RAILROAD RETIREMENT BOARD

PERFORMANCE AND ACCOUNTABILITY REPORT

FISCAL YEAR 2019

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Railroad Retirement Board
Performance and Accountability Report
Fiscal Year 2019

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MESSAGE FROM THE BOARD MEMBERS

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Message from the Board Members

This fiscal year 2019 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 October 1, 2018 through September 30, 2019, were reduced by 6.2 percent. The reduction was required by the sequestration order issued by the President in accordance with the BCA. For fiscal year 2020, a sequestration reduction of 5.9 percent was applied starting October 1, 2019.

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:

Erhard R. Chorlé, Chairman
John Bragg, Labor Member
Thomas Jayne, Management Member

November 15, 2019

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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 2019, the RRB trust funds realized a net of $4.7 billion, representing 40 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

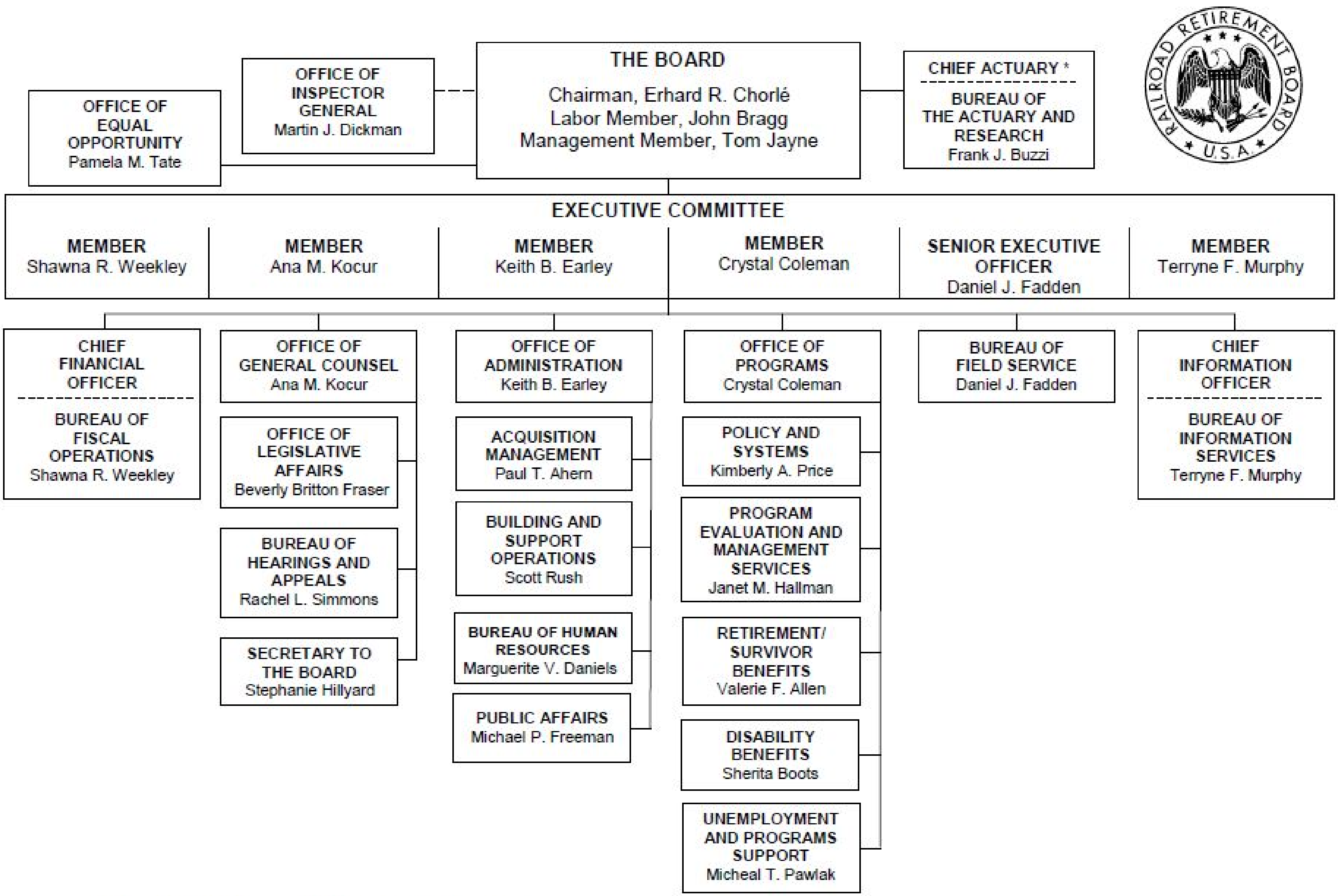
The RRB, as an independent agency in the executive branch of the U.S. Government, is responsible for administering the RRA and the RUIA. The financial statements include the accounts of all funds under the control of the RRB and the OIG. These funds consist of three administrative funds, four trust funds, 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 Chairman of the Board is Erhard R. Chorlé, the Labor Member is John Bragg, and the Management Member is Thomas Jayne. 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 Inspector General reports administratively to the Chairman.

* Non-voting member of the Executive Committee

October 2019

U.S. RAILROAD RETIREMENT BOARD
District Office Map

07-19

Performance Goals, Objectives, and Results

During fiscal year 2019 (ended September 30, 2019), benefit payments totaled $13.3 billion, net of recoveries and offsetting collections. Of this amount, benefit payments for the railroad retirement and survivor benefits program totaled $13.1 billion and totaled $93.2 million for the railroad unemployment and sickness insurance benefits program, net of recoveries and offsetting collections. During fiscal year 2019, the RRB also paid benefits on behalf of SSA (for which the RRB is reimbursed) amounting to $1.9 billion to about 125,500 beneficiaries.

In fiscal year 2019, 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 2019 included:

- Providing payments to about 535,000 retirement and survivor beneficiaries.
- Providing payments to about 9,300 unemployment insurance beneficiaries.
- Providing payments to about 14,700 sickness insurance beneficiaries.
- Processing 19,223 retirement, survivor, and disability applications for benefits (through April 30, 2019).
- Processing 75,409 applications and claims for unemployment and sickness insurance benefits (through April 30, 2019).
- Issuing 262,750 certificates of employee railroad service and compensation (mailed on June 15, 2019).

During fiscal year 2019, the RRB used 28 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, where $113,500,000 was for ongoing administration of the RRB and $10,000,000 was for the agency's IT modernization program. (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 2019 were not available at the time this report was published. For those objectives, we reported part-year performance information for fiscal year 2019, 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 2019, we plan to transform systems and deliver online retirement forms.

Strategic Goal II: Provide Excellent Customer Service. For fiscal year 2019, 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 2019, 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 initiatives for the upcoming planning period relate to modernizing Information Technology (IT) operations, customer service and trust fund stewardship. The **IT operations** initiative involves transforming current legacy systems through automation and building modern digital services while safeguarding information. The **service** initiative 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** initiative 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 initiatives, 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 2019 reflects one strategic objective that focuses on the specifics of achieving this goal.

- Legacy systems modernization.

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 2019 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)

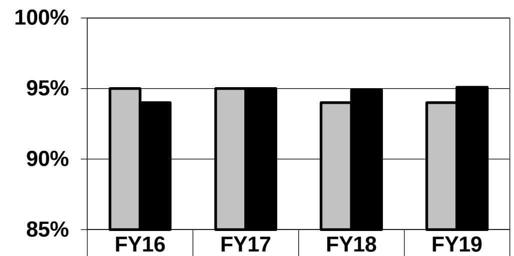
FY 2019 goal: 94.0%
Our FY 2019 performance: 95.1% through the 2nd quarter

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

FY 2018 goal: 94.0%
Our FY 2018 performance: 94.9%

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

The RRB makes a decision to pay or deny a railroad retirement employee or spouse initial annuity application within 35 days of the annuity beginning date, if advanced filed.
(FY 19 actual is through 3-31-19)



	FY16	FY17	FY18	FY19
Goal	95.0%	95.0%	94.0%	94.0%
Actual	94.0%	95.0%	94.9%	95.1%

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

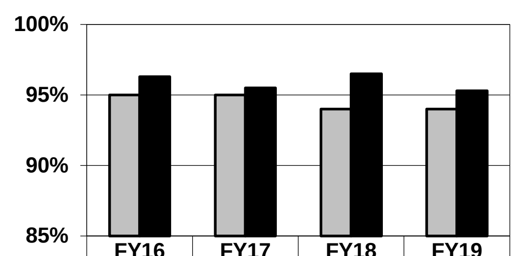
FY 2019 goal: 94.0%
Our FY 2019 performance: 95.3% through the 2nd quarter

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

FY 2018 goal: 94.0%
Our FY 2018 performance: 96.5%

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

The RRB makes a decision to pay or deny a railroad retirement employee or spouse initial annuity application within 60 days of the date the application was filed.
(FY 19 actual is through 3-31-19)



	FY16	FY17	FY18	FY19
Goal	95.0%	95.0%	94.0%	94.0%
Actual	96.3%	95.5%	96.5%	95.3%

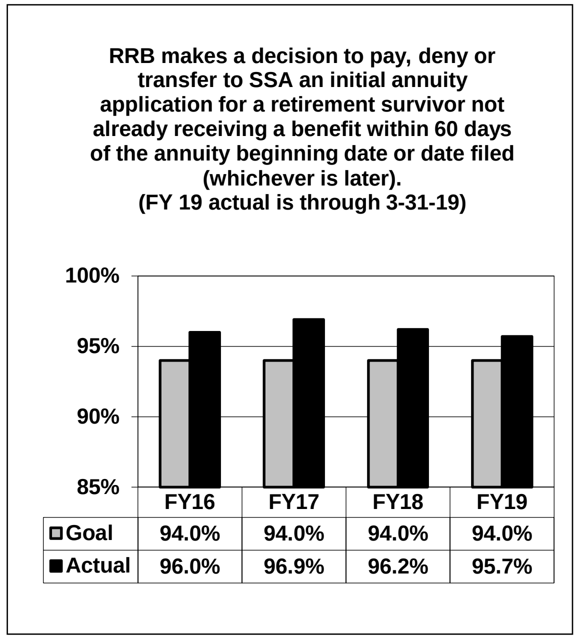
Key performance indicator 3: **Timeliness of new survivor benefit payments (Objective II-A-3)**

FY 2019 goal: 94.0%
Our FY 2019 performance: 95.7% through the 2nd quarter

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

FY 2018 goal: 94.0%
Our FY 2018 performance: 96.2%

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



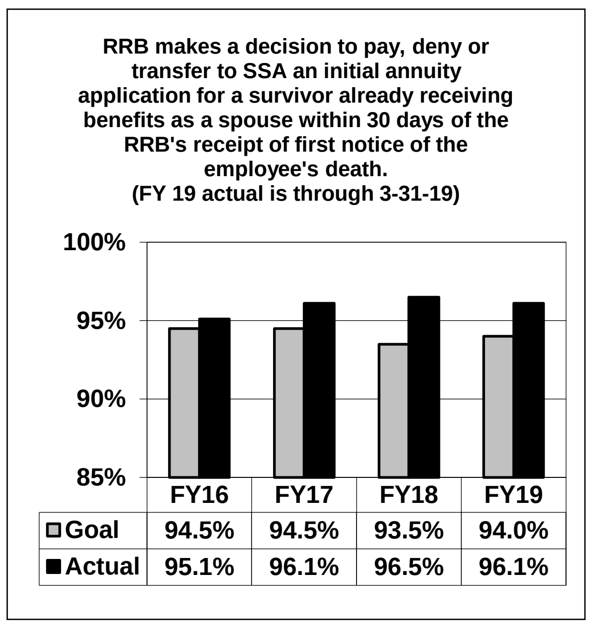
Key performance indicator 4: **Timeliness of spouse to survivor benefit payment conversions (Objective II-A-4)**

FY 2019 goal: 94.0%
Our FY 2019 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 2018 goal: 93.5%
Our FY 2018 performance: 96.5%

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



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

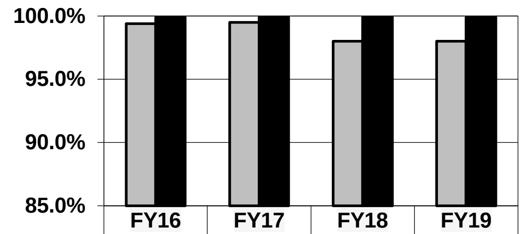
FY 2019 goal: 98.0%
Our FY 2019 performance: 99.9% through the 2nd quarter

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

FY 2018 goal: 98.0%
Our FY 2018 performance: 99.9%

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

RRB certifies a payment or releases a letter of denial of UI or SI benefits within 10 days of the date the RRB receives the claim.
(FY 19 actual is through 3-31-19)



	FY16	FY17	FY18	FY19
Goal	99.4%	99.5%	98.0%	98.0%
Actual	99.9%	99.9%	99.9%	99.9%

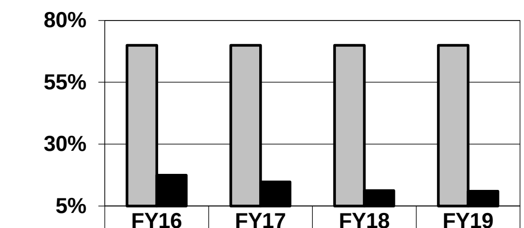
<u>Key performance indicator 6:</u> Timeliness of disability decisions (Objective II-A-7)

FY 2019 goal: 70.0%
Our FY 2019 performance: 11.0% through the 2nd quarter

We are not achieving our goal.

FY 2018 goal: 70.0%
Our FY 2018 performance: 11.3%

The RRB makes a decision to pay or deny a benefit for a disabled applicant or family member within 100 days of the date the application is filed.
(FY 19 actual is through 3-31-19)



	FY16	FY17	FY18	FY19
Goal	70.0%	70.0%	70.0%	70.0%
Actual	17.4%	14.7%	11.3%	11.0%

Initial disability decision timeliness performance was below the goal of 70% within 100 days for multiple reasons, including a continued effort in the Disability Benefits Division (DBD) to make decisions on cases that were greater than 2 years old. At the start of the fiscal year, cases with filing dates 2015 and earlier were 3.4% of the total workload balance. At the end of the fiscal year, this balance was significantly reduced to approximately 14% of the pending work, a 96% reduction. During FY 2018, DBD reduced the number of cases with filing dates before 2017. At the start of FY 2018, there were over 2,000 cases pending including 33% of cases with filing dates prior to 2017. At the end of FY 2018, the pending balance increased to over 2,100 but less than 6% of these cases had filing dates prior to 2017.

In an effort to reduce the number of pending cases and improve timeliness, DBD hired additional initial claims examiners. The initial training phase took approximately 8 months. The new hires began production in the last quarter of FY 2018. During the last month of training, the new examiners production accounted for 20% of DBD's total completed cases. As their production continues to increase, the benefits to timeliness will be reflected in the Division's overall performance.

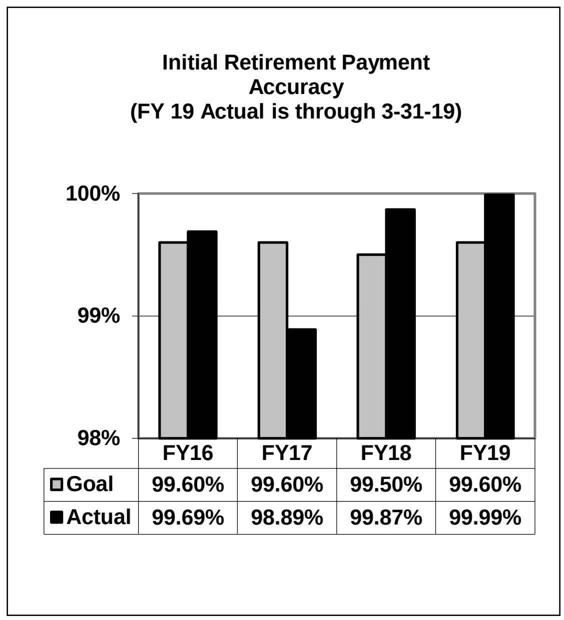
Data Definition: This goal is included in the RRB Customer Service Plan.

<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 2019 goal: 99.60%
Our FY 2019 performance: 99.99%

FY 2018 goal: 99.50%
Our FY 2018 performance: 99.87%

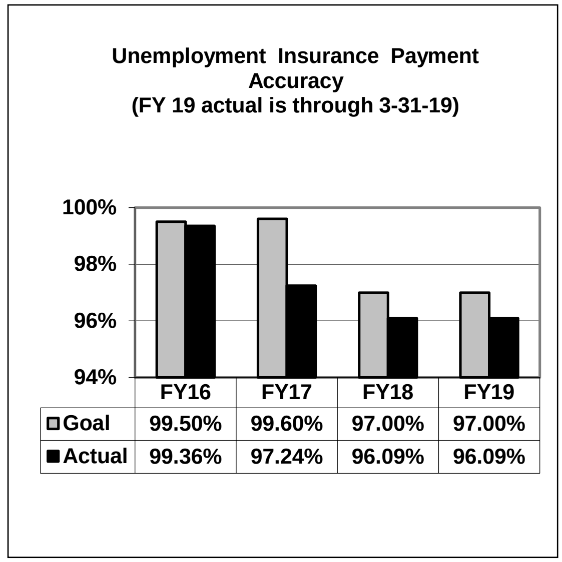


We achieved our goal.
Automation plays a key role in assuring initial benefit payment accuracy by reducing the number of erroneous payments. Automation will become more critical in this area as experienced personnel retire in the coming years.

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.

Key performance indicator 8: **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 2019 goal: 97.00%
Our FY 2019 performance: 96.09% through the 2nd quarter

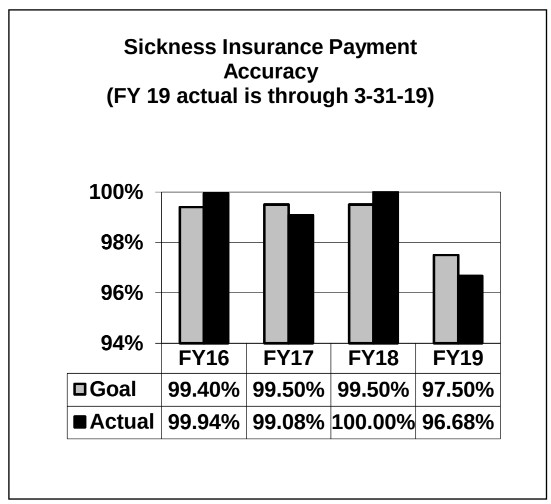
We are not achieving our goal; however, we expect to meet the goal by the end of fiscal year 2019. Automation plays a key role in assuring benefit payment accuracy by reducing the number of erroneous payments.

FY 2018 goal: 97.00%
Our FY 2018 performance: 96.09%

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

Key performance indicator 9: **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 2019 goal: 97.50%
Our FY 2019 performance: 96.68% through the 2nd quarter

We are not achieving our goal; however, we expect to meet the goal by the end of fiscal year 2019. Automation plays a key role in assuring benefit payment accuracy by reducing the number of erroneous payments.

FY 2018 goal: 99.50%
Our FY 2018 performance: 100.00%

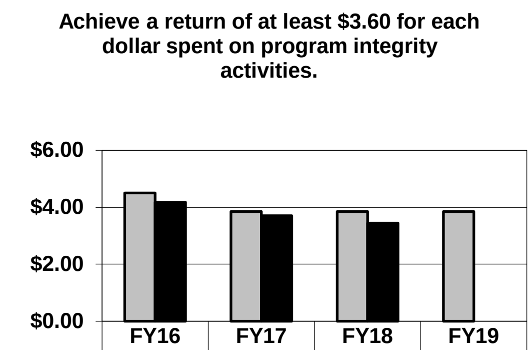
Data definition: This is the percentage of the dollar value of sickness insurance benefit payments paid correctly as a result of adjudication actions performed, based on a review of a sample of cases.

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

FY 2019 goal: $ 3.85: $1
Our FY 2019 performance: Not Available

FY 2018 goal: $3.85: $1
Our FY 2018 performance: $3.44: $1

We did not achieve our goal. Our fiscal year 2018 goal was to achieve a return of $3.85 for each dollar spent on program integrity activities. We achieved a rate of return of $3.44 for each dollar spent.



	FY16	FY17	FY18	FY19
Goal	$4.50	$3.85	$3.85	$3.85
Actual	$4.18	$3.70	$3.44	$0.00

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.

