluates a statistically valid stratified sample of claims to determine if they were paid properly under Medicare coverage, coding, and billing rules. The CERT program considers any payment for a claim that should have been denied or that was made in the wrong amount (including both overpayments and underpayments) to be an improper payment. The claim can be counted as either a total or a partial improper payment, depending on the error. The Medicare FFS improper payment estimate includes improper payments due to insufficient or no documentation. CERT includes improper payments of all dollar amounts (i.e., there is no dollar threshold under which errors will not be cited).

VIII. Risk Assessment.

Risk Assessments are prepared in response to IPERA and OMB guidance to evaluate all of our payment outlays susceptible to improper payments. We conduct these evaluations in order to maintain Improper Payment Governance aligned to our strategic goal to serve as responsible stewards for our customers' trust funds and agency resources. The RRB's Risk Assessment Plans for the RRA, RUIA, and Railroad Medicare programs were included in the FY 2016 Performance and Accountability Report.

In July 2018, OMB granted the RRB reporting relief for the RRA and RUIA programs. If any of these programs undergo significant legislative or programmatic changes, significant funding increases, and/or changes that would result in a substantial impact, we will perform a risk assessment of the impacted program, per OMB guidance.

The Railroad Medicare risk assessment will be conducted again following the prescribed risk assessment schedule from OMB.

Risk Assessments for non-benefit paying programs (vendor and employee payments) were included in the FY 2017 Performance and Accountability Report for audit resolution purposes. We have determined that the RRB's non-benefit paying programs are not susceptible to significant improper payments based on these risk assessments. These Risk Assessments will be conducted again and presented in the RRB's FY 2020 Performance and Accountability Report.

Summaries of Financial Statement Audit and Management Assurances

Summary of Financial Statement Audit

Audit Opinion	Disclaimer				
Restatement	No				
Material/Weaknesses[1]	Beginning Balance	New	Resolved	Consolidated	Ending Balance
Financial Reporting	1				1
Deficient Internal Controls at the Agency Wide Level (incorporates Control Environment)[2]		1			1
Total Material Weaknesses	1	1			2

Summary of Management Assurances

Effectiveness of Internal Control over Operations (FMFIA §2)						
Statement of Assurance	Modified					
Material/Weaknesses[1]	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Financial Reporting	1					1
Deficient Internal Controls at the Agency Wide Level (incorporates Control Environment)[2]		1				1
Total Material Weaknesses	1	1				2

[1] As asserted by the Office of Inspector General (OIG); the RRB disagrees with both the material weaknesses and the disclaimer audit opinion. See the Analysis of Systems, Controls and Legal Compliance subsection within the Management's Discussion and Analysis Section.

[2] Control Environment was incorporated into this previously unreported material weakness.

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

Civil Monetary Penalty Adjustment for Inflation

The RRB published its 2018 civil monetary penalty inflation adjustment on January 23, 2018 (83 Fed. Reg. 3193). The maximum civil penalty under the Program Fraud Civil Remedies Act was increased to $11,181, and the penalty range under the False Claims Act was increased to a minimum penalty of $11,181 and a maximum penalty of $22,363.

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APPENDICES

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Appendices

Glossary of Acronyms and Abbreviations

A	
APG	Accounting Procedures Guide
B	
BCA	Budget Control Act of 2011
BFO	Bureau of Fiscal Operations
C	
CDM	Continuous Diagnostics and Mitigation
CERT	Comprehensive Error Rate Testing
CMS	Centers for Medicare & Medicaid Services
COLA	Cost-of-Living Adjustment
COR	Contracting Officer's Representative
D	
DBD	Disability Benefits Division (RRB)
DHS	Department of Homeland Security
DNP	Do Not Pay
E	
EDMA	Employment Data Maintenance
EFT	Electronic Fund Transfer
ERS	Employer Reporting System
F	
FAR	Federal Acquisition Regulations
FBWT	Fund Balance With Treasury
FECA	Federal Employees' Compensation Act
FFS	Fee-for-Service (Medicare)
FMFIA	Federal Managers' Financial Integrity Act
FI	Financial Interchange
FMIS	Financial Management Integrated System
FSIO	Financial Systems Integration Office
FTR	Federal Travel Regulations
FY	Fiscal Year
G	
GAO	Government Accountability Office
GSA	General Services Administration

HCME	Human Capital Management Evaluation
I	
IT	Information Technology
IPERA	Improper Payments Elimination and Recovery Act
IPERIA	Improper Payments Elimination and Recovery Improvement Act of 2012
IPIA	Improper Payments Information Act
IRS	Internal Revenue Service
L	
LIRR	Long Island Rail Road
LMS	Learning Management System
M	
MCOS	Medicare Contract Operations Specialist
MCR	Management Control Review
MCRC	Management Control Review Committee
MIRTEL	Medicare Information Recorded, Transmitted, Edited and Logged
N	
NRRIT	National Railroad Retirement Investment Trust
O	
OGC	Office of General Counsel (RRB)
OIG	Office of Inspector General
OMB	Office of Management and Budget
OPM	Office of Personnel Management
R	
RBD	Retirement Benefits Division (RRB)
RESCUE	Recalculate for Service and Compensation Updated to EDM
ROC	Retirement On-Line Calculations
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
SMAC	Specialty Medicare Administrative Contract
SOSI	Statement of Social Insurance
SPEED	System Processing Excess Earnings Data
SPS	Secure Payment System
SSA	Social Security Administration
SSEB	Social Security Equivalent Benefit
SSN	Social Security Number

T

Treasury	Department of the Treasury

U

UI	Unemployment Insurance
USC	United States Code

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

Board Members

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Labor Member	Walter A. Barrows
Management Member	Steven J. Anthony

Office of Inspector General

Inspector General	Martin J. Dickman

Executive Committee

Director of Field Service/ Senior Executive Officer	Daniel J. Fadden
Chief Actuary	Frank J. Buzzi
Chief Financial Officer	Shawna Weekley
Chief Information Officer	Ram Murthy
Director of Administration	Keith B. Earley
Director of Programs	Michael A. Tyllas
General Counsel	Ana M. Kocur

For additional copies of this report, please contact:

Railroad Retirement Board
Bureau of Fiscal Operations
844 North Rush Street, 5th Floor
Chicago, Illinois 60611-1275
Telephone: (312) 751-4591
Available online at: www.RRB.gov