<u>Analysis of Financial Statements and Stewardship Information</u>

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

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)

	2019	2018
NET POSITION AT SEPTEMBER 30		
Social Security Equivalent Benefit Account	$772.4	$713.0
Railroad Retirement Account 1/	25,481.1	26,612.8
Railroad Retirement Administrative Fund	46.5	39.1
Railroad Unemployment Insurance Trust Fund -		
Benefit Payments	127.4	97.4
Administrative Expenses	9.2	9.1
Limitation on the Office of Inspector General	5.9	3.8
Dual Benefits Payments Account	7.6	7.7
Federal Payments to the Railroad Retirement Accounts	0.8	0.8
American Recovery and Reinvestment Act of 2009		
Railroad Unemployment Insurance Extended Benefit Payments – Recovery Act (no year dollars)	9.7	9.5
Worker, Homeownership, and Business Assistance Act of 2009		
Railroad Unemployment Insurance Extended Benefits (no year dollars)	134.2	133.0
Administrative Expenses, Railroad Unemployment Insurance Extended Benefit Payments		-
Total	**$26,594.8**	**$27,626.2**
FINANCING SOURCES FOR FISCAL YEAR		
Social Security Equivalent Benefit Account	$7,612.4	$7,462.4
Railroad Retirement Account 2/	4,459.7	5,571.5
Railroad Retirement Administrative Trust Fund	146.1	130.2
Railroad Unemployment Insurance Trust Fund -		
Benefit Payments	120.0	117.4
Administrative Expenses	0.1	(2.6)
Limitation on the Office of Inspector General	11.2	11.4
Dual Benefits Payments Account	17.3	20.4
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)	0.3	(0.1)
Administrative Expenses, Railroad Unemployment Insurance Extended Benefit Payments		-
Total	$12,367.1	$13,310.6
BENEFIT PAYMENTS FOR FISCAL YEAR 4/		
Social Security Equivalent Benefit Account	$7,553.0	$7,339.3
Railroad Retirement Account	5,594.8	5,756.3
Railroad Unemployment Insurance Trust Fund -		
Unemployment Insurance	40.3	43.5
Sickness Insurance	52.9	56.7
Dual Benefits Payments Account	17.3	20.4
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)	0.2	(0.1)
Administrative Expenses, Railroad Unemployment Insurance Extended Benefit Payments		
Total	$13,258.5	$13,216.1

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.

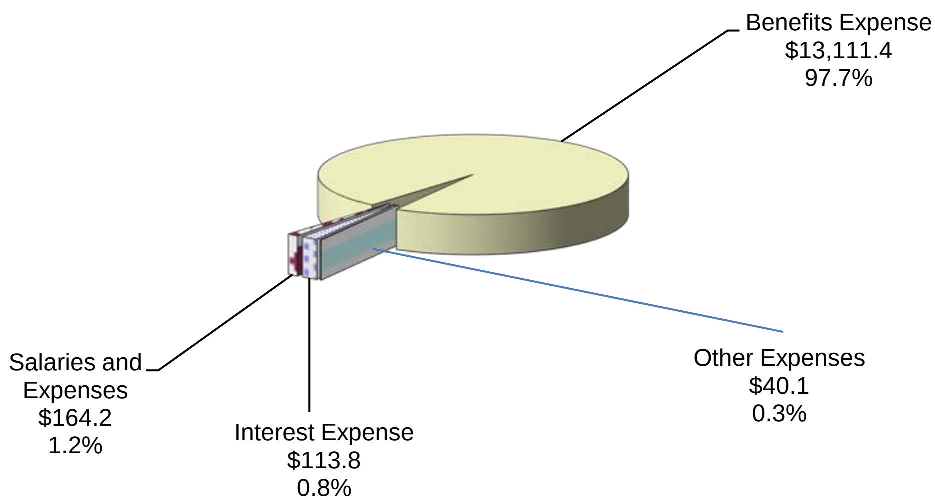
Comparison of Net Cost of Operations and Financing Sources

The net cost of operations for fiscal years 2019 and 2018 was $13,398.4 million and $13,051.1 million, respectively. The details of the net cost of operations by type, amount, increase or decrease, and percentage change from fiscal year 2018 to fiscal year 2019 are shown below. Additional information regarding the net cost of operations and financing sources for fiscal years 2019 and 2018 is shown on the following pages.

NET COST OF OPERATIONS
(In millions)

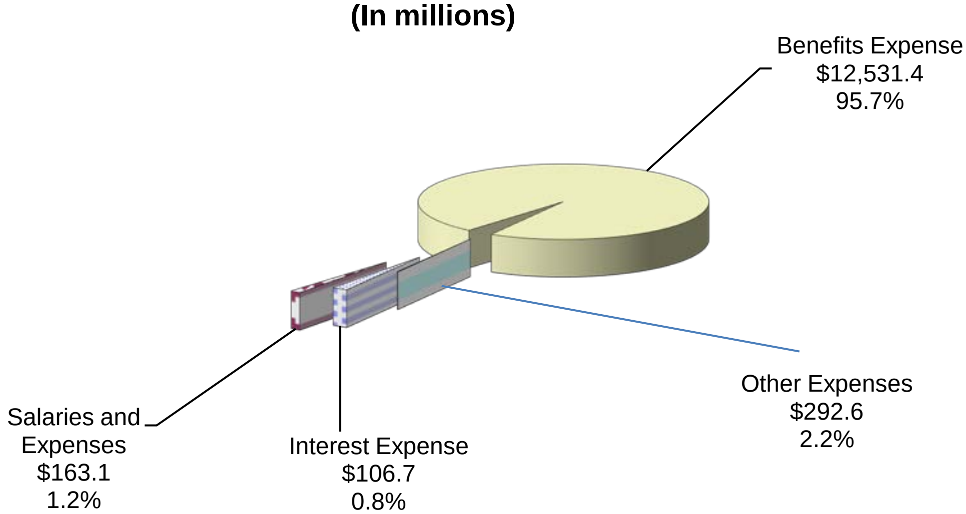
	FY 2019	FY 2018	Amount of Increase (Decrease)	Percent of Increase (Decrease)
Interest expense – Treasury borrowing	$113.8	$106.7	$7.10	6.7%
Salaries and expenses	164.2	163.1	1.1	0.7%
Benefits expense	13,111.4	12,531.4	580.0	4.6%
Other expenses	40.1	292.6	(252.5)	(86.3)%
Subtotal	**13,429.5**	**13,093.8**	**335.7**	**2.6%**
Less: Earned revenues	31.1	42.7	(11.6)	(27.2)%
Net cost of operations	**$13,398.4**	**$13,051.1**	**$347.3**	**2.7%**

FY 2019
NET COST OF OPERATIONS
(In millions)



Totals $13,429.5 million, excluding reimbursements, and earned revenues of $31.1 million.

FY 2018
NET COST OF OPERATIONS
(In millions)



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

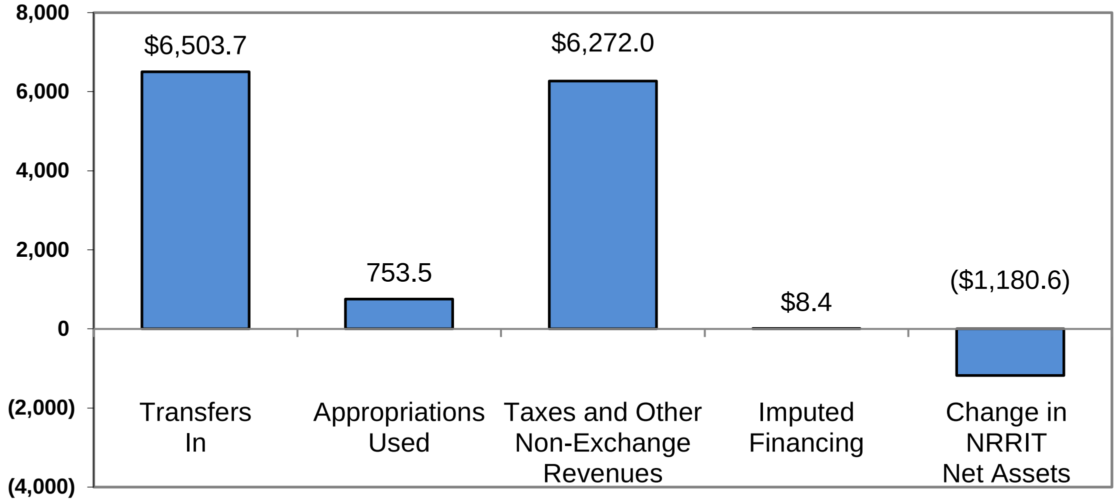
The following table shows financing sources (excluding changes in unexpended appropriations) by type, amount, increase or decrease, and percentage change from fiscal year 2018 to fiscal year 2019.

FINANCING SOURCES
(in millions)

	FY 2019	FY 2018	Amount of Increase (Decrease)	Percent of Increase (Decrease)
Budgetary Financing Sources:				
Appropriations used	$753.5	$ 795.1	$(41.6)	(5.2)%
Taxes and other non-exchange revenues:				
Payroll taxes	6,219.5	6,324.1	(104.6)	(1.7)%
Interest revenue and other income	45.3	38.5	6.8	17.7%
Carriers refunds – principal	(130.1)	(4.2)	(125.9)	2,997.6%
Railroad Unemployment Insurance (RUI) Revenue	137.3	134.2	3.1	2.3%
Subtotal	**$7,025.5**	**$7,287.7**	**$(262.2)**	**(3.6)%**
Transfers in:				
Financial Interchange, net	4,709.7	4,285.3	424.4	9.9%
NRRIT	1,794.0	1,809.0	(15.0)	(0.8)%
Subtotal	**$6,503.7**	**$6,094.3**	**$409.4**	**6.7%**
TOTAL BUDGETARY FINANCING SOURCES	**$13,529.2**	**$13,382.0**	**$147.2**	**1.1%**
Other Financing Sources :				
Imputed financing	8.4	7.2	1.2	16.7%
Change in NRRIT net assets	(1,180.6)	101.9	(1,282.5)	(1,258.6)%
Gain/(Loss) in Contingency	10.1	(180.5)	190.6	(105.6)%
TOTAL OTHER FINANCING SOURCES	**(1,162.1)**	**(71.4)**	**(1,090.7)**	**(1,527.6)%**
TOTAL FINANCING SOURCES	**$12,367.1**	**$13,310.6**	**$(943.5)**	**(7.1)%**

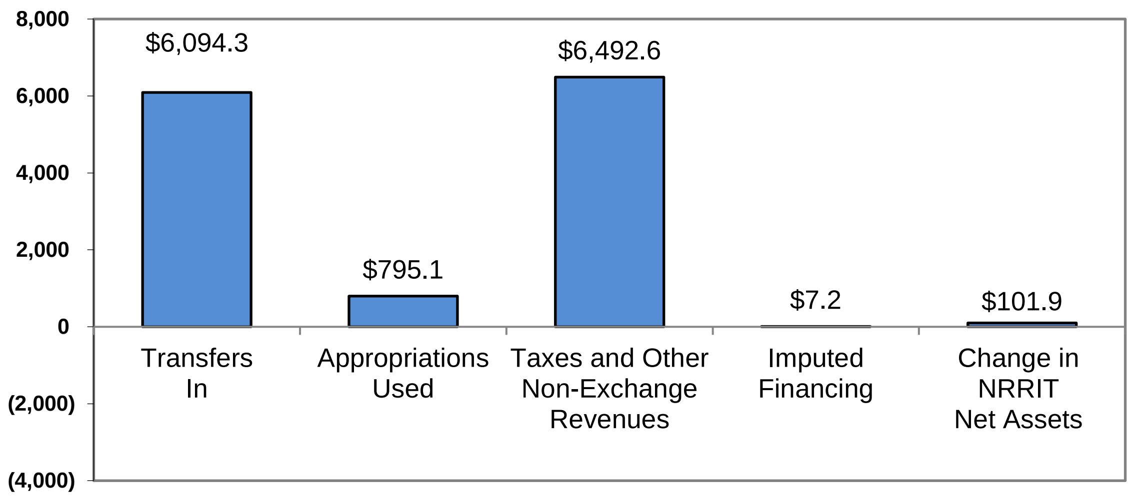
The most significant difference between the RRB's financial statements for fiscal year 2018 and fiscal year 2019 was the change in NRRIT net assets. The decrease in NRRIT net assets of about $1,180.6 million is due to market fluctuations during the past year. There is a section later in this publication that describes the NRRIT, and the NRRIT net assets balances for 2018 and 2019 are shown in the RRB's Financial Section of this publication.

FINANCING SOURCES (In Millions)
FY 2019



Total Financing Sources $12,357.0 million, excluding $10.1 million gain contingency.

FINANCING SOURCES (In Millions)
FY 2018



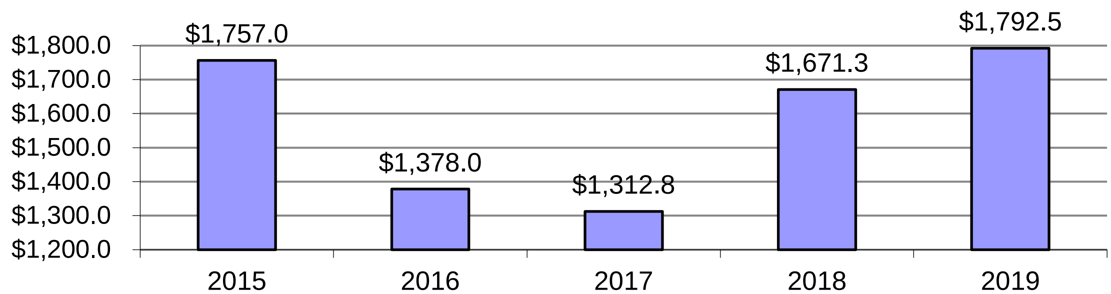
Total Financing Sources $13,491.1 million, excluding ($180.5) million loss contingency.

Railroad Retirement Investments at Treasury

The book value of all railroad retirement investments, including accrued interest, increased to $1,792.5 million as of September 30, 2019, from $1,671.3 million on September 30, 2018 (excludes NRRIT net assets). The graph below reflects the book value of the railroad retirement investments from September 30, 2015, through September 30, 2019.

INVESTMENT BALANCES HELD AT TREASURY (AT BOOK VALUE)
AT SEPTEMBER 30, 2015 - 2019

(In millions, excluding NRRIT net assets)

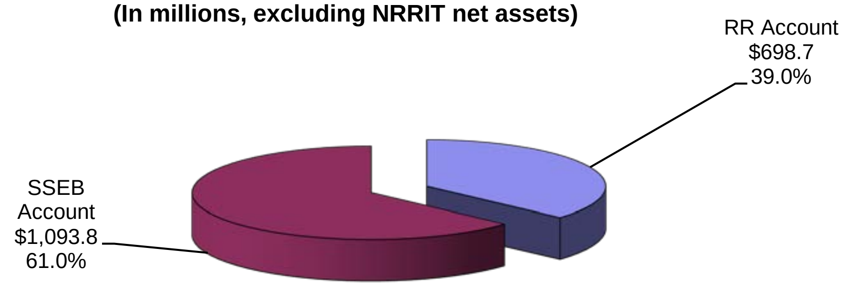


The following chart shows the portfolio of the railroad retirement investments as of September 30, 2019.

RAILROAD RETIREMENT INVESTMENTS HELD AT TREASURY
AS OF SEPTEMBER 30, 2019

AT BOOK VALUE
Total $1,792.5

(In millions, excluding NRRIT net assets)



Railroad Retirement Account: On September 30, 2019 and 2018, the book values of the RR Account investments, excluding NRRIT assets, including accrued interest, totaled $698,701,028 and $612,862,656, respectively. The balance on September 30, 2019, consisted of $697,794,000 in 3.000 percent par value specials (with market value equal to face value) maturing on October 1, 2019, and $907,028 in accrued interest. 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. 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, 2019 and 2018, the book values of the SSEB Account investments, including accrued interest, totaled $1,093,823,176 and $1,058,394,566, respectively. The balance on September 30, 2019, consisted of $1,091,977,000 in 3.000 percent par value specials maturing on October 1, 2019, and $1,846,176 in accrued interest. 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.

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 2019 are $32.8 billion, a 2.2 percent decrease over last year. Of the total assets, $25.4 billion relates to funds held by the NRRIT. The net asset value of funds held by the NRRIT decreased from fiscal year 2018 by 4.4 percent. Our investments totaled $1.8 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 2019 are $6.2 billion. Liabilities increased by $300.3 million or 5.1 percent in fiscal year 2019. Also, benefits due increased by $46.8 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: 1) railroad retirement and 2) railroad unemployment and sickness insurance. In fiscal year 2019, our net cost of operations was $13.4 billion, an increase over last year of $347.3 million, or 2.7 percent. A table for the net cost of operations for fiscal years 2019 and 2018 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 2019 is $26.6 billion. The statement shows a decrease in the net position of the agency of $1,031 million attributable to the change in cumulative results of operations. Total financing sources for 2019 are $12.4 billion. A table for financing sources for fiscal years 2019 and 2018 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 (NPV) of estimated future expenditures less estimated future revenue (net expenditures) for all participants over the next 75 years (open group) changed from $26.6 billion as of September 30, 2017 to $26.9 billion as of September 30, 2018, a net change in the open group measure of $0.3 billion, when rounded. Note that the Social Insurance information in the Table of Key Measures shows future expenditures less future revenue, while the Statement of Social Insurance shows future revenue less future expenditures. This change in presentation in the Table of Key Measures is done to eliminate any ambiguity in the interpretation of percentage changes in negative amounts.

As can be seen on the Statement of Changes in Social Insurance Amounts, a change in the open group measure of about $(0.2) billion is due to changes in economic data, assumptions and methods. Select assumptions for the Cost-of-Living Adjustment (COLA) were updated in 2019, as described in the footnotes to the Statement of Changes in Social Insurance Amounts. The change in the valuation period (from fiscal years 2018-2092 to fiscal years 2019-2093) resulted in a change of $0.5 billion in the open group measure. There were no changes in the demographic assumptions, but there were updates to demographic data. Changes in demographic data, assumptions and methods resulted in a minimal change. This year there were no changes in law or 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 2019	As reported in FY 2018	Increase / $	(Decrease) %
COSTS				
Total Financing Sources	$12,367.1	$13,310.6	(943.5)	(7.1)
Less: Net Cost	$13,398.4	$13,051.1	347.3	2.7
Net Change of Cumulative Results of Operations	**$(1,031.3)**	**$259.5**	**(1,290.8)**	**(497.4)**
NET POSITION				
Assets	$32,762.3	$33,493.4	(731.1)	(2.2)
Liabilities	$6,167.5	$5,867.2	300.3	5.1
Net Position (Assets minus Liabilities)	**$26,594.8**	**$27,626.2**	**(1,031.4)**	**(3.7)**

Dollars in Billions	10/1/2018	10/1/2017	Increase / $	(Decrease) %
SOCIAL INSURANCE				
Social Insurance Net Expenditures (Open Group)[1]	$26.9	$26.6	0.3	1.2

[1]Source: Statement of Social Insurance (SOSI). 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. Percentage Increase/(Decrease) is based on unrounded figures.

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, *Management's Responsibility for Internal Control,* Section VI, we are issuing a modified statement of assurance as the Office of Inspector General (OIG) has asserted material weaknesses exist as described in paragraph 6. Except as indicated under paragraph 6, we provide reasonable assurance that this agency's system of internal control is functioning and sufficient to ensure 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 of 1982 (FMFIA)* §2.

2. In accordance with the *Federal Information Security Modernization Act of 2014 (FISMA),* this agency has established an Information Security Program and practices, and has implemented controls to support the Cybersecurity framework; however, additional work is needed to achieve a rating of effective. This agency's financial management system is managed under contract and is a comprehensive proprietary software application from CGI Federal – Momentum Enterprise Solution – that resides on a cloud hosting service and is discussed in detail in the Financial Management Systems Strategy Section. As a result, the agency's FISMA overall maturity level does not directly impact its financial management system.

3. 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.

4. 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 satisfies the requirements of the *Government Performance and Results Act of 1993* and OMB Circular No. A-11, *Preparation, Submission and Execution of the Budget*.

5. In accordance with Office of Management and Budget (OMB), M-18-16, Appendix A to OMB Circular No. A-123, *Management of Reporting and Data Integrity Risk*, we can provide reasonable assurance that the Data Quality Plan and its associated internal controls substantially support the reliability and validity of this agency's account-level and award-level data reported for display on USASpending.gov in compliance with the *Digital Accountability and Transparency Act of 2014* (DATA Act).

6. For fiscal year 2019 the OIG has asserted that material weaknesses existed in (1) financial reporting and that the agency has (2) deficient internal controls at the agency-wide level. We disagree that the asserted deficiencies rise to the level of material weakness. These matters are discussed further in the Financial Statement Audit portion of this section.

Original signed by:

Erhard R. Chorlé, Chairman
John Bragg, Labor Member
Thomas Jayne, 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 of 1982* (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 2019, 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.

The Agency will continue to cooperate with the OIG and provide all NRRIT related information within its possession which the OIG requests. The Agency does not have the authority to compel the NRRIT auditors to provide their work papers to, or speak with the OIG. Additionally, the NRRIT and the United States Government Accountability Office (GAO) entered into an MOU giving GAO access to information and including NRRIT's financial information in the government-wide financial statements.[1] Therefore, the RRB disagrees with the OIG's inclusion of this matter as both a basis for a disclaimer of opinion and as a component of the financial reporting material weakness.

The OIG asserts 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 NRRIT's auditor. The OIG will again report a second material weakness related to deficient internal controls at the agency wide level. In FY 2018, the OIG asserted this material weakness existed because four of the five components of internal control were not assessed by the RRB in conformance with GAO and OMB requirements at the agency wide level. In FY 2019, the OIG expanded this material weakness to include information technology security and financial

[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 (on file at RRB).

reporting controls; compliance with indirect laws, regulations, contracts, treaties, and international agreements; compliance with railroad retirement act; and controls over railroad service compensation.[2]

We continue to make improvements to internal controls through policy, procedure revisions, emphasis on employee development and organizational realignment. With respect to financial reporting, in addition to the NRRIT item discussed above, the OIG's major concern has related to processing of journal or standard vouchers used to record transactions in the financial system. Along with significantly strengthening internal controls over voucher processing, we enhanced our quality assurance (QA) activities. For the third quarter of fiscal year 2019, the QA review, which covered 100% of journal vouchers and one-third of standard vouchers processed with individual amounts ranging from $5 million to $5 billion, found no procedural or substantive errors. As such, the error rate for third quarter of fiscal year 2019 was 0% compared to 10.7% for the same period in the prior year. 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 disagree with the OIG characterization that this rises to the level of a material weakness.

Further, the agency has made great strides in implementing Enterprise Risk Management (ERM) at the RRB by leveraging the Management Control Review (MCR) infrastructure already in place. In fiscal year 2019, we incorporated critical changes to the MCR guide to reflect core ERM principles, conducted training to responsible officials and agency leadership, as well as updated the agency's risk profile. We are committed to strong internal controls and will move forward with the next phase of ERM implementation.

Federal Information Security Modernization Act

The *Federal Information Security Management Act of 2002* (FISMA), as amended by the *Federal Information Security Modernization Act of 2014,* requires agencies to ensure adequate security protections for Federal information systems and information. Preliminary audit results for the FY 2019 FISMA audit indicate that Kearney & Company will assess our overall maturity at Level 2 – *Defined* and will recognize significant improvements in the domains Configuration Management, Identity and Access Management, Security Training, and Incident Response that matured from Level 1 – *Ad-Hoc* to Level 2 – *Defined.*

The preliminary FY 2019 audit results demonstrate progress in improving our information security program and practices across the agency as required by FISMA, OMB policy and guidelines, and National Institute of Science and Technology standards and guidelines, making incremental steps to reach the goal of Level 4 – *Managed and Measurable*.

[2] Memorandum from Debra Stringfellow-Wheat, Deputy Assistant Inspector General for Audit, OIG to Shawna Weekley, Chief Financial Officer, RRB, October 22, 2019 (on file at the RRB).

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 is 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 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. As such, FMIS is separate and distinct from RRB's internally managed Agency Enterprise General Information Systems (AEGIS), Benefit Payment Operations (BPO) and Financial Interchange (FI) system.

FMIS supports the RRB's budget formulation and execution, general ledger and trust fund accounting, procurement, contract management, fixed assets, accounts payable and both administrative and program accounts receivable requirements. The RRB is currently upgrading FMIS from version 7.03 to version 7.6 with an anticipated go live date of March 2020. The project is a major component of the RRB's systems modernization initiative.

The RRB currently utilizes both commercial and Federal shared service providers for other E-Government functions, including payroll, 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.

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 the opportunity to leverage more efficient and effective technologies that will positively impact our infrastructure and use of software applications and data to provide timely and accurate services to our customers. The modernization will require an updated architecture to directly address our service delivery from a managed cloud services perspective. With ever increasing IT security and privacy risks, we aim to make our systems and processes more robust with advanced privacy and security controls. This IT modernization is an iterative and incremental approach to confirm program integrity and meet operational performance standards, all while improving our customer's experiences with our services.

The RRB is currently contracting re-platform services and software to transition mission essential programs from the end-of-life mainframe hardware. In fiscal year 2020, we will complete the re-platform of legacy mainframe applications currently developed using COBOL/CICS/DB2. Additionally, the contract is complete which assessed RRB's core current businesses and developed a To-Be Blueprint for modernization. The contractor also delivered a proposed transition plan towards the To-Be State. In fiscal year 2020, we will tailor our next steps towards modernization based on these results, as well as agency priorities and available resources. In fiscal year 2021, we plan to continue IT Modernization efforts executing the tailored blueprint, outsourcing non-core services, and re-engineering the agency's core benefit processing and payment systems.

Human Capital Management

The agency's dedicated and 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. 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, 2019, 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 2019-2093, 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 2019-2029. 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

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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 2019 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.

The following is a consolidated presentation of our actual performance for fiscal years 2016 through March 31, 2019 (except as noted), followed by a discussion of our unmet performance goals and objectives for fiscal year 2018. At the time this report was prepared, actual fiscal year 2019 information was unavailable. Unmet fiscal year 2019 goals and indicators will be presented in next year's report. This performance report was prepared by RRB employees.

Railroad Retirement Board Fiscal Year 2019 Performance Plan	**2016 Actual (At $111.225m)**	**2017 Actual (At $113.5m)**	**2018 Actual (At $123.5m [2/])**	**2019 Planned [1/] (At $123.5m [3/])**	**2019 Actual [1/] (At $123.5m [3/])**
STRATEGIC GOAL I: Modernize Information Technology (IT) Operations to Sustain Mission Essential Services					
Strategic Objective: Legacy Systems Modernization Goal leader: Terryne F. Murphy, Chief Information Officer					
I-A-1. Transform Tax and EDM systems (3 million lines of legacy COBOL) from the mainframe to distributed architecture.		New Goal for FY 2018	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 Goal for FY 2018	AA-1: 100% AA-3: 80%	AA-3: 100%	
I-A-3. Transition Mission Essential Programs from the End-of-Life Mainframe hardware.			New Goal for FY 2019	50%	0%
I-A-4. Complete the assessment for re-engineering Mission Essential Programs.			New Goal for FY 2019	50%	0%
I-A-5. Complete the migration of agency network and telecommunication services to new services in EIS.			New Goal for FY 2019	0%	0%

Railroad Retirement Board Fiscal Year 2019 Performance Plan	2016 Actual (At $111.225m)	2017 Actual (At $113.5m)	2018 Actual (At $123.5m [2/])	2019 Planned [1/] (At $123.5m [3/])	2019 Actual [1/] (At $123.5m [3/])
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: Crystal Coleman, Director of Programs Goal leader for objective II-A-6: Daniel Fadden, Director of Field Service/Senior Executive Officer 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)	94.0%	95.0%	94.9%	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)	96.3%	95.5%	96.5%	94.0%	95.3%
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)	96.0%	96.9%	96.2%	94.0%	95.7%
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)	95.1%	96.1%	96.5%	94.0%	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)	98.0%	97.5%	98.2%	97.0%	97.1%

Railroad Retirement Board Fiscal Year 2019 Performance Plan		2016 Actual (At $111.225m)	2017 Actual (At $113.5m)	2018 Actual (At $123.5m [2/])	2019 Planned [1/] (At $123.5m [3/])	2019 Actual [1/] (At $123.5m [3/])
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)		17.4%	14.7%	11.3%	70.0%	11.0%
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)		92.6%	92.5%	91.5%	94.0%	84.6%
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)		239	217	217	230	200
Strategic Objective: Provide a range of choices in service delivery methods. Goal leader: Crystal Coleman, 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	20 services available	22 services available	20 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%	99.3%	99.0%	99.7%
	b) Internet services:	27 Internet services available	29 Internet services available	30 Internet services available	30 Internet services available	30 Internet services available

Railroad Retirement Board Fiscal Year 2019 Performance Plan		2016 Actual (At $111.225m)	2017 Actual (At $113.5m)	2018 Actual (At $123.5m [2/])	2019 Planned [1/] (At $123.5m [3/])	2019 Actual [1/] (At $123.5m [3/])
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 R. 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.)		90.73%	92.14%[4/]	91.70%	85.00%	91.70% Through 7/31/2019
Strategic Objective: Ensure the accuracy and integrity of benefit programs. Goal leader III-B-1(a)(b) and III-B-3, 4, and 5: Crystal Coleman, Director of Programs Goal leader III-B-2a: Daniel 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 [5/] of at least 99%. (Measure: percent accuracy rate)	a) Initial payment	99.69%	98.89%	99.87%	99.60%	99.99%
	b) Sample post recurring payments	99.70%	99.94%	99.56%	99.60%	99.94%
III-B-2. Achieve a railroad unemployment/sickness insurance benefit payment accuracy rate [5/] of at least 99%. (Measure: percent accuracy rate)	a) Unemployment	99.36%	97.24%	96.09%	97.00%	96.09%
	b) Sickness	99.94%	99.08%	100.00%	97.50%	96.68%
III-B-3. Overall Initial Disability Determination Accuracy. (Measure: % of Case Accuracy)		94.40%	94.40%	94.40%	95.00%	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%)		0.60%	Reporting relief granted by OMB	Reporting relief granted by OMB	Reporting relief granted by OMB	Reporting relief granted by OMB

Railroad Retirement Board Fiscal Year 2019 Performance Plan		2016 Actual (At $111.225m)	2017 Actual (At $113.5m)	2018 Actual (At $123.5m[2/])	2019 Planned [1/] (At $123.5m [3/])	2019 Actual [1/] (At $123.5m [3/])
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)		$4.18: $1.00	$3.70:$1.00	$3.44: $1.00	$3.85: $1.00	Not Available
Strategic Objective: Ensure effectiveness, efficiency, and security of operations. Goal leader: Terryne F. Murphy, 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)		No. The modernization of the Tax Database will now be incorporated in the multi-year Mainframe Applications Re-engineering project	Complete	Complete	Complete	Complete
III-C-2. Deliver – Deliver on Budget. Percent of IT Projects costs within 10% of budgeted costs.		100%	100%	85%	85%	100%
III-C-3. Deliver – Meet Customer Expectations. RRB.gov online services, continuous availability experienced by end users.	a. Continuous availability target	98.72%	99.20%	98.92%	99.00%	97.64%
	b. Hours of outage allowed per month	9.38 hours	6.52 hours	7.77 hours	7 hours	6.42 hours
III-C-4. Innovate – Design for Modularity. Strategy for Continuity of Operations Improvements.		New Goal for FY 2016	No	Yes. Completed applying HTTPS-only standard to www.rrb.gov.	Implement cloud-based enterprise test lab.	Implement cloud-based enterprise test lab - No
III-C-5. Innovate – Adopt New Technologies. Percentage of investments that evaluated cloud alternatives.		New Goal for FY 2016	50%	99.93%	91.67%	89.5%

Railroad Retirement Board Fiscal Year 2019 Performance Plan	2016 Actual (At $111.225m)	2017 Actual (At $113.5m)	2018 Actual (At $123.5m 2/)	2019 Planned 1/ (At $123.5m 3/)	2019 Actual 1/ (At $123.5m 3/)
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 Goal for FY 2016	99.82%	99.93%	99%	99.84%
III-C-7. Protect – Percentage of agency employees required to use a Personal Identity Verification card to authenticate.	New Goal for FY 2016	74%	77%	Unprivileged Network Users ≥ 85% Privileged Network Users 100%	83%
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 2019 performance targets shown in the RRB's Congressional Justification of Budget Estimates, released on March 18, 2019. Unless otherwise noted, actual results represent status as of March 31, 2019, and as reported in the RRB's FY 2021 Budget Submission, dated September 23, 2019.

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/ Public Law 115-245, Department of Defense and Labor, Health and Human Services, and Education Appropriations Act, 2019 and Continuing Appropriations Act, 2019, 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.

4/ 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.

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

Discussion of Unmet Performance Goals and Indicators for Fiscal Year 2018

INDICATOR	*DISCUSSION OF VARIANCE*
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 2018 goal was 70.0%, and the actual was 11.3%.	DBD continues to balance applications with older filing dates and more current filings. The re-adjudication of prior filings in earlier fiscal years continues to impact the overall time of cases adjudicated to date as the older cases were previously not prioritized due to the re-adjudication. At the start of fiscal year 2017, 3.4% of DBD's pending cases were more than 20 months old. Throughout the fiscal year, the cases pending from 2014 were eliminated and the cases from 2015 minimized. Adjudicating cases already 600+ days old impacted the overall performance. As these cases decrease, the number of cases pending with more recent filing dates increases.
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 2018 goal was 93.50%, and the actual was 91.50%.	This payment goal is shared by both RBD and SBD initial staff. RSBD worked to meet our performance goal in this category for year-end reporting in fiscal year 2018. Although we have staff to adjudicate and authorize the initial retirement applications, we still need assistance with initial disability applications involving Legal Partition and securing direct deposit information timely. RBD initiated new processes to ensure we met the customer service payment goal for initial disability cases involving Legal Partition and to secure direct deposit information timely. This process was initiated in the third quarter of customer service reporting for fiscal year 2018. Using the newly initiated process, RBD decreased the volume of missed initial disability payments within 25 days in the third and fourth quarters of processing to 5%. During the first quarter of fiscal year 2018, RBD did not process approximately 9% of initial disability payments within 25 days. RBD also did not process 11% of initial disability payments within 25 days during the second quarter of fiscal year 2018. Discussion continued on next page. The survivor disability initial application volume represents on average approximately 10% of the retirement initial disability applications received annually. Because the volume is small, one missed payment can lower the overall payment percentage. SBD was making this goal through third quarter processing at 94.8%, which did not have a significant impact on the overall goal. SBD missed several payments in the fourth quarter which significantly lowered the percentage. The missed payments were due to a combination of notification and examiner handling issues. RSBD is diligently working to create new processes that will improve both RBD and SBD performance processing within 25 days for our initial disability payment goal, which we plan on initiating in fiscal year 2019.

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 2018 goal was 97.00%, and the actual was 96.09%.	Field Service has been experiencing high attrition rates over the last few years. Until recently, we have been able to hire new Claim Representatives to replace staff who retired or accepted other Federal jobs. Although we were able to hire 12 new Claims Representatives late in FY 2018, who are still in training, we have lost an additional 41 FTEs in Field Service in the interim. The ongoing loss of experienced Field Service employees, in addition to very limited hiring over the past three fiscal years (FY 2017 to FY 2019), are both directly attributable to the decrease (Goal: 97.00% / Achieved: 96.09%) seen in the unemployment payment accuracy rate in fiscal year 2018.
Performance Indicator III-B-3. Overall Initial Disability Determination Accuracy. (Measure: % of Case Accuracy) Our fiscal year 2018 goal was 96.00%, and the actual was 94.40%.	The fiscal year 2019 quality review is based on cases completed in FY 2018. In FY 2018, DBD lost experienced disability examiners to promotions and reassignments to other types of work. Consequently, DBD hired additional examiners, as well as a supervisor to assist in the managing of the increased workloads. However, it takes 2-3 years to acquire the knowledge and skills necessary to complete disability adjudication proficiently. At the end of the fiscal year, more than half of all the initial examiners had less than one year of experience. As workloads decrease and become manageable, staff becomes more experienced, and we continue planned ongoing training and procedural reminders, we expect to meet our accuracy goal in the future.
Performance Indicator III-B-5. Achieve a return of at least $3.60 for each dollar spent on program integrity activities. (Measure for fiscal years 2008 - 2011: recoveries and savings per dollar spent. Measure for fiscal years 2012 and following: recoverables and savings per dollar spent.) Our fiscal year 2018 goal was $3.85: $1.00, and the actual was $3.44: $1.00	The agency did not meet its goal of $3.85: $1 for each dollar spent on program integrity activities. In February 2016, the CMS death match process was reviewed, resulting in the screening process being changed and also closing out any duplicate cases where a second death match investigation already existed. Although these changes to the CMS process had an impact on lowering the program integrity ratio, they improved the overall quality and integrity of the CMS process, and also helped reduce the possibility of overstating any dispositions. In addition, due to a sharp decline in the number of unemployment claims being filed since FY 2016, there has been almost a 50% reduction in benefit savings, which has further impacted the overall PI ratio.
Performance Indicator III-C-3. Deliver – Meet Customer Expectations. RRB.gov on line services, continuous availability experienced by end users. Our fiscal year 2018 goal was 99% for continuous availability target (the actual was 98.20%), and 7 hours of outage allowed per month (actual was 7.77 hours)	The variance of .77 hours was attributed to an increase in the quantity and time needed to patch critical server security vulnerabilities.

INDICATOR	*DISCUSSION OF VARIANCE*
Performance Indicator III-C-7. Protect – Percentage of agency employees required to use a Personal Identity Verification (PIV) card to authenticate. Our fiscal year 2018 goal was Unprivileged Network Users > 85% and Privileged Network Users 100% and the actual was Unprivileged Network Users 77% 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 cannot work for those individuals who also telework. These challenges caused some of our users to be un-enforced, which dropped the unprivileged network users to 77%. The original solution for privileged users to use agency generated smart cards failed. We are now working to implement a different solution using CyberArk. We anticipate to be on track for the next reporting period

Program Evaluations

PROGRAM EVALUATION	*RESULTS IN FISCAL YEAR 2019*
Federal Managers' Financial Integrity Act Reports	See "Analysis of Systems, Controls and Legal Compliance" 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 2019, 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 25 years under any of the three 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 2019, addresses the 11 fiscal year period 2019 through 2029. The report indicated that even as maximum benefits are expected to increase 44 percent from 2019 to 2029, 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 2018. It showed that program integrity activities resulted in the establishment of about $8.7 million in recoverables, benefit savings of $814,162, and 32 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.

PROGRAM EVALUATION	*RESULTS IN FISCAL YEAR 2019*
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, 2008, and 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	RRB continues to make noteworthy progress toward achieving full certification and compliance with the Federal Information Security Management Act (FISMA), Office of Management and Budget directives and National Institute of Standards and Technology guidance for its information systems as evidenced in the documented improvements in FISMA metrics for FY2019.
Electronic government (e-Gov) activities	See pages 51 through 52 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.

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. 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, 30 automated ERSNet services exist for employers to notify, request or provide a means for correcting and transmitting data electronically to and from the RRB. This year no additional services will be added to the ERSNet system. We will instead focus on improvements and enhancements to the 30 services that are currently available.

The RRB will continue to pursue enhancements in fiscal year 2020 with the development and implementation of 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 2021, RRB staff will develop on-line ERSNet processes 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 with additional online services, including the ability to securely file for retirement benefits. In FY 2019, we added the employee application to our online services. This digital service enables railroad workers to submit their application for an employee retirement annuity to the RRB through an online application. In FY 2020, we will add spouse/divorced spouse retirement applications as well as direct deposit requests to our online services. These online services 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 to access each Federal agency's electronic system, GSA is creating a process that allows individuals to access information or request services from any Federal agency that has opted to use Login.gov with a single sign-on.

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 worked with the contractor to automate the last pre-retirement non-railroad employer and regular permanent work deductions, which was the most complex phase of the SPEED project to-date.

In fiscal year 2019, we completed and placed into production nine enhancements relating to the processing of cases. These include enhancements to public service pension referrals, work deductions referrals, supplemental annuity transactions, vested dual benefit referrals, partial withholding and multiple reports in SPEED and SURPASS. We also implemented measures to handle missing USTAR records sent to SPEED, removed erroneous duplicate cases stored in SPEED, and migrated SPEED to a new server.

The agency's re-platforming and engineering projects starting in fiscal year 2019 have an impact on the SPEED project. In consideration of those two higher priorities, in May 2019, we determined a tentative priority ranking of deliverables for SPEED after the projects are completed. As such, we have deferred any additional SPEED enhancements until completion of those higher priority projects. We will continue to work on SPEED, to process awards for the most difficult category involving earnings in response to any retirement final work report for an employee and his or her associated spouse or divorced spouse.

Work continued during fiscal years 2017, 2018, and 2019 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. We are now working on additional enhancements to the system as well as addressing any production problems that arise.

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 October 1, 2018, through September 30, 2019, are being reduced by 6.2 percent. The reduction is required by the sequestration order issued by the President in accordance with the BCA. For fiscal year 2020, a sequestration reduction of 5.9 percent will be applied starting on October 1, 2019.

Succession Planning and Training

Strategic Management of Human Capital – Like many agencies, the RRB has an aging workforce. Nearly 44 percent of our employees have 20 or more years of service and 32 percent of the current workforce will be eligible for retirement by fiscal year 2022. To prepare for the expected turnover, the agency is placing increased emphasis on strategic management of human capital. We have a succession plan in place which includes 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 the workforce analysis form the basis for formulating specific strategies, hiring plans and initiatives that support the agency's succession plan. A methodology for measuring skill gaps continues to be developed. Once final, we will utilize our Learning Management System (LMS) to implement the methodology. We have developed a job analysis procedure and outputs to identify critical competencies for every agency position. Competencies will be organized using a newly developed competency model framework that identifies RRB core, technical/position, supervisor/leadership, and executive competencies, and proficiency levels for incumbent job performer success. Job analysis and competency model development for individual positions will begin this year with skill gap analysis to commence once complete. 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.

The Training and Development Section within the Bureau of Human Resources continues to utilize the results from training needs assessments and surveys to assist in prioritizing the RRB's training needs. We are also making use of technology in this area, utilizing the LMS, an internet-based program which effectively formalizes many aspects of training for all agency employees, while also providing self-assessments to the student and feedback to supervisors on their progress. In addition, our Field Service supervisors/managers 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.

The Workforce Organization Management Section (WOMS) identifies appropriate target markets for our recruitment efforts, to ensure we receive applications from a talented and diverse pool of applicants. Through USAJOBS, we have been able to reach candidates from many sectors. In FY2019, we received nearly 5000 applications from external candidates. We also utilize different recruitment strategies, like resume mining and targeted advertising, to ensure we are attracting quality candidates.

Systems Security

We continue to make progress towards a compliant Information Security program to improve the RRB's security posture. RRB has implemented an Information Security Continuous Monitoring (ISCM) Strategy as outlined in OMB Memorandum 19-02, *Fiscal Year 2018-2019 Guidance on Federal Information Security and Privacy Management Requirements*. 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 continuous monitoring compliance towards vulnerability assessment, hardware and software management, configuration management, and privileged account management. The RRB continues to employ the DHS EINSTEIN-3 Accelerated (E3A) toolset 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.

- Identity Management – The RRB enforces multi-factor authentication for general users and have installed a privileged access management system for system administrators.

- Remote Access – we deployed managed services for hardware encryption and have upgraded our firewalls to strengthen information security controls for remote access. Note: enforcement of PIV is instrumental for 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).

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FINANCIAL SECTION

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RAILROAD RETIREMENT BOARD
CONSOLIDATED BALANCE SHEET
AS OF SEPTEMBER 30, 2019 AND 2018
(in dollars)

	FY 2019	FY 2018
ASSETS		
Intragovernmental:		
Fund Balance with Treasury (Note 3)	$321,397,023	$332,487,241
Investments (Note 4)	1,792,524,204	1,671,257,222
Accounts Receivable (Note 6)	5,172,102,127	4,840,828,997
Other	911,977	1,136,474
Total Intragovernmental	**7,286,935,331**	**6,845,709,934**
NRRIT Net Assets (Note 5)	25,415,964,974	26,596,540,632
Accounts Receivable, Net (Note 6)	55,916,918	46,187,778
General Property, Plant and Equipment, Net (Note 7)	2,984,518	4,391,760
Other	543,960	543,846
TOTAL ASSETS	**$32,762,345,701**	**$33,493,373,950**
LIABILITIES (Note 8)		
Intragovernmental:		
Accounts Payable	$589,296,929	$609,853,949
Debt	3,982,221,827	3,769,557,030
Other	1,591,358	2,174,201
Total Intragovernmental	**4,573,110,114**	**4,381,585,180**
Accounts Payable	29,925,329	604,297
Benefits Due and Payable	1,147,844,783	1,101,027,480
Other	416,662,924	383,996,104
TOTAL LIABILITIES	**$6,167,543,150**	**$5,867,213,061**
COMMITMENTS AND CONTINGENCIES (Note 9)		
NET POSITION		
Unexpended Appropriations - Funds from Dedicated Collections (Note 16)	$895,391	$874,327
Unexpended Appropriations - All Other Funds	147,544,183	147,617,040
Cumulative Results of Operations - Funds from Dedicated Collections (Note 16)	26,442,457,823	27,475,062,169
Cumulative Results of Operations - All Other Funds	3,905,154	2,607,353
Total Net Position - Funds from Dedicated Collections (Note 16)	26,443,353,214	27,475,936,496
Total Net Position - All Other Funds	151,449,337	150,224,393
TOTAL NET POSITION	**26,594,802,551**	**27,626,160,889**
TOTAL LIABILITIES AND NET POSITION	**$32,762,345,701**	**$33,493,373,950**

The accompanying notes are an integral part of these statements.

RAILROAD RETIREMENT BOARD
CONSOLIDATED STATEMENT OF NET COST
FOR THE YEARS ENDED SEPTEMBER 30, 2019 AND 2018
(in dollars)

	FY 2019	FY 2018
Gross Program Costs:		
Railroad Retirement Program		
Gross Costs	$13,305,212,735	$12,970,946,882
Less: Earned Revenue	16,361,177	31,357,989
Net Program Costs	13,288,851,558	12,939,588,893
Railroad Unemployment and Sickness Insurance Program		
Gross Costs	124,220,514	122,826,652
Less: Earned Revenue	14,677,697	11,185,196
Net Program Costs	109,542,817	111,641,456
Costs Not Assigned to Programs	-	-
Less: Earned Revenues Not Attributed to Programs	29,687	163,129
NET COST OF OPERATIONS	**$13,398,364,688**	**$13,051,067,220**

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, 2019
(in dollars)

FY 2019

	Funds from Dedicated Collections	All Other Funds	Eliminations	Consolidated Total
Unexpended Appropriations:				
Beginning Balance	$874,327	$147,617,040		$148,491,367
Budgetary Financing Sources:				
Appropriations received	736,323,332	19,000,000		755,323,332
Appropriations transferred in/out				
Other Adjustments	(120,621)	(1,808,831)		(1,929,452)
Appropriations used	(736,181,647)	(17,264,026)		(753,445,673)
Total Budgetary Financing Sources	21,064	(72,857)		(51,793)
Total Unexpended Appropriations	**$895,391**	**$147,544,183**		**$148,439,574**
Cumulative Results from Operations:				
Beginning Balances	$27,471,402,692	$2,607,353		$27,474,010,045
Adjustments:				
Corrections of errors	3,659,477			3,659,477
Beginning Balance, as adjusted	$27,475,062,169	$2,607,353		$27,477,669,522
Budgetary Financing Sources:				
Appropriations used	736,181,647	17,264,026		753,445,673
Nonexchange revenue	6,271,495,064	362,394	(8,315)	6,271,849,143
Transfers in from NRRIT (Note 10)	1,794,000,000			1,794,000,000
Transfers in/out without reimbursement	4,709,792,735			4,709,792,735
Other Financing Sources (Nonexchange):				
Imputed financing	8,439,390			8,439,390
Change in NRRIT assets	(1,180,575,658)			(1,180,575,658)
Gain/(Loss) contingency	10,106,860			10,106,860
Total Financing Sources	12,349,440,038	17,626,420	(8,315)	12,367,058,143
Net Cost of Operations	13,382,044,384	16,328,619	(8,315)	13,398,364,688
Net Change	**(1,032,604,346)**	**1,297,801**	**0**	**(1,031,306,545)**
Cumulative Results of Operations	**26,442,457,823**	**3,905,154**		**26,446,362,977**
Net Position	**$26,443,353,214**	**$151,449,337**		**26,594,802,551**

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 from 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
COMBINED STATEMENT OF BUDGETARY RESOURCES
FOR THE YEARS ENDED SEPTEMBER 30, 2019 AND 2018
(in dollars)

	FY 2019	FY 2018
Budgetary Resources		
Unobligated balance from prior year budget authority, net (discretionary and mandatory)	$180,713,821	$167,762,457
Appropriations (discretionary and mandatory)	9,856,490,162	9,638,125,618
Borrowing authority (discretionary and mandatory) Note 18	4,241,400,000	4,194,529,480
Spending authority from offsetting collections (discretionary and mandatory	185,474,554	178,982,598
Total budgetary resources	**$14,464,078,537**	**$14,179,400,153**
Status of budgetary resources		
New obligations and upward adjustments (total)	$14,288,093,497	$14,010,349,155
Unobligated balance, end of year		
Apportioned, unexpired accounts	14,647,257	13,138,714
Unapportioned, unexpired accounts	145,954,920	145,112,860
Unexpired unobligated balance, end of year	160,602,177	158,251,574
Expired, unobligated balance, end of year	15,382,863	10,799,424
Unobligated balance, end of year (total)	175,985,040	169,050,998
Total budgetary resources	**$14,464,078,537**	**$14,179,400,153**
Outlays, net		
Outlays, net (total) (discretionary and mandatory)	$14,030,518,167	$13,786,256,511
Distributed offsetting receipts (-)	(5,430,917,332)	(5,060,034,126)
Agency outlays, net (discretionary and mandatory)	**$8,599,600,835**	**$8,726,222,385**

The accompanying notes are an integral part of these statements.

Railroad Retirement Board

Statement of Social Insurance (Note 13, Note 15)

Actuarial Surplus or (Deficiency)

75-year Projection as of October 1, 2018

(Present values in billions of dollars)

	10/1/2018	10/1/2017	10/1/2016	10/1/2015	1/1/2015
Current participants who have attained retirement age:					
Contributions and earmarked taxes	$98.4	$87.6	$88.2	$85.3	$85.4
Expenditures for scheduled future benefits	151.7	134.6	135.7	131.2	130.6
Present Value of estimated future revenue less estimated future expenditures	(53.3)	(47.0)	(47.5)	(45.8)	(45.1)
Current participants not yet having attained retirement age:					
Contributions and earmarked taxes	100.2	87.3	91.1	92.5	88.0
Expenditures for scheduled future benefits	104.8	92.3	97.5	99.0	97.2
Present Value of estimated future revenue less estimated future expenditures	(4.6)	(5.0)	(6.5)	(6.5)	(9.2)
Net estimated present value of future revenue less future expenditures for current participants (closed group measure)	(57.9)	(52.0)	(54.0)	(52.4)	(54.4)
Plus: Treasury securities and assets held by the program	28.3	27.9	26.6	26.3	27.6
Closed group surplus/(unfunded obligation)	($29.5)	($24.2)	($27.5)	($26.1)	($26.8)
Future participants:					
Contributions and earmarked taxes	$63.2	$52.9	$61.0	$58.0	$63.2
Expenditures for scheduled future benefits	32.3	27.5	31.9	30.2	34.9
Present Value of estimated future revenue less estimated future expenditures	31.0	25.4	29.2	27.8	28.3
Net estimated present value of future revenue less future expenditures for current and future participants (open group measure)	(26.9)	(26.6)	(24.9)	(24.6)	(26.1)
Plus: Treasury securities and assets held by the program	28.3	27.9	26.6	26.3	27.6
Open group surplus/(unfunded obligation)	$1.4	$1.2	$1.7	$1.7	$1.5

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 (Note 13)

Open Group Measure

For the Two-Year Period Ended September 30, 2018

(dollars in billions)

Net Present Value (NPV) beginning of year 2017	$ (24.9)
Reasons for changes in the NPV during 2017:	
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 2017	(1.8)
Net Present Value end of year 2017/beginning of year 2018	$ (26.6)
Reasons for changes in the NPV during 2018:	
Changes in valuation period[1]	(0.5)
Changes in demographic data, assumptions, and methods[2]	-
Changes in economic data, assumptions, and methods[3]	0.2
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 2018	(0.3)
Net Present Value end of year 2018	$ (26.9)

Detail may not add to totals due to rounding.

Net Present Values in the table above are present values of future revenues less future expenditures.

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

Notes to the Financial Statements: Fiscal Years Ended September 30, 2019 and 2018

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 2019 are to be submitted to the President, the Congress, and the Director of OMB by November 15, 2019. 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.

Accounting standards require all reporting entities to disclose that accounting standards allow certain presentations and disclosures to be modified, if needed, to prevent the disclosure of classified information.

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 U.S.C. § 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 U.S.C. § 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 U.S.C. § 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 U.S.C. § 231n-1(c) and 45 U.S.C. § 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 U.S.C. § 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 U.S.C. § 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 115-245.

- 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 inter-fund 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 16, 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 2019 and 2018, net payroll taxes transferred to the RRB by Treasury were $6.2 billion and $6.5 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 2019 and 2018, investments, including accrued interest, totaled $1.8 billion and $1.7 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 2019 due to the financial interchange advances during fiscal year 2018 included principal of $4.1 billion and interest of $109.9 million. 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.

- 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 2019, 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 $1.9 billion for fiscal year 2019 and $1.8 billion for fiscal year 2018.

- CMS participates in the annual financial interchange in the same manner as described for SSA. The RRB transferred $570 million and $597 million to CMS in fiscal years 2019 and 2018, 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 2019 and 2018 were $13.6 million and $31.4 million, respectively. The fiscal year 2019 amount does not include the funds received for purposes of the SMAC contract which are recorded as a transfer and is described below.

  Finally, CMS funds are transferred to the RRB for the Specialty Medicare Administrative Contractor (SMAC) contract that provides specified health insurance benefit administration services. In fiscal year 2018, the transfer was recorded as a reimbursement. Effective for fiscal year 2019, amount transferred to fund the SMAC contract was recorded as a transfer and totaled $18.3 million. This change was agreed to by CMS for proper intragovernmental reporting. This change affected the presentation between the RRB's fiscal year 2018 and fiscal year 2019 Statements of Net Cost and Statements of Changes in Net Position. On the fiscal year 2019 Statement of Net Cost, the Earned Revenue line was reduced and on the Statements of Changes in Net Position, the Transfers In/Out without Reimbursement line was increased by the amount transferred for the SMAC contract during fiscal year 2019.

- GSA provides payroll processing and human resources services to the RRB. In addition, the RRB paid rent to GSA in the amount of $3.4 million for fiscal year 2019 and $3.1 million for fiscal year 2018.

- The Department of Labor invests RUIA contributions. Accounts receivable with the Department of Labor amounted to $120.4 million and $87.2 million for fiscal years 2019 and 2018, respectively.

- NRRIT transfers funds to the RRB for payment of railroad retirement benefits. During fiscal years 2019 and 2018, the NRRIT transferred $1,794 million and $1,809 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:

	2019	2018
1. Status of Fund Balance with Treasury		
(1) Unobligated Balance		
(a) Available	$14,647,257	$13,138,714
(b) Unavailable	145,954,920	145,112,860
(2) Obligated Balance not yet Disbursed	160,794,846	174,235,667
(3) Non-Budgetary FBWT	-	-
Total	**$321,397,023**	**$332,487,241**
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 2019	$1,789,771,000	$2,753,204	$1,792,524,204
Non Marketable Par Value 2018	$1,668,621,000	$2,636,222	$1,671,257,222

The balance on September 30, 2019, consisted of investments in 3.000 percent par value specials (with market value equal to face value) maturing on October 1, 2019. 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. 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, 2019 and 2018. These figures were provided to the RRB by the NRRIT for the fiscal years ended September 30, 2019 and 2018.

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:

	2019	2018
Financial Interchange – Principal	$4,961,300,00000	$4,689,600,000
Financial Interchange – Interest	90,400,000	64,000,000
Department of Labor	120,402,127	87,228,997
Total	**$5,172,102,127**	**$4,840,828,997**

- *Accounts Receivable, Net*

Accounts receivable, net at September 30 consisted of:

	2019	2018
Accounts receivable – Benefit overpayments	$47,335,742	$37,053,261
Accounts receivable – Past due RUI contributions and taxes	186,163	178,324
Accounts receivable – Interest, penalty & administrative costs	6,536,286	499,270
Accounts receivable - Criminal Restitution	15,941,273	20,653,452
Sub-Total	**$69,999,464**	**$58,384,307**
Accounts receivable - Criminal Restitution - Long Island Railroad	297,760,745	295,353,960
Total Gross Receivables	**$367,760,209**	**$353,738,267**
Less: Allowances for doubtful accounts	12,346,291	8,907,271
Less: Allowances for doubtful accounts-Criminal Restitution	4,833,995	6,242,797
Less: Allowances for doubtful accounts-Criminal Restitution - Long Island Railroad	294,663,005	292,400,420
Total Net Receivables	**$55,916,918**	**$46,187,778**

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 allowance for doubtful accounts for the criminal restitution is estimated at 30%. The allowance for doubtful accounts for the criminal restitution – Long Island is estimated at 99% as the probability of collecting full restitution is unlikely, given that the large Long Island restitution amount due is from four individuals. 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, 2019		
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
IT software	5 years	28,854,099	26,586,238	2,267,861
Equipment	5-10 years	7,042,610	6,944,430	98,180
Internal-Use Software in Development		618,477	-	618,477
Total		**$39,238,917**	**$36,254,399**	**$2,984,518**

		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
IT 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	-	3,115,994
Total		**$39,574,613**	**$35,182,853**	**$4,391,760**

8. Liabilities

Liabilities at September 30 consisted of:

	2019	2018
A. Intragovernmental:		
(1) Other – Unfunded Federal Employees Compensation Act (FECA) Liability	$226,560	$339,677
B. Public:		
(1) Other – Accrued Unfunded Leave	6,909,971	6,929,759
Total Liabilities Not Covered by Budgetary Resources	**$7,136,531**	**$7,269,436**
Total Liabilities Covered by Budgetary Resources	6,158,843,995	5,858,391,476
Total Liabilities Not Requiring Budgetary Resources	1,562,624	1,552,149
Total Liabilities	**$6,167,543,150**	**$5,867,213,061**

- *Debt*

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

	2019	2018
Beginning Balance, Principal	$3,725,200,000	$3,711,700,000
New Borrowing	4,301,200,000	4,104,300,000
Repayments	(4,092,500,000)	(4,090,800,000)
Ending Balance, Principal	**$3,933,900,000**	**$3,725,200,000**
Accrued Interest	48,321,827	44,357,030
Total	**$3,982,221,827**	**$3,769,557,030**

- *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 $15,365,285 and $14,873,336, at September 30, 2019 and 2018, 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 10,696 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	2019 Total
Intragovernmental:			
Employer Contributions & Payroll Taxes Payable		$1,364,768	$1,364,768
Unfunded FECA Liability		226,560	226,560
Other Liabilities With Related Budgetary Obligations		-	-
Total Intragovernmental		**1,591,358**	**1,591,358**
Accrued Unfunded Liabilities		6,909,971	6,909,971
Accrued Payroll		3,327,844	3,327,844
Accrued RRB Contributions – Thrift Savings Plan		(782,301)	(782,301)
Other Unfunded Employment – Related Liability		755,565	755,565
Contingent Liability (see Note 9 for details)	$351,056,667		351,056,667
Other		55,395,178	55,395,178
Total Other Liabilities	**$351,056,667**	**$67,197,615**	**$418,254,282**

	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			
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		361,163,527
Other		13,239,267	13,239,267
Total Other Liabilities	**$361,163,527**	**$25,006,778**	**$386,170,305**

9. <u>Commitments and Contingencies</u>

The RRB is involved in the following actions:

Legal Contingencies:

- Several Class I railroads have filed claims for refund of taxes with the Internal Revenue Service (IRS). Of the $166.7 million in claims, the RRB's legal counsel has determined that it is probable that the RR and SSEB Accounts are contingently liable for $159.3 million, and the remaining $7.3 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.

- One 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.

Other Contingencies: We also recorded a contingent liability in the amount of $179.7 million, for forthcoming adjustments to the financial interchange for military service credits due SSA.

Commitments: As of September 30, 2019, the RRB had contractual arrangements which may result in future financial obligations of $54.1 million.

Contingent Loss Table

		Estimated Range of Loss	
FY 2019	**Accrued Liabilities**	**Lower End**	**Upper End**
Legal Contingencies:			
Probable	$171,356,667	$171,356,667	$171,356,667
Reasonably Possible	7,336,520	$7,336,520	$7,336,520
Other Contingencies:			
Probable	$179,700,000	$179,700,000	$179,700,000
Reasonably Possible	$0	$0	$0

		Estimated Range of Loss	
FY 2018	**Accrued Liabilities**	**Lower End**	**Upper End**
Legal Contingencies:			
Probable	$180,963,527	$180,963,527	$180,963,527
Reasonably Possible	$21,500,000	$21,500,000	$21,500,000
Other Contingencies:			
Probable	$180,200,000	$180,200,000	$180,200,000
Reasonably Possible	$0	$0	$0

10. Transfers To/From NRRIT

The RRB received a total of $1,794 million and $1,809 million from the NRRIT during fiscal years 2019 and 2018, 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

	2019	2018
Federal Undelivered Orders	$0	$0
Non-Federal Undelivered Orders	31,714,188	28,309,759
Total Federal/Non-Federal Undelivered Orders	**$31,714,188**	**$28,309,759**
Paid Undelivered Orders	$0	$0
Unpaid Undelivered Orders	31,714,188	28,309,759
Total Paid/Unpaid Undelivered Orders	**$31,714,188**	**$28,309,759**
Total Undelivered Orders	**$31,714,188**	**$28,309,759**

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, 2018, to amounts included in the Budget of the United States Government. A reconciliation was not performed for the period ended September 30, 2019, since the RRB's Performance and Accountability Report is published in November 2019, and OMB's MAX system will not have actual budget data available until after the RRB's P&AR 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 2018 (in millions)	Budgetary Resources	New Obligations & Upward Adjustments (Total)	Distributed Offsetting Receipts	Net Outlays
1. Combined Statement of Budgetary Resources – September 30, 2018	$14,179	$14,010	$5,060	$8,726
2. Expenditure Transfers from Trust Funds	(125)			
3. Unobligated Balance, Brought Forward October 1, 2017 as adjusted	(175)			
4. Recoveries of Prior Year Unpaid Obligations	(1)			
5. Sickness Insurance Benefit Recoveries	(11)			
6. Administrative Expense Reimbursement	(32)			
7. Interfund Transfers: Federal Payment Obligations – Income Taxes Collected on Benefits (0113)	(775)			
8. Intrafund Transfers: Receipts from the Old-Age and Survivors Insurance (OASI) Trust Fund	(4,769)			
9. Intrafund Transfers: Receipts from the Disability Insurance (DI) Trust Fund	(174)			
FINANCIAL INTERCHANGE				
10. Accrued Receipts from the OASI and DI Trust Funds			35	(35)
11. Accrued Transfers to the Federal Hospital Insurance Trust Fund			623	(623)
NRRIT				
12. NRRIT Obligations / Outlays	1,887	1,887		1,887
13. Intrafund Transfers: NRRIT Transfer to RRA	(1,809)		1,809	(1,809)
14. Proprietary Receipts: NRRIT – Gains and Losses	(1,578)		1,578	(1,578)
15. Proprietary Receipts: NRRIT – Interest and Dividends	(406)		406	(406)
16. Rounding	(2)			2
17. Budget of the United States Government FY 2018 Actuals	**$6,209**	**$15,897**	**$9,511**	**$6,164**

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 1/1/2019, whereas present values are as of 10/1/2019.

- 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 previous calendar year 2015 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.

- Statement of Changes in Social Insurance Amounts:

  - Changes in valuation period:

    - ***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.

    - ***Between 10/1/2017 and 10/1/2018*:** Changes in the valuation period from fiscal years 2018-2092 to fiscal years 2019-2093 had a change of about $(0.5) billion on the open group measure between 10/1/2017 and 10/1/2018.

  - Changes in demographic data, assumptions, and methods:

    - ***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.

  - ***<u>Between 10/1/2017 and 10/1/2018</u>:*** Demographic assumptions were not changed between the Statement of Social Insurance as of 10/1/2017 and the Statement of Social Insurance as of 10/1/2018. Changes in demographic data resulted in a minimal change in the in the open group measure between 10/1/2017 and 10/1/2018.

- Changes in economic data, assumptions, and methods:

  - ***<u>Between 10/1/2016 and 10/1/2017:</u>*** 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.

  - ***<u>Between 10/1/2017 and 10/1/2018:</u>*** Ultimate economic assumptions were not changed between the Statement of Social Insurance as of 10/1/2017 and the Statement of Social Insurance as of 10/1/2018, but there were changes in select economic assumptions. The actual COLA of 2.8% was used for 2019 in place of the 2.6% COLA assumed for 2019 in the prior year's report. A 1.4% COLA was assumed for 2020 instead of a 2.6% COLA, and a 2.0% COLA was assumed for 2021 instead of a 2.6% COLA. Changes in economic data, assumptions, and methods resulted in a change of about $0.2 billion in the open group measure from 10/1/2017 to 10/1/2014. There were no changes in law or policy.

- There were no changes in law or policy.

- There were no changes in methodology and programmatic data.

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

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 2019 Section 502 Report. Under employment assumption II, starting with an average 2018 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 Widow
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, 2019									
Assets									
Fund Balance with Treasury	$37,109,438	$54,578,326	$13,577,323	$844,516	$55,150,467	$3,537,157	$5,965,920		$170,763,147
Investments	1,093,823,176	698,701,028							1,792,524,204
NRRIT Net Invested Assets		25,415,964,974							25,415,964,974
Taxes and Interest Receivable	5,051,700,000	42,250,554	127,351,045		48,176	5,392,812	3,700	2	5,226,746,286
Other Assets					3,501,856		938,597		4,440,453
Total Assets	**6,182,632,614**	**26,211,494,882**	**140,928,368**	**844,516**	**58,700,500**	**8,929,969**	**6,908,217**	**2**	**32,610,439,064**
Liabilities									
Liabilities Due and Payable	5,230,550,126	543,655,948	13,571,935		769,857	(227,935)	169,738	(1)	5,788,489,668
Other Liabilities	179,700,000	186,569,474			11,439,758		886,950		378,596,182
Total Liabilities	**5,410,250,126**	**730,225,422**	**13,571,935**		**12,209,615**	**(227,935)**	**1,056,688**	**(1)**	**6,167,085,850**
Unexpended Appropriations				844,516	50,875				895,391
Cumulative Results of Operations	772,382,488	25,481,269,460	127,356,433		46,440,010	9,157,904	5,851,529		26,442,457,823
Total Liabilities and Net Position	**$6,182,632,614**	**$26,211,494,882**	**$140,928,368**	**$844,516**	**$58,700,500**	**$8,929,969**	**$6,908,217**	**($1)**	**$32,610,439,064**
Statement of Net Cost for the Period Ended September 30, 2019									
Gross Program Costs	$7,552,984,717	$5,591,280,028	$104,681,722	$8,315	$153,223,055	$0	$11,362,320	($305,806)	$13,413,234,351
Less Earned Revenues		5,328	14,679,909		14,805,092		2,253,420	(425,000)	31,318,748
Net Program Costs	**7,552,984,717**	**5,591,274,700**	**90,001,813**	**8,315**	**138,417,963**	**0**	**9,108,900**	**119,194**	**13,381,915,603**
Costs Not Attributable to Program Costs									
Less Earned Revenues Not Attributable to Program Costs					(247,976)				(247,976)
Net Cost of Operations	**$7,552,984,717**	**$5,591,274,700**	**$90,001,813**	**$8,315**	**$138,665,939**	**$0**	**$9,108,900**	**$119,194**	**$13,382,163,579**
Statement of Changes in Net Position for the Period Ended September 30, 2019									
Net Position Beginning of Period	$712,976,249	$26,612,768,729	$97,403,874	$823,452	$35,435,858	$9,104,166	$3,757,568		$27,472,269,897
Corrections of errors (+/-)					$3,666,599				$3,666,599
Beginning Balance, as Adjusted	$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
Appropriations Received				736,323,332					736,323,332
Expended Appropriations				736,181,647					736,181,647
Other Adjustments				(120,621)					(120,621)
Appropriations Used				(736,181,647)					(736,181,647)
Taxes and Non-Exchange Revenue	2,876,183,717	3,258,400,381	111,700,984		2,399	25,206,596	988	119,194	6,271,614,258
Other Financing Sources	4,736,207,237	577,843,846	8,253,388	(736,173,332)	146,051,968	(25,152,858)	11,201,873		4,718,232,123
Transfers In From NRRIT		1,794,000,000							1,794,000,000
Change in NRRIT Assets		(1,180,575,658)							(1,180,575,658)
Gain/(Loss) contingency		10,106,860							10,106,860
Net Cost of Operations	(7,552,984,717)	(5,591,274,700)	(90,001,813)	(8,315)	(138,665,939)	0	(9,108,900)	(119,194)	(13,382,163,579)
Change in Net Position	59,406,239	(1,131,499,269)	29,952,559	21,064	7,388,428	53,738	2,093,961		(1,032,583,285)
Net Position End of Period	**$772,382,488**	**$25,481,269,460**	**$127,356,433**	**$844,516**	**$46,490,885**	**$9,157,904**	**$5,851,529**		**$26,443,353,214**

*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, 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	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

17. 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.

18. 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 $4,241,400,000.

19. 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.

20. Subsequent Events

There was a decrease of $1,180.6 million in NRRIT net assets from the SOSI, October 1, 2018, valuation date and the September 30, 2019, balance sheet date. Other than this event, no other material events or transactions have occurred subsequent to September 30, 2019 of which we are aware. We have evaluated subsequent events through November 15, 2019, the date the financial statements were released.

21. Permanent Indefinite Appropriations

In fiscal year 2019, 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 U.S.C. § 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 U.S.C. § 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 U.S.C. § 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 U.S.C. § 361.

22. Budget and Accrual Reconciliation

Budgetary and financial accounting information differ. Budgetary accounting is used for planning and control purposes and relates to both the receipt and use of cash, as well as reporting the federal deficit. Financial accounting is intended to provide a picture of the government's financial operations and financial position so it presents information on an accrual basis. The accrual basis includes information about costs arising from the consumption of assets and the incurrence of liabilities. The reconciliation of net outlays, presented on a budgetary basis, and the net cost, presented on an accrual basis, provides an explanation of the relationship between budgetary and financial accounting information. The reconciliation serves not only to identify costs paid for in the past and those that will be paid in the future, but also to assure integrity between budgetary and financial accounting. The analysis below illustrates this reconciliation by listing the key differences between net cost and net outlays.

The increase in net cost over the previous year is due to higher benefit payments in Fiscal Year 2019. The year over year difference in accounts receivable is due to an increase in the annual Financial Interchange (FI) settlement from Social Security Administration (SSA). The large increase of accounts payable compared to last year is due to annual settlement of FI loan interest. The decrease in other liabilities is due to less payables owed to Centers for Medicare and Medicaid services (CMS). The decrease in other is due to the net effect of higher warrants received in Fiscal Year 2019 offset by higher delivered orders unpaid in Fiscal Year 2019. The other temporary timing difference is mainly due to the prior year adjustment as a result of transfer of fixed assets from canceled fund to current fund family.

Budget and Accrual Reconciliation for
For the year ended of September 30, 2019

	Intra- governmental	With the public	Total FY 2019
NET COST	**$121,333,613**	**$13,277,031,074**	**$13,398,364,688**
Components of Net Cost That Are Not Part of Net Outlays:			
Other	-	-	-
Increase/(decrease) in assets:			
Accounts receivable	(5,379,028,997)	9,000,028	(5,370,028,969)
Investments	-	-	-
Other assets	911,976	2,808,311	3,720,288
(Increase)/decrease in liabilities:			
Accounts payable	(113,772,840)	(77,268,069)	(191,040,910)
Salaries and benefits	-	(479,415)	(479,415)
Insurance and guarantee program liabilities	-	-	-
Environmental and disposal liabilities	-	-	-
Other liabilities	684,922,386	(746,147)	684,176,240
Other financing sources:			
Federal employee retirement benefit costs paid by OPM and imputed to the agency	(8,439,391)	-	(8,439,391)
Transfers out (in) without reimbursement	719,020,216	-	719,020,216
Total Components of Net Cost That Are Not Part of Net Outlays	**(4,096,386,649)**	**(66,685,291)**	**(4,163,071,941)**
Components of Net Outlays That Are Not Part of Net Cost:			
Effect of prior year agencies credit reform subsidy re-estimates	-	-	-
Acquisition of capital assets	-	-	-
Acquisition of inventory	-	-	-
Acquisition of other assets Debt and equity securities	-	-	-
Other	-	(632,032,435)	(632,032,435)
Total Components of Net Outlays That Are Not Part of Net Cost	-	(632,032,435)	(632,032,435)
Other Temporary Timing Differences	-	(3,659,476)	(3,659,476)
NET OUTLAYS	**($3,975,053,037)**	**$12,574,653,872**	**$8,599,600,835**

Budget and Accrual Reconciliation for
For the year ended September 30, 2018

	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	-	-	-
Increase/(decrease) in assets:			
Accounts receivable	(5,042,425,000)	4,085,246	(5,038,339,754)
Investments	-	-	-
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	-	-	-
Environmental and disposal liabilities	-	-	-
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)	-	(7,213,652)
Transfers out (in) without reimbursement	775,575,865	-	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	-	-	-
Acquisition of capital assets	-	-	-
Acquisition of inventory	-	-	-
Acquisition of other assets Debt and equity securities	-	-	-
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	-	-	-
NET OUTLAYS	**($3,524,332,085)**	**$12,250,554,470**	**$8,726,222,385**

23. Reclassification of Balance Sheet, Statement of Net Cost, and Statement of Changes in Net Position for FR Compilation Process

To prepare the Financial Report of the U.S. Government (FR), the Department of the Treasury requires agencies to submit an adjusted trial balance, which is a listing of amounts by U.S. Standard General Ledger account that appear in the financial statements. Treasury uses the trial balance information reported in the Governmentwide Treasury Account Symbol Adjusted Trial Balance System (GTAS) to develop a Reclassified Balance Sheet, Reclassified Statement of Net Cost, and a Reclassified Statement of Changes in Net Position for each agency, which are accessed using GTAS. Treasury eliminates all intragovernmental balances from the reclassified statements and aggregates lines with the same title to develop the FR statements. This note shows the RRB's financial statements and the RRB's reclassified statements prior to elimination of intragovernmental balances and prior to aggregation of repeated FR line items. A copy of the 2019 FR can be found here: https://www.fiscal.treasury.gov/reports-statements/ and a copy of the 2019 FR will be posted to this site as soon as it is released.

The term "non-Federal" is used in this note to refer to Federal Government amounts that result from transactions with non-Federal entities. These include transactions with the term "non-Federal" is used in this note to refer to Federal Government amounts that

Reclassification of Balance Sheet to Line Items Used for the Government-wide Balance Sheet as of September 30, 2019

FY 2019 Railroad Retirement Board Balance Sheet		Line Items Used to Prepare FY 2019 Government-wide Balance Sheet	
Financial Statement Line	**Amounts**	**Amounts**	**Reclassified Financial Statement Line**
ASSETS			**ASSETS**
Intra-Governmental			**Intra-Governmental**
FBWT	321,397,023	321,397,023	FBWT
Investments, Net	1,792,524,204	1,789,771,000	Federal investments
		2,753,204	Interest receivable - investments
Total Investments Net	**1,792,524,204**	**1,792,524,204**	**Total Reclassified Investments net**
Accounts Receivable	5,172,102,127		Accounts Receivable
		5,172,102,127	Transfers Receivable
Total Accounts Receivable	**5,172,102,127**	**5,172,102,127**	**Total Reclassified Accounts Receivable**
Other	911,977	910,834	Advances to Others and Prepayments
Total Other	**911,977**	**910,834**	**Total Reclassified Other**
Total Intra-Governmental Assets	**7,286,935,331**	**7,286,934,189**	**Total Intra-Governmental Assets**
NRRIT Net Assets	25,415,964,974	25,415,964,974	Debt and Equity Securities
Total Investments, Net	**25,415,964,974**	**25,415,964,974**	**Total Reclassified Investments Net**
Accounts Receivable, Net	55,916,918	55,916,918	Accounts and Taxes Receivable, Net
General PP&E, Net	2,984,518	2,984,518	PP&E, Net
Other	543,960	545,101	Other Assets
Total Non-Federal Assets	**25,475,410,370**	**25,475,411,511**	**Total Non-Federal Assets**
Total Assets	**32,762,345,701**	**32,762,345,699**	**Total Assets**
LIABILITIES			**LIABILITIES**
Intra-Governmental Liabilities			**Intra-Governmental Liabilities**
Accounts Payable	589,296,929	-	Accounts Payable
		589,300,000	Transfers Payable
Total Accounts Payable	**589,296,929**	**589,300,000**	**Total Accounts Payable**
Debt	3,982,221,827		Debt
		3,933,900,000	Loans Payable
		48,318,759	Interest Payable - loans and not otherwise classified
Total Debt	**3,982,221,827**	**3,982,218,759**	**Total Debt**
Other Liabilities	1,591,358	1,370,016	Benefit Program Contributions Payable
Total Intra-Governmental Liabilities	**4,573,110,114**	**4,572,888,776**	**Total Intra-Governmental Liabilities**
Accounts Payable	29,925,329	29,925,329	Accounts Payable
		194,604	Federal Employee and Veteran Benefits
Benefits Due and Payable	1,147,844,783	1,147,844,783	Benefits Due and Payable
Other Liabilities	416,662,924	416,689,662	Other Liabilities
Total Liabilities	**6,167,543,150**	**6,167,543,154**	**Total Liabilities**
NET POSITION			**NET POSITION**
Unexpended Appropriations - Funds from Dedicated Collections	895,391	895,391	Net Position -Funds from Dedicated Collections
Unexpended Appropriations - All Other Funds	147,544,183	147,544,183	Net Position -Funds Other than those from Dedicated Collections
Collections	26,442,457,823	26,442,458,620	Net Position -Funds from Dedicated Collections
Cumulative Results of Operations - All Other Funds	3,905,154	3,904,353	Net Position -Funds Other than those from Dedicated Collections
Total Net Position	**26,594,802,551**	**26,594,802,547**	**Total Net Position**
Total Liabilities & Net Position	**$ 32,762,345,701**	**$ 32,762,345,702**	**Total Liabilities & Net Position**

Note: Variances due to rounding

Reclassification of Statement of Net Cost to Line Items Used for the Government-wide Statement of Net Cost for the Year Ended September 30, 2019

FY 2019 RRB SNC		Line Items Used to Prepare FY 2019 Government-wide SNC	
Financial Statement Line	**Amounts**	**Amounts**	**Reclassified Financial Statement Line**
Gross Costs*			***Non-Federal Costs***
	13,429,433,249	13,281,665,698	Non-Federal Gross Costs
		13,281,665,698	*Total Non-Federal Costs*
			Intragovernmental Costs
		17,854,443	Benefit Program Costs
		8,439,391	Imputed Costs
		7,646,875	Buy/Sell Costs
		113,826,840	Borrowing and Other Interest Expense
		147,767,550	***Total Intragovernmental Costs***
Total Gross Costs	13,429,433,249	13,429,433,248	*Total Reclassified Gross Costs*
Earned Revenue	31,068,561	14,774,381	Non-Federal Earned Revenue
			Intragovernmental Revenue
		16,294,180	Buy/Sell Revenue
		16,294,180	***Total Intragovernmental Earned Revenue***
Total Earned Revenue	31,068,561	31,068,560	Total Reclassified Earned Revenue
Net Cost	**$13,398,364,688**	**$13,398,364,688**	**Net Cost**

Reclassification of Statement of Changes in Net Position to Line Items Used for Government-wide Statement of Operations and Changes in Net Position for the Year Ended September 30, 2019

FY 2019 RRB SCNP		Line Items Used to Prepare FY 2019 Government-wide SCNP	
Financial Statement Line	**Amounts**	**Amounts**	**Reclassified Financial Statement Line**
UNEXPENDED APPRIOPRIATIONS			
Unexpended Appropriations, Beginning Balance	148,491,367	148,491,367	Net Position, Beginning of Period
		-	*Total Reclassified Corrections of Errors*
Appropriations Received	755,323,332	753,393,879	Appropriations Received as Adjusted
Other Adjustments	(1,929,452)		
Appropriations Transferred In/Out	0.00	0.00	Non-Expenditure Transfers-In of Unexpended Appropriations and Financing Sources (Federal)
		0.00	Non-Expenditure Transfers-Out of Unexpended Appropriations and Financing Sources Federal)
Total Appropriations Transferred In/Out	0.00	0.00	*Total Reclassified Appropriations Transferred In/Out*
Appropriations Used	(753,445,673)	(753,445,673)	Appropriations Used (Federal)
Total Unexpended Appropriations	148,439,574	148,439,573	
CUMULATIVE RESULTS OF OPERATIONS			
Cumulative Results, Beginning Balance	$27,474,010,045	27,474,010,042	Net Position, Beginning of Period
Corrections of Errors	3,659,477	3,659,477	Corrections of Errors
Appropriations Used	753,445,673	753,445,673	Appropriations Used
			Non-Federal Non-Exchange Revenues
Change in NRRIT assets	(1,180,575,658)	(1,072,892,313)	Other Taxes and Receipts
Gain/Loss contingency	10,106,860		
		(1,072,892,313)	***Total Non-Federal Non-Exchange Revenues***
			Intragovernmental Non-Exchange Revenue
		44,874,066	Federal Securities Interest Revenue, including Associated Gains/Losses (Non-Exchange)
		0.00	Borrowings and Other Interest Revenue (Non-Exchange)
Non-Exchange Revenues	6,271,849,143	6,129,398,594	Other Taxes and Receipts
		6,174,272,659	***Total Intragovernmental Non-Exchange Revenue***
Total Non-Exchange Revenues	5,101,380,345	5,101,380,346	*Total Reclassified Non-Exchange Revenues*
Transfers In/Out w/o Reimbursement-Budgetary	4,709,792,735	97,555.00	Non-Expenditure Transfers-In of Unexpended Appropriations and Financing Sources
Transfers from NRRIT	1,794,000,000	(97,555.00)	Non-Expenditure Transfers-Out of Unexpended Appropriations and Financing Sources
		7,053,577,736	Expenditure Transfers-In of Financing Sources
		(549,785,000)	Expenditure Transfers-Out of Financing Sources
		6,503,792,736	*Total Reclassified Transfers In/Out w/o Reimbursement – Budgetary (Federal)*
Total Transfers In/Out w/o Reimbursement-Budgetary	6,503,792,735	6,503,792,736	*Total Reclassified Transfers-In/Out w/o Reimbursement – Budgetary*
Imputed Financing	8,439,390	8,439,390	Imputed Financing Sources (Federal)
Total Financing Sources	12,367,058,143	12,367,058,145	
Net Cost of Operations	13,398,364,688	13,398,364,688	Net Cost
Ending Balance-Cumulative Results of Operations	26,446,362,977	26,446,362,976	**Net Position-Ending Balance**
Total Net Position	$26,594,802,551	$26,594,802,549	**Total Net Position**

Note: Variances due to rounding

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 $90.8 billion, or 34.7% of the estimated future revenue of $261.9 billion. Although the contributions and expenditures related to the FI have historically been included in the 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, 2018. The figures in the table are based on the 2019 Section 502 Report extended through fiscal year 2093. The present values of estimated future revenue and expenditures in the table are based on estimates of revenue and expenditures through the fiscal year 2093. 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 2019 Section 502 Report. Under employment assumption II, starting with an average 2018 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.
- 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 2019 Section 502 Report extended through fiscal year 2093, 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;

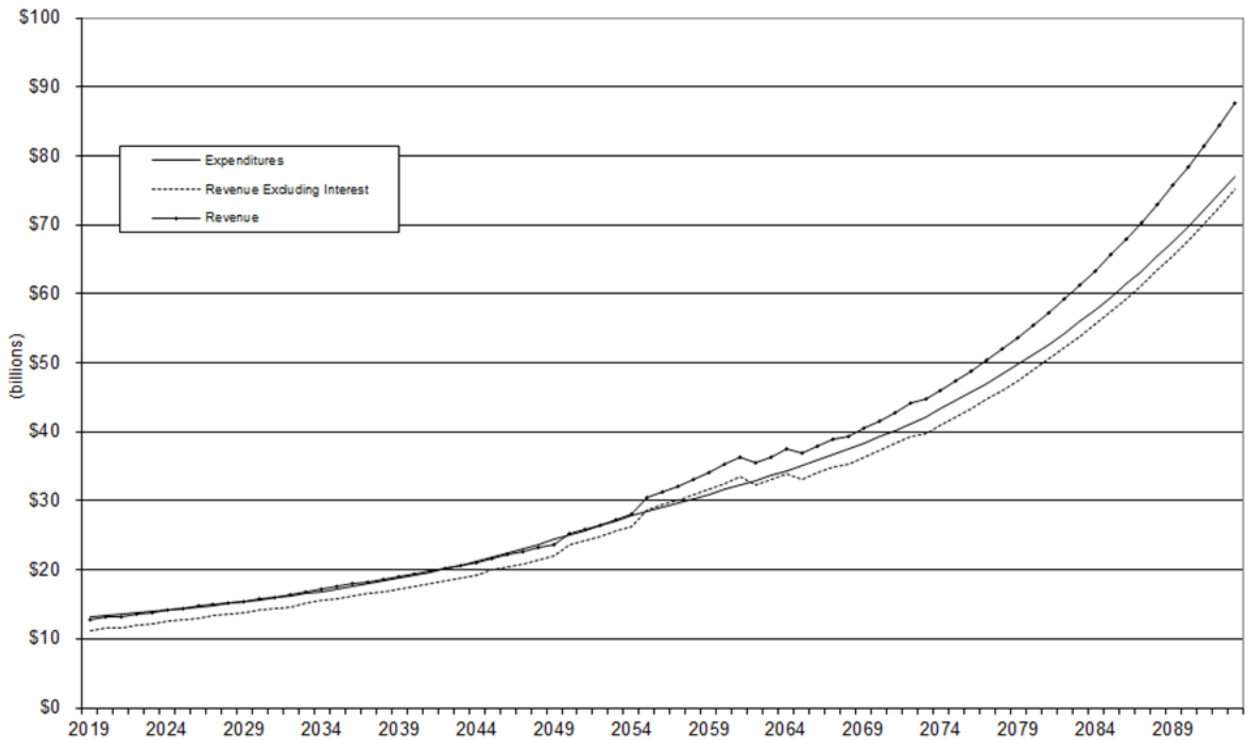
(2) estimated annual revenue excluding interest and expenditures in nominal dollars and as a percentage of taxable payroll;

(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 Revenue and Expenditures

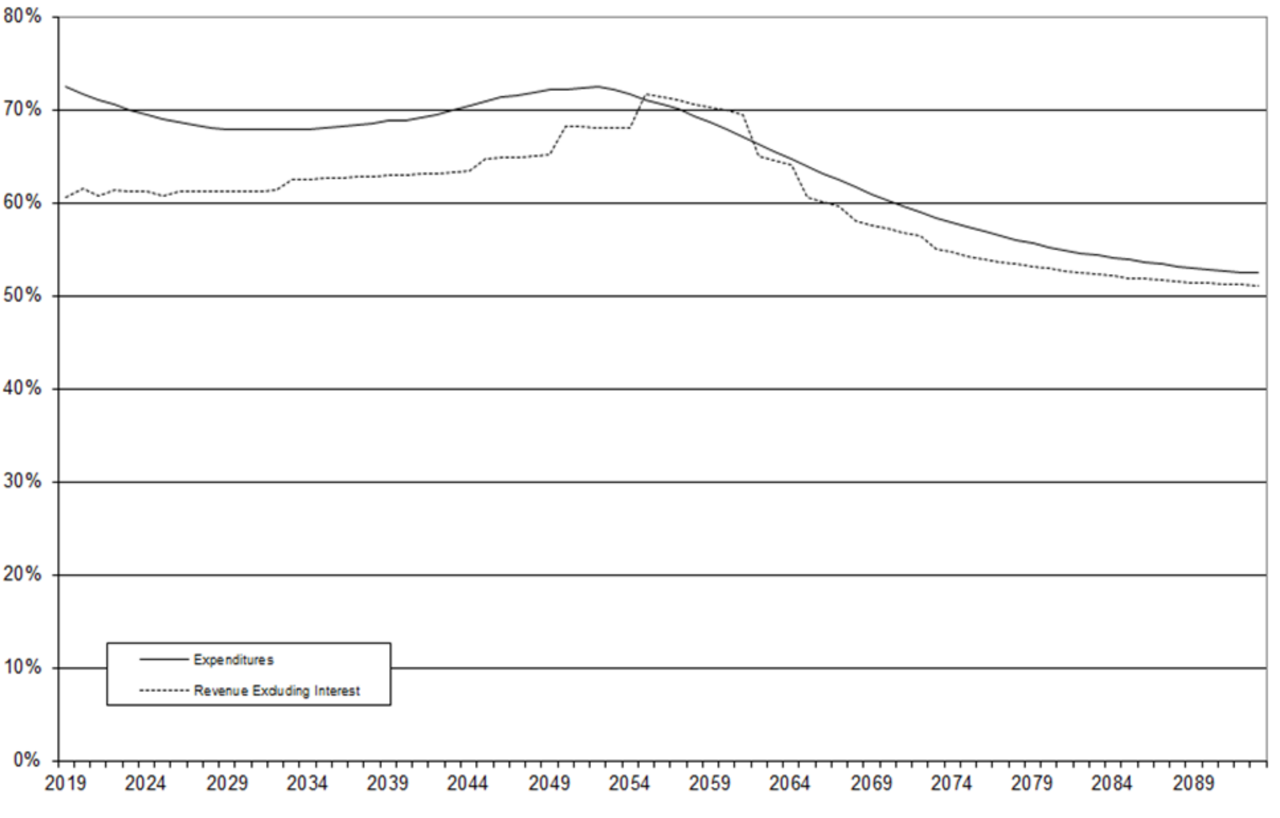


Cashflow Projections – Chart 1 shows actuarial estimates of railroad retirement annual revenue, revenue excluding interest, and expenditures for 2019-2093 in nominal dollars. The estimates are for the open-group population, which includes all persons projected to participate in the railroad retirement program as 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 in the years 2026 through 2041 and 2050 through 2093. Without investment income, however, annual expenditures are greater than annual revenue throughout most of the period, except in 2055 through 2061. 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 68% and 72% through 2060, after which the percentage decreases until reaching 52% in 2093. 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 Revenue Excluding Interest and Expenditures as a Percent of Taxable Tier II 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, 2018, and are based on estimates of revenue and expenditures during the fiscal years 2019-2093 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 2018 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, 2019-2093
(in billions)

Employment Assumption	I	II	III
Present Value	$2.6	$1.4	$(1.4)
Average Tier II tax rate[a]	17.1%	19.2%	21.3%

[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

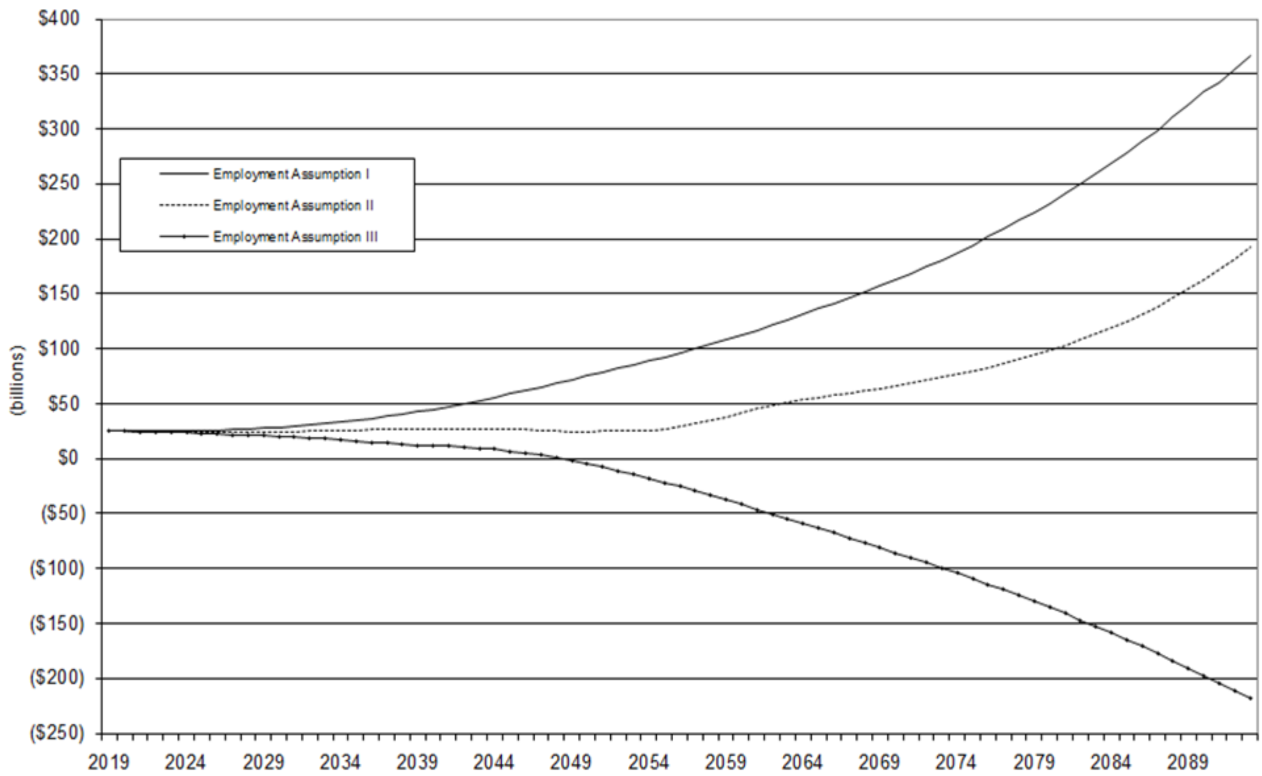


Chart 3a shows the combined balance of the accounts under each of the three employment assumptions. Note that the combined account balance is positive throughout the entire period for assumptions I and II but becomes negative in 2049 for assumption III and remains so throughout the remainder of the period. 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: Tier II Tax Rate under Three Employment Assumptions

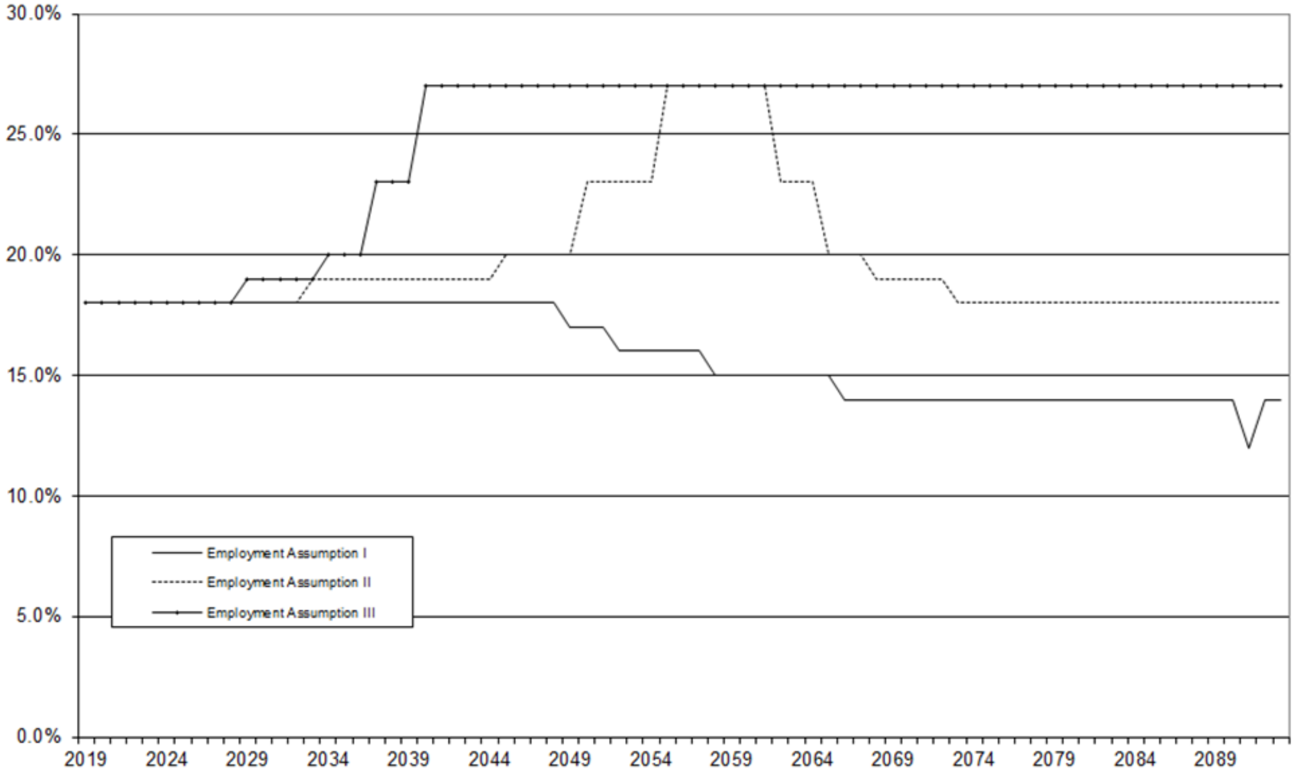


Chart 3b shows the tier II tax rate under these employment assumptions. The tax rate reaches 12 percent in 2091 under employment assumption I but then increases to 14 percent in 2092 and 2093. Under employment assumption II, the tax rate first increases to 27 percent in 2055 through 2061 and then decreases 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 2040, remaining at that level through the rest of the 75-year period.

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 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, 2019-2093 (in billions)			
Investment Return Assumption	4%	7%	10%
Present Value	$6.9	$1.4	$0.7
Average Tier II tax rate	21.9%	19.2%	16.1%

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

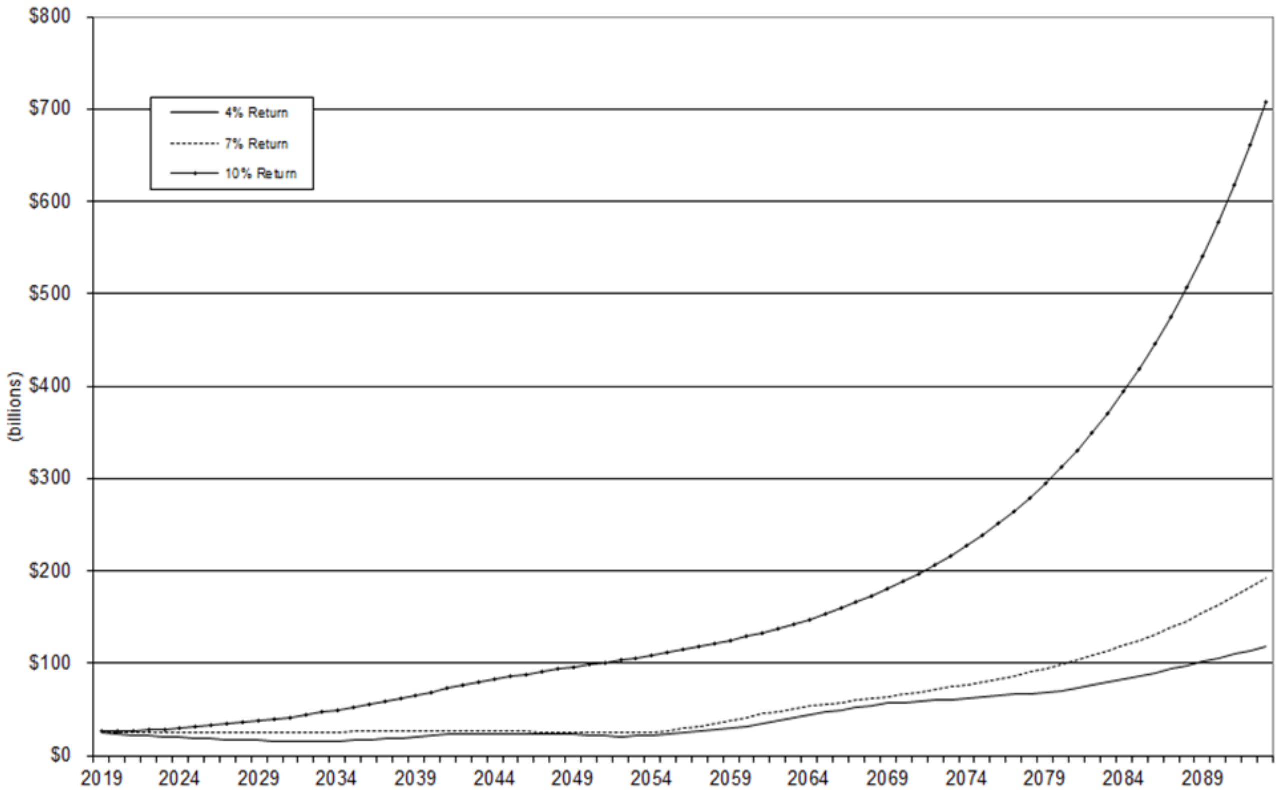


Chart 4a shows the combined account balance under the three investment return assumptions for the projection period. At a 4 percent investment return, the account balance remains positive, reaching its lowest value in 2031, and then increases until 2044, decreases through 2052, and then increases again through the remainder of the projection period. With a 7 percent investment return, the account balance remains fairly level through 2054, 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, 2019.

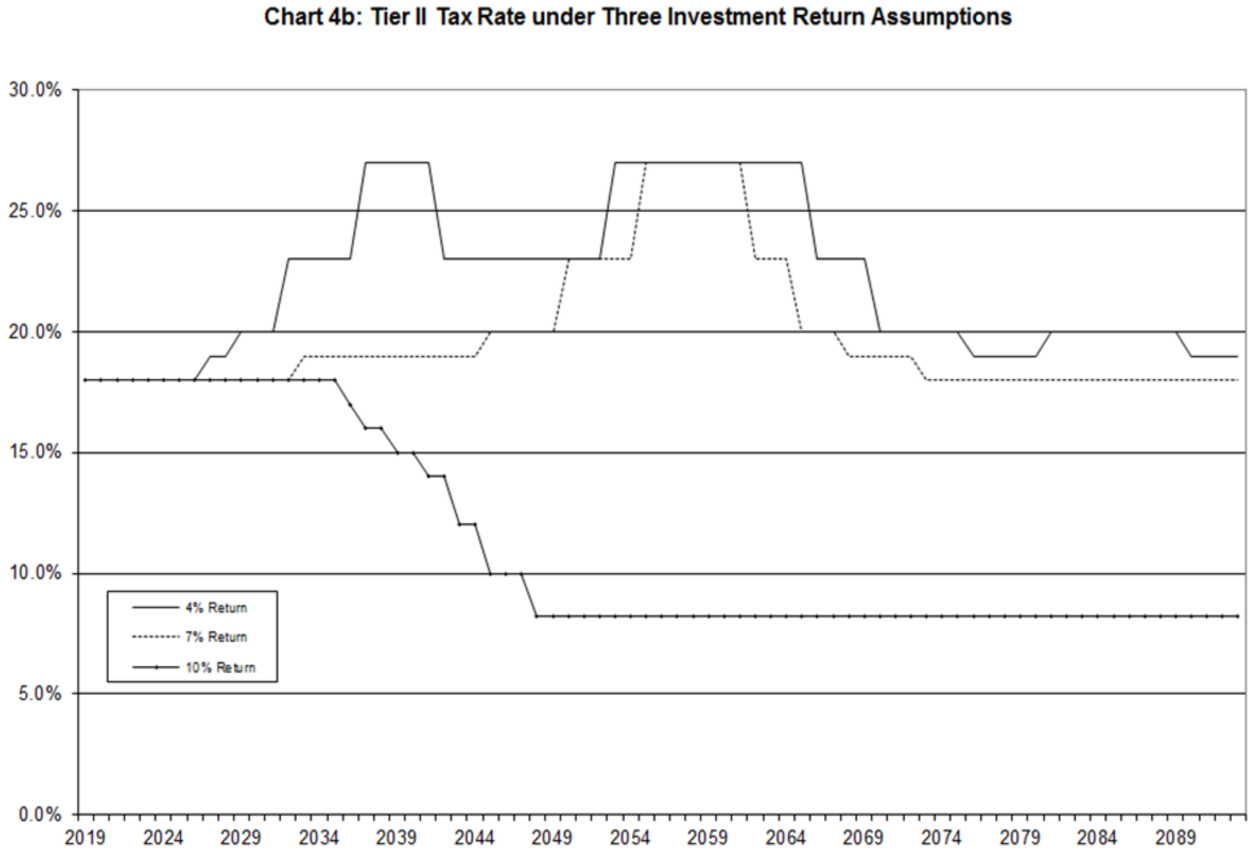
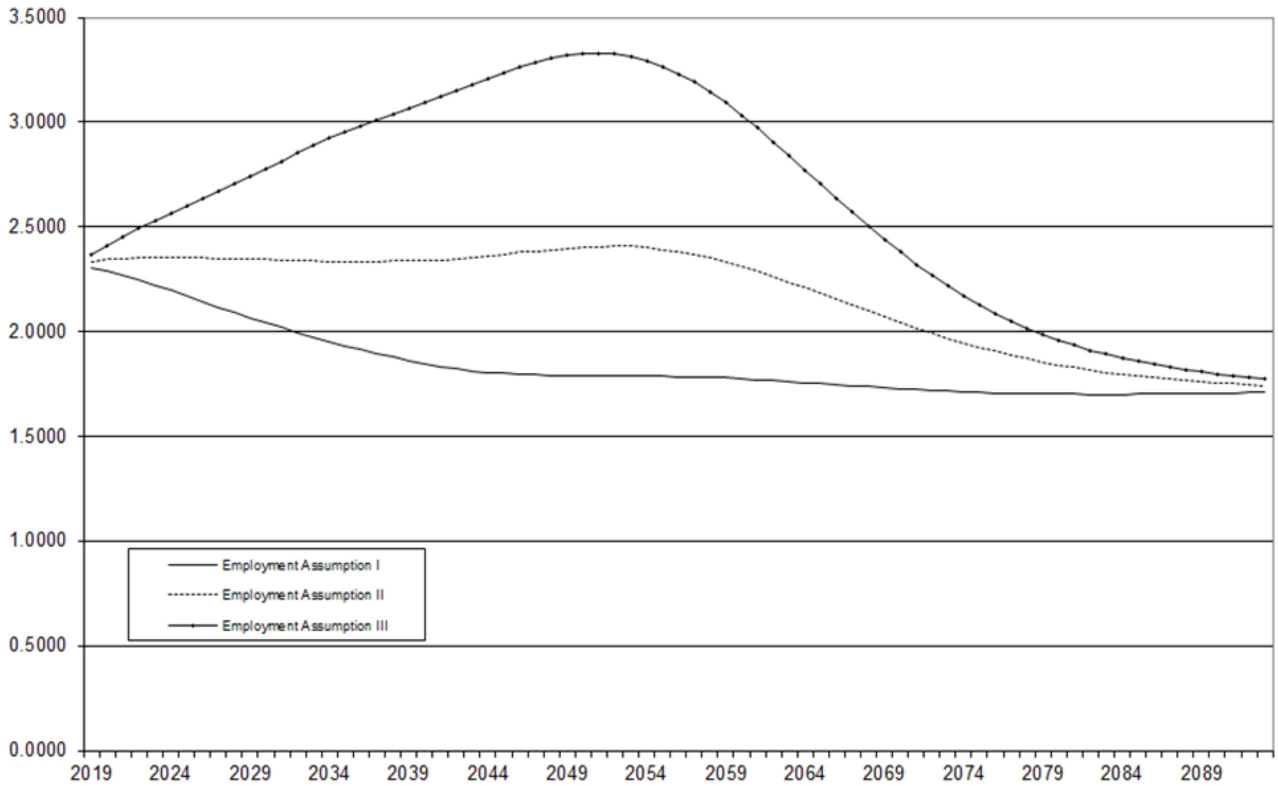


Chart 4b shows the tier II tax rate under the same three investment return assumptions. With a 4 percent investment return, the maximum tier II tax rate of 27 percent applies in 2037 through 2041 and 2053 through 2065. With the 7 percent investment return, the maximum tax rate applies between 2055 and 2061. 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 2048. 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 5: Average Number of Annuitants per Full-Time Employee



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 2019. For assumption II, the ratio is fairly level between 2019 and 2041, increasing slightly to its highest value in 2052 before decreasing. For assumption III, the ratio increases until it is highest in 2051 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.

RAILROAD RETIREMENT BOARD

COMBINING STATEMENT OF BUDGETARY RESOURCES

FOR THE YEAR ENDED SEPTEMBER 30, 2019

(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)	$33,826,617	$144,171,956	$2,715,248	$180,713,821
Appropriations (discretionary and mandatory)	9,747,703,526	108,786,636	-	9,856,490,162
Borrowing authority (discretionary and mandatory) Note 18	4,241,400,000	-	-	4,241,400,000
Spending authority from offsetting collections (discretionary and mandatory)	156,496,244	15,806,041	13,172,269	185,474,554
Total budgetary resources	**$14,179,426,387**	**$268,764,633**	**$15,887,517**	**$14,464,078,537**
Status of budgetary resources				
New obligations and upward adjustments (total)	$14,149,829,835	$126,734,483	$11,529,179	$14,288,093,497
Unobligated balance, end of year				
Apportioned, unexpired accounts	14,647,257	-	-	14,647,257
Unapportioned, unexpired accounts	2,317,130	142,030,150	1,607,640	145,954,920
Unexpired unobligated balance, end of year	16,964,387	142,030,150	1,607,640	160,602,177
Expired unobligated balance, end of year	12,632,165	-	2,750,698	15,382,863
Unobligated balance, end of year (total)	29,596,552	142,030,150	4,358,338	175,985,040
Total budgetary resources	**$14,179,426,387**	**$268,764,633**	**$15,887,517**	**$14,464,078,537**
Outlays, net				
Outlays, net (total) (discretionary and mandatory)	$13,927,414,005	$105,953,032	($2,848,870)	$14,030,518,167
Distributed offsetting receipts (-)	(5,430,917,332)	-	-	(5,430,917,332)
Agency outlays, net (discretionary and mandatory)	**$8,496,496,673**	**$105,953,032**	**($2,848,870)**	**$8,599,600,835**

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, 2019 and 2018; 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, 2018, October 1, 2017, October 1, 2016, October 1, 2015, and January 1, 2015, the statement of changes in social insurance amounts for the period ended September 30, 2018; 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 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. On November 12, 2019, RRB management stated that they do not have the authority to grant the access needed to enable cooperation and communication between OIG and NRRIT auditors. 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 $25.4 billion and $26.6 billion or 78 and 79 percent of the total assets reported for the RRB for fiscal years 2019 and 2018, respectively. NRRIT assets also represent approximately 90 and 95 percent of the Treasury securities and assets held by the Railroad Retirement program as of October 1, 2018 and October 1, 2017, respectively. Related changes in the net value of investments held by the NRRIT are reported as a source of financing which contributed a net loss of approximately $1.2 billion during fiscal year 2019 and a net gain of $102 million during fiscal year 2018.

In July 2019, we notified the NRRIT Chair and RRB management that NRRIT auditors' system of quality control had received a peer review rating of pass with deficiency, for the year ended March 31, 2017. This peer review rating remains in effect. We had previously notified RRB management of this deficiency during fiscal year 2018. 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

[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."

management and other individuals failed to comply with the firm's quality control policies and procedures related to its leadership responsibilities, relevant ethical requirements and monitoring and potentially negating the reasonable assurance of performing or reporting in conformity with applicable professional standards.

We also informed the NRRIT Chair and 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.

Public Company Accounting Oversight Board (PCAOB) inspection reports released in January 2019 for 2016 and 2017 indicated that the previously reported 2015 deficiencies remain unchecked. While the 2016 inspection identified some improvement from the prior year's results, the overall incidence of identified deficiencies increased. The PCAOB's 2017 inspection report did not identify any signs of improvement.

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.

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

GAO's *Financial Audit Manual* (FAM) provides guidance in responding to a 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]

To facilitate the OIG's evaluation of the IPA's quality control system, we requested that either RRB or NRRIT 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. On July 16, 2019, we requested that this information be provided by RRB and on July 23, 2019, we requested that the information be provided by NRRIT, no later than August 9, 2019. The NRRIT did not respond to our request or indicate that any information was available. In November 2019, RRB management informed RRB OIG auditors that they had some information pertaining to IPA corrective actions. RRB OIG auditors did not obtain or review the referenced information, as the review was not possible due to the mandated timeframe for completion of this audit opinion.

The IPA's prevalent failure to perform sufficient audit procedures, the material significance of the reported IPA issues, the PCAOB's follow-up inspection results, 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, 2017, 2018, and 2019 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

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[3] GAO and Council of Inspectors General on Integrity and Efficiency (CIGIE), *Financial Audit Manual* (FAM), GAO-18-625G, Section 615.20, (Washington D.C.: June 2018).

combined budgetary resources as of September 30, 2019 and 2018; and the financial condition of the Railroad Retirement program as of October 1, 2018, October 1, 2017, October 1, 2016, October 1, 2015, and January 1, 2015, and changes in the financial condition of the program for the period ended September 30, 2018. 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. However, during fiscal year 2019, the actuarial consultant identified an issue that resulted in material differences in the present values of social insurance income and expenditures. This matter is discussed in the Material Weaknesses section of this report.

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 $4.7 billion (net), or about 35 percent of the financing sources reported on the RRB's statement of changes in net position for fiscal year 2019 before considering the change in the reported value of NRRIT net assets. For fiscal year 2018, financial interchange transfers of approximately $4.3 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 92, and Combining Statement of Budgetary Resources on page 102. 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. 19-03, *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.

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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.

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.

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

<u>Financial Reporting</u>

- Ineffective Controls

This material weakness was initially reported in fiscal year 2014 as part of the overall material weakness for financial reporting and we made recommendations for improvement. During our current audit, we continue to see the need for internal control improvements. In addition, three recommendations requiring corrective actions related to this material weakness remain open.[5]

These internal controls relate to the completeness, accuracy, and validity of transactions and data. They also serve as complimentary controls and when ineffective also weaken the effectiveness of the financial reporting system. Complementary controls are discussed later in this memorandum.

[5] Railroad Retirement Board (RRB) Office of Inspector General (OIG), *Audit of the Business Process Controls in the Financial Management Integrated System,* Report No. 14-10, Recommendation Nos. 1 & 2 (Chicago, IL: August 1, 2014); and *Fiscal Year 2014 Financial Statement Audit Letter to Management,* Report No. 15-05, Recommendation No. 2 (Chicago, IL: March 31, 2015).

- Communication with the National Railroad Retirement Investment Trust's (NRRIT) Auditor

RRB Office of Inspector General (OIG) auditors have rendered disclaimer opinions on the RRB's financial statements since fiscal year 2013. 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 previously cited section 15 (j) of the Railroad Retirement Act as the basis for denial. On November 12, 2019, RRB management stated that they do not have the authority to grant the access needed to enable cooperation and communication between OIG and NRRIT auditors. Historically, the NRRIT has been unresponsive to our requests pertaining to its auditors. This lack of cooperation and communication with NRRIT auditors prevents OIG auditors from obtaining sufficient appropriate audit evidence regarding the RRB's financial statements.

As discussed later in this letter, the need for identification of treaties and international agreements further enforce the need for this communication with NRRIT. This is because international agreements may be directly or indirectly impacting NRRIT investment decisions without RRB management's knowledge or awareness.

Further complicating these matters, on March 21, 2018, the NRRIT's component auditor received a peer review rating of pass with deficiency, for the year ended March 31, 2017, as previously discussed in this letter in the section entitled "Basis for Disclaimer of Opinion."

On June 17, 2019, the Securities and Exchange Commission (SEC) issued a cease and desist order censuring the NRRIT's auditor and assessed a civil monetary penalty in the amount of $50 million. The matter involved two courses of misconduct that resulted in violations of the fundamental requirement that auditors act with integrity. The NRRIT's auditor admitted to the facts and acknowledged its conduct. The SEC concluded that the NRRIT's auditor willfully violated PCAOB ethics standards, failed to maintain integrity as described in the AICPA's Code of Professional Conduct, committed an act discreditable to the profession, and failed to comply with PCAOB Quality Control Standards. The SEC has imposed remedial sanctions which are ongoing. RRB management should exercise its oversight authority to determine whether financial statement audit services performed by the NRRIT's current auditor can be relied upon.

We previously recommended that an independent committee be established to identify a functional solution that would enable communication between OIG and NRRIT's auditors. Although RRB management did not concur with this recommendation, we will continue to cite this issue and the need for corrective action.[6]

- Social Insurance Valuation

The RRB OIG contracts for the audit of the actuarial reporting of the financial condition of the railroad retirement social insurance program. This actuarial auditor identified an issue that resulted in material differences of 9 percent in both the present values of social insurance income and expenditures. Ultimately, these differences resulted in a $2.3 billion (62 percent) understatement in the open group surplus from $3.7 billion to $1.4 billion. This understatement resulted directly from the NRRIT's request, effective in fiscal year 2016, to change the social insurance valuation period from calendar year to fiscal year. This change requires a timing adjustment. The OIG had reported during fiscal year 2016 that this change in the method of accounting for social insurance had no reasonable basis other than to reduce the NRRIT's audit costs and the change had not been viewed positively by the RRB's Bureau of the Actuary and Research (BAR).[7]

Both the present values of income and outflow were adjusted by the -7.1 percent return on assets the NRRIT experienced during the fourth quarter of 2018. The actuarial auditor believes this adjustment is inappropriate because plan liabilities would not be impacted by changes in plan assets and recommended the use of the 7 percent long term assumption.

BAR calculates the actuarial surplus or deficiency using a constant 7 percent interest rate. Although, the actual NRRIT annual rate of return may be higher or lower, its present value calculations utilize a 7 percent return over the 75 year projection period.[8] Therefore, use of the 7 percent interest rate for the fourth quarter timing adjustment would be consistent with the social insurance program assumptions, methodology, and valuation.

This difference in the rate of return affects the actuarial model used by the BAR and the resulting Statement of Social Insurance and the Statement of Changes in Social Insurance Amounts. Management in BAR disagreed with the actuarial auditor's findings and stated that their methodology remains consistent with that used since the reporting was changed to fiscal year. While it has remained

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[6] RRB OIG, *Fiscal Year 2014 Financial Statement Audit Letter to Management,* OIG Audit Report No. 15-05 (Chicago, IL: March 31, 2015).
[7] RRB OIG, Fiscal Year 2016 Financial Statement Audit Letter to Management, OIG Audit Report No. 17-03 (Chicago, IL: February 16, 2017).
[8] RRB, Twenty-Seventh Actuarial Valuation of the Assets and Liabilities Under the Railroad Retirement Acts as of December 31, 2016, Pages 8-11 (Chicago, IL: June 5, 2018).

consistent to prior year computations, those computations had never been impacted by such a significant negative decline in the rate of return. RRB management did not foresee the long term consequences and monetary impact to its social insurance program when it approved NRRIT's request to change the social insurance reporting timeframe from calendar year to fiscal year.

Recommendation

1. We recommend that the Bureau of the Actuary and Research implement the recommendation of the actuarial auditor and utilize a 7 percent long term present value assumption to strengthen the accuracy of the RRB's social insurance program valuation and reporting.

Management's Comments and Our Response

The Bureau of the Actuary and Research did not concur with the recommendation for improving the accuracy of its social insurance valuation and stated that the Actuarial Auditor's method was flawed. Because this is information received today and contains more information than previously provided to us, we could not obtain, review, or assess it within our mandated audit timeframe. This additional information will be reviewed during next year's audit.

Deficient Internal Controls at the Agencywide Level

This material weakness was originally reported in fiscal year 2018.

- Ineffective Standards for Internal Control

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

  - 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.[9]

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 beginning in fiscal year 2016 as a separate material weakness. Last year it was included in the overall material weakness for deficient internal controls at the agencywide level. The remaining four components, Risk Assessment, Control Activities, Information and Communication, and Monitoring, were never assessed by the RRB in conformance with GAO and OMB requirements at the agencywide level.

Because each of the required components of internal control were not designed, implemented, and operating effectively, consistent with GAO and OMB guidance, we were required to conclude that the overall system of internal control was not operating effectively and an entity-level control material weakness was reported.[10] This material weakness continues to exist.

- Information Technology Security and Financial Reporting Controls

Increasing the seriousness and significance of this material weakness is the determination that each of the eight Federal Information Security Modernization Act (FISMA) metric domains and their corresponding cybersecurity framework functions were assessed as "Not Effective" for fiscal year 2018 and that the RRB was noncompliant with FISMA legislation and OMB guidance.[11] This shortfall in information technology security controls resulted in 31 recommendations. As such, information system control risk must be assessed as "high" in accordance with GAO's FAM guidance.[12] This agencywide assessment of high risk directly impacts the RRB's controls supporting the agency's financial reporting system. Certain financial reporting control objectives can be achieved only if the RRB's controls assumed in the design of the financial reporting system are suitably

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[9] GAO, *Standards for Internal Control in the Federal Government,* GAO-14-704G, Section OV2.04 (Washington, D.C.: September 2014).
[10] Office of Management and Budget, *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, *Performance Audit of RRB's Compliance with the Federal Information Security Modernization Act of 2014 - Fiscal Year 2018,* Report No. 19-03 (Chicago, IL: December 19, 2018).
[12] GAO and CIGIE, *FAM,* GAO-18-601G, Section 295 J.

designed and operating effectively. Such RRB controls are referred to as complementary controls. The ability to rely on the opinion of the RRB's Statement on Standards of Attestation Engagements, No. 18 reports for its financial management and payroll accounting and reporting systems is also directly impacted by the uncertainty of these complementary controls.

- Compliance with Indirect Laws, Regulations, Contracts, Treaties, and International Agreements

RRB management has also not established effective policies and procedures for preventing agency noncompliance with indirect laws, regulations, and contracts, and for identifying treaties and international agreements impacting the RRB or its component NRRIT. As previously discussed, the RRB is noncompliant with FISMA legislation, this is one example of the RRB's noncompliance with an indirect law and regulation.

RRB referenced agency policies and procedures and Federal Manager's Financial Integrity Act statements of assurance but did not identify the relevant policies or procedures or provide an affirmative statement that the RRB is in compliance with indirect laws, regulations, and contracts. Further, it relies on the Office of Legislative Affairs for notification of treaties or international agreements impacting the NRRIT, but has not established policy and procedure to obtain Department of State assurance that no such impact exists.

Policies and procedures for ensuring compliance with indirect laws, regulations, and contracts are required per FAM guidance.[13] Treaties and other international agreements may lead to commitments or contingencies that should be recognized or disclosed in the financial statements, in accordance with federal financial accounting standards.[14]

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[13] GAO and CIGIE, *FAM*, GAO-18-601G, Section 245.08(a).

[14] Federal Accounting Standards Advisory Board, *Handbook of Federal Accounting Standards and Other Pronouncements, as Amended*, SFFAS No. 5, *Accounting for Liabilities of the Federal Government*, as amended by SFFAS No. 12, *Recognition of Contingent Liabilities Arising from Litigation* (Washington, D.C.: June 30, 2018).

Recommendations

We recommend that the Executive Committee establish policies and procedures for:

2. ensuring agency compliance with indirect laws, regulations, and contracts; and
3. identifying treaties and international agreements impacting the Railroad Retirement Board or its component, the National Railroad Retirement Investment Trust.

<u>Management's Comments and Our Response</u>

The Executive Committee did not concur with these recommendations. We disagree with management's response for recommendations 2 and 3. During our audit, we requested but were not provided with policies and procedures that directly address and ensure agency compliance with indirect laws, regulations, and contracts. Although some improvements may have been made during fiscal year 2019 that have not yet been reported by our contractor, noncompliance with FISMA legislation and OMB guidance was cited for fiscal year 2018. We still see the need for this recommendation.

With regard to the General Counsel's regular duties, because this is new information received today, we could not obtain, review, or assess these procedures within our mandated audit timeframe. We will review these procedures during next year's audit. While we did not identify a specific instance of failure, we identified a number of investment related international agreements on the Department of State website that could potentially have an indirect effect on the NRRIT's investments. By law, we cannot communicate with the NRRIT to determine whether such international agreements do in fact impact the NRRIT. This recommendation will remain open as it is a Financial Audit Manual requirement and a significant concern of GAO due to its importance to the governmentwide financial statements.

- Compliance with Railroad Retirement Act Benefit Payment Provisions

RRB management also could not ensure compliance with the Railroad Retirement Act (RRA), as its quality assurance reviews supporting agency compliance with RRA benefit payment provisions had not been completed within the required audit timeframe. Therefore, we could not determine whether the RRB was in compliance with the RRA for fiscal year 2019. The RRB's compliance assessment for RRA benefit payments was not completed during the fiscal year but was subsequently received on October 31, 2019, which was significantly beyond the allowable timeframe of September 30, 2019 established by OIG auditors for review purposes. A ten day extension to October 10, 2019, had also been granted. RRB management cited a severe staffing shortage as the cause for the delay.

To comply with the Government Performance and Results Act, the RRB's policy statement on quality, as stated in the RRB's Strategic Plan, in part, states: "The Railroad Retirement Board will pay benefits to the right people, in the right amounts, in a timely manner." The RRB conducts annual quality assurance reviews utilizing statistical sampling and focused on initial and post processing adjudication of cases and payment accuracy. However, for fiscal year 2019, these quality assurance reviews of an estimated 26,500 adjudicated cases totaling approximately $662.1 million had not been completed.

- Controls Over Railroad Service and Compensation

RRB's controls over creditable and taxable compensation were found to be inadequate as the RRB is not giving sufficient audit coverage to railroad employer compensation reporting. The RRB's Audit and Compliance Section (ACS) conducts audits of railroad employers to determine whether creditable compensation and financial reporting requirements of the RRA and Railroad Unemployment Insurance Act are being met. ACS determines whether compensation has been accurately reported to the RRB and they reconcile creditable compensation reported for RRA purposes with taxable compensation reported to the Internal Revenue Service for Railroad Retirement Tax Act purposes. The RRB's ACS establishes a program of railroad employer audits with the primary objective being the review of the accuracy of railroad service and compensation on which payroll taxes are based. However, this program of railroad employer audits is not an effective control for ensuring the accuracy of compensation which is the basis for approximately $4.6 billion of payroll taxes received by the RRB. Since the beginning of fiscal year 2017, only two audits had been completed by ACS, and as of the end of fiscal year 2019, only three additional audits were in progress, out of a universe consisting of 733 railroad employers. Due to their complexity and the need for significant ACS resources, none of the largest Class 1 railroads had been subjected to audit. The limited number of audits being conducted by ACS is due to less staff and funding being allotted.

Recommendation

4. We recommend that the Bureau of Fiscal Operations acquire additional staff and funding to increase the Audit and Compliance Section's coverage of railroad employer compensation reporting to ensure that a sufficient quantity of railroad audits, including Class 1 railroads, are conducted to establish and maintain a level of control effectiveness.

Management's Comments and Our Response

RRB management agreed that additional resources are needed to address the reported railroad audit deficiencies. However, the Bureau of Fiscal Operations only partially concurred due to the uncertainty of obtaining the needed resources due to its lack of authority to authorize funding.

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. 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 2019 disclosed two instances of noncompliance that are reportable under auditing standards generally accepted in the United States of America. The two cited instances of noncompliance involving the RRA and FISMA were previously discussed in the "Material Weaknesses" section of this audit opinion. 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

For its overall comments, agency management stated that they will continue to cooperate with OIG auditors. Agency management commented that they disagree with our disclaimer of opinion. With regard to our disclaimer of opinion agency management stated that the NRRIT and the United States Government Accountability Office (GAO) entered into an MOU giving GAO access to information including NRRIT's financial information in the government-wide financial statements and therefore disagrees with the inclusion of this matter as a basis for disclaimer and as a component of the financial reporting material weakness. In response to this comment where GAO sought an agreement with NRRIT, this did not address the disclaimer at the level of our audit opinion or as a component of the financial reporting material weakness. Our disclaimer is appropriate and was made in accordance with AICPA guidance. Concerning our material weaknesses, the agency states that they have made improvements addressing their ineffective financial reporting controls but have not yet sought closure of the related recommendations. RRB management did not agree that FISMA noncompliance presents a risk to its Financial Management Integrated System (FMIS) despite the control interfaces and dependencies that exist between the agency's information systems and FMIS and the complementary control disclaimer reported by the FMIS SSAE 18 auditors. With regard to the RRB's inability to timely complete its quality assurance reviews within our mandated audit timeframe, RRB management stated that there is no known regulatory requirement that it be completed by the end of September.

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.

Original signed by:

Martin J. Dickman
Inspector General
Chicago, Illinois

November 13, 2019 except for matters relating to the net assets of the NRRIT as of September 30, 2019 as to which the date is November 15, 2019

UNITED STATES GOVERNMENT
MEMORANDUM

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

November 15, 2019

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

FROM: Shawna R. Weekley
Chief Financial Officer

SHAWNA WEEKLEY

SUBJECT: Fiscal Year 2019 Financial Statement Audit – Draft Auditor's Report

This response serves to address the OIG's basis of disclaimer of opinion and particular components of the cited two material weaknesses that fall under my purview.

Management Response: Disclaimer of Opinion

In the referenced audit report the OIG expressed a disclaimer of opinion on the Agency's balance sheet as of September 30, 2019 and 2018 and 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 OIG cites lack of access to the National Railroad Retirement Investment Trust (NRRIT) auditors pursuant to the American Institute of Certified Public Accountants (AICPA) Professional Standards in AU-C section 600, Special Considerations – Audits of Group Financial Statements as both the basis for the disclaimer of opinion and as a component of the financial reporting material weakness.

The Agency will continue to cooperate with the OIG and provide all NRRIT related information within its possession which the OIG requests. The Agency does not have the authority to compel the NRRIT auditors to provide their work papers to, or speak with the OIG. Additionally, the NRRIT and the United States Government Accountability Office (GAO) entered into an MOU giving GAO access to information and including NRRIT's financial information in the government-wide financial statements.[1] Therefore, the Railroad Retirement Board (RRB) disagrees with the OIG's inclusion of this matter as both a basis for a disclaimer of opinion and as a component of the financial reporting material weakness.

[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 (on file at RRB).

Management Response: Material Weaknesses

1. Financial Reporting:

   a. *Ineffective Controls:* The OIG bases this discussion of ineffective controls in part on three audit recommendations from fiscal year 2014. We believe that the open recommendations have been abated and will seek formal closure during the upcoming fiscal year. We continue to make significant strides enhancing internal controls in a cost effective and efficient manner. For example, in fiscal year 2019, we implemented a new tracking system for vouchers and reconciliations. Additionally, we expanded our quality assurance sampling plan for journal and standard vouchers. The error rate for the 3rd quarter of fiscal year 2019 was 0%, whereas the error rate for the same time period in fiscal year 2018 was 10.7%. To date the OIG has not communicated exception to the validity, accuracy, or completeness of monetarily significant transactions consolidated into in the Agency's financial statements. We will continue to review and strengthen our internal controls as necessary; however, we disagree that this matter contributes to a material weakness affecting the preparation and fair presentation of the financial statements.

   b. *Communication with the NRRIT auditor:* Please see the management response to the disclaimer of opinion included above.

2. Deficient Internal Controls at the Agency-wide Level:

   a. *Ineffective Standards for Internal Control:* We continue to make strides implementing Enterprise Risk Management (ERM) at the RRB by leveraging the Management Control Review (MCR) infrastructure already in place. In fiscal year 2019, we incorporated critical changes to the MCR guide to reflect core ERM principles, conducted training to responsible officials and Agency leadership, as well as updated the Agency's risk profile. We are committed to strong internal controls and will move forward with the next phase of ERM implementation, which will address this OIG concern. While, we recognize the need to continue ERM implementation efforts, we disagree that this contributes to a material weakness affecting the preparation and fair presentation of the financial statements.

   b. *Controls Over Railroad Service Compensation:* The OIG recommends "that the Bureau of Fiscal Operations [BFO] acquire additional staff and funding to increase the Audit Compliance Section's coverage of railroad employer compensation reporting to ensure that a sufficient quantity of railroads audits, including Class 1 railroads, are conducted to establish and maintain a level of control effectiveness."

   We take our responsibility for auditing creditable service and taxable compensation very seriously and in an effort to increase audit coverage we retrained and transitioned an existing employee into an audit role. Additionally, in fiscal year 2019 we were able to hire two seasoned auditors from outside of the Agency. These actions increased the audit staff from one to four.

We share the OIG's concern and appreciate the support for even more staffing in the Audit and Compliance Section (ACS). I partially concur with this recommendation, because I do not have unilateral authority to increase BFO's funding allocation. However, in order to meet the intent of the recommendation I will seek Executive Committee and/or Board approval to acquire more audit staff, subject to availability of sufficient funding and consideration of other Agency priorities.

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 will continue to work in good faith with your office to achieve the Agency's mission in a cost effective and efficient manner.

cc: The Board
Executive Committee

UNITED STATES GOVERNMENT
MEMORANDUM

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

November 15, 2019

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

FROM: Frank J. Buzzi *Frank J. Buzzi*
Chief Actuary

SUBJECT: Fiscal Year 2019 Financial Statement Audit – Draft Auditor's Report

Thank you for the opportunity to review and comment on the recommendation associated with the "Social Insurance Valuation" component of the OIG's material weakness entitled *Financial Reporting* cited in the above referenced report.

Recommendation

The OIG recommends, "that the Bureau of the Actuary and Research implement the recommendation of the actuarial auditor and utilize a 7 percent long-term present value assumption to strengthen the accuracy of the RRB's social insurance program valuation and reporting."

Management's Response: Non-concur

The OIG finding of material weakness is based on our declining to change our actuarial method to one preferred by Segal Consulting in their audit report of the Statement of Social Insurance (SOSI).

The Segal report itself states that our "Actuarial assumptions are within accepted actuarial practice and are consistent with the RRB's experience. The actuarial method is in accordance with Actuarial Standards of Practice for Social Insurance Systems." To base a finding of material weakness on a method that was acceptable in the past and continues to be acknowledged as acceptable seems inappropriate.

The Segal report further states "To the extent that we have identified areas to be considered, these recommendations should be treated as professional opinions to be evaluated and considered by the Bureau of the Actuary and Research." To find a material weakness merely because we disagreed with an opinion offered for our consideration seems unjustified.

A third reason to reject the finding of material weakness is that we believe the Segal method to be flawed, as explained below.

The difference between our method and Segal's method lies in the interest rate used to calculate the surplus position. Our method continues to use actual return which was -7.1% in the quarter ending December 31, 2018. Segal recommends changing our method to substitute an assumption of 1.7% for the quarter (which equates to a 7% annual rate). Other than this single quarter, we have no disagreement with Segal.

The surplus as of a given date is calculated using the following equation:

Surplus = Assets + Present Value of Future Income – Present Value of Future Expenditures

Under the Segal method, the value of the Assets on September 30, 2018, and the Present Value of Future Expenditures as of September 30, 2018, are not affected by the actual return during the quarter ending December 31, 2018.

However, the Present Value of Future Income (PVFI) is affected by the actual return through the tax rate adjustment mechanism contained in current law. Lower asset values reduce the Average Account Benefits Ratio which results in higher future tier 2 tax rates while higher asset values result in lower tier 2 tax rates.

Segal bases its calculation of the PVFI on the tax rates projected in the 2019 Section 502 report. The Section 502 report reflects the known 7.1% loss and thus provides the best estimate of future tax rates.

By discounting the PVFI using a 1.7% rate but projecting future taxes using actual return Segal is significantly overstating the surplus position (from $1.4 billion to $3.7 billion). In fact, Segal's method will overstate the surplus when actual return is less than their assumption and understate the surplus when actual return exceeds their assumption.

This point may be better illustrated by considering how Segal's method would have performed if the actual return for the quarter ending December 31, 2018, had exceeded their assumption. For example, if the actual return had been 10% rather than -7.1% the higher asset balances would have resulted in lower expected future tax rates. This would have decreased the PVFI enough to report a deficiency (i.e., a negative surplus) using Segal's method. Reporting a deficiency for a system that is expected to remain solvent and experience no cash flow problems is not reasonable.

cc: The Board
Executive Committee

UNITED STATES GOVERNMENT
MEMORANDUM

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

November 15, 2019

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

FROM: Daniel Fadden
Senior Executive Officer

DANIEL FADDEN Digitally signed by DANIEL FADDEN Date: 2019.11.15 08:35:01 -06'00'

SUBJECT: Fiscal Year 2019 Financial Statement Audit – Draft Auditor's Report

This response serves to address the two audit recommendations to the Executive Committee included within the referenced draft audit report.

Recommendation:

We recommend that the Executive Committee establish policies and procedures for ensuring agency compliance with indirect laws, regulations, and contracts.

Management Response: Non-concur.

In its findings, the OIG states that "RRB management has not established effective policies and procedures for preventing agency noncompliance with indirect laws, regulations and contracts.. " We disagree with this statement and have previously communicated to the OIG that compliance with laws and regulations is intertwined throughout various agency policy and procedure documents, such as our administrative circulars and others, as well as throughout the extensive documentation compiled to comply with the *Federal Manager's Financial Integrity Act of 1982* (FMFIA). The Agency's Management Control Review (MCR) program directly fulfills the requirements of FMFIA and is an example of a well-established policy and procedure to help ensure compliance with indirect laws, regulations, and contracts.

The OIG specifically cited fiscal year 2018 FISMA audit results as an example of the RRB's noncompliance with an indirect law or regulation. The term "noncompliance" is vastly different from the improvement needed that the Agency has already completed and committed to continuing. Preliminary fiscal year 2019 audit results demonstrate progress in improving our information security program and practices across the Agency as required by FISMA, OMB policy and guidelines, and National Institute of Science and Technology standards and guidelines.

Recommendation:

We recommend that the Executive Committee establish policies and procedures for identifying treaties and international agreements impacting the Railroad Retirement Board or its component, the National Railroad Retirement Investment Trust.

Management Response: Non-concur.

In its findings, the OIG states that "RRB management has not established effective policies and procedures ... for identifying treaties and international agreements impacting the RRB or its component NRRIT." We first note that the OIG has not cited any specific instance of our failure to identify a treaty or international agreement impacting the RRB or NRRIT. Both treaties and international agreements are either entered into with the advice and consent of the Senate or reported to Congress by the State Department. Accordingly, any policies and procedures that provide for regular monitoring and reporting of actions in Congress would necessarily result in the identification of either type of agreement. As noted in *the FY 2019 Financial Statement Audit, Laws and Regulations, Cycle Synopsis* that was provided to the OIG, the RRB monitors for changes in laws through the Office of Legislative Affairs, which "monitors legislation and notifies RRB officials of new developments." Such monitoring specifically serves to notify the General Counsel of any treaties and/or international agreements involving and/or affecting the RRB or NRRIT. It is then within the General Counsel's regular duties to review, analyze, interpret, and provide relevant guidance relating to any law, regulation, or policy, to include treaties and international agreements, which impacts the RRB or NRRIT. We therefore find that our current policies and procedures are effective and further find it unnecessary to establish, as noted by the OIG, a "policy or procedure to obtain Department of State assurance" regarding the impact of any treaty or international agreement on the RRB or NRRIT as the OIG did not provide any explanation as to why such assurance would be necessary in light of the above.

cc: The Board
Executive Committee

ATTACHMENT
page 26

UNITED STATES GOVERNMENT

Memorandum

FORM G-115F (01-92)

RAILROAD RETIREMENT BOARD
CHICAGO, IL

NOVEMBER 15, 2019

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

FROM: Crystal Coleman
Director of Programs

CRYSTAL COLEMAN

Digitally signed by CRYSTAL COLEMAN
Date: 2019.11.15 11:47:07 -06'00'

SUBJECT: Fiscal Year 2019 Financial Statement Audit – Draft Auditors Report

This response serves to address the "Compliance with Railroad Retirement Act Benefit Payment Provisions" component of the OIG's material weakness entitled *Deficient Internal Controls at the Agency wide level.* The RRB typically completes the Railroad Retirement Act Quality Assurance (QA) review by September 30th of each fiscal year. However, to my knowledge there is no regulatory requirement for the review to be completed by this date. As mentioned, due to a severe staffing shortage we were unable to meet the normal timeline determined by the OIG. Understanding the significance of the QA, management took proactive steps to complete the report as quickly as possible. As such, we were able to deliver the report by October 31, 2019, prior to the end of the audit field work. The methodology used for assessing payment accuracy was the same as in prior years. The results indicated an initial recurring payment accuracy rate of 99.99% and a post adjudication recurring payment accuracy rate is 99.94%. Recognizing the importance of demonstrating the RRB's commitment to providing quality service to our customers, the agency will continue to work diligently to provide the OIG with these results in time for the completion of their audit work.

UNITED STATES GOVERNMENT
MEMORANDUM

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

November 15, 2019

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

FROM: Terryne F. Murphy
Chief Information Officer

TERRYNE MURPHY Digitally signed by TERRYNE MURPHY
Date: 2019.11.15 07:49:30 -06'00'

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=[illegible]
Date: 2019.11.15 07:[illegible] -06'00'

SUBJECT: Fiscal Year 2019 Financial Statement Audit – Draft Auditor's Report

This response serves to address the "Information Technology Security and Financial Reporting Controls" component of the OIG's material weakness entitled *Deficient Internal Controls at the Agency-wide Level*. The referenced audit report states that *Federal Information Security Management Act of 2002* (FISMA), as amended by the *Federal Information Security Modernization Act of 2014*, metric domains and their corresponding cybersecurity framework functions were assessed as "Not Effective," which has led to an "information system control risk" assessment of "high." The OIG asserts that the high-risk rating directly impacts the Agency's financial reporting system. We disagree with the OIG's assertion that the Agency's FISMA maturity level directly impacts the financial reporting system.

The Agency accomplishes its major financial reporting objectives through its financial management system, which is a comprehensive proprietary software application from CGI Federal – Momentum Enterprise Solution – that resides on a cloud hosting service. The Agency's system is referred to as the Financial Management Integrated System (FMIS). CGI Federal has been FedRAMP authorized since January 2013. CGI Federal offers its FedRAMP Authorized financial management system as a shared service to the federal government and is currently servicing 11 other federal agencies. FMIS is separate and distinct from the Agency's internally managed Agency Enterprise General Information Systems (AEGIS), Benefit Payment Operations (BPO) and Financial Interchange (FI) system.

Additionally, after review of the 31 recommendations associated with the fiscal year 2018 FISMA audit report and consideration of preliminary fiscal year 2019 FISMA audit results we could not find any impactful risk to the FMIS. Therefore, we disagree that this matter contributes to a material weakness affecting the preparation and fair presentation of the financial statements.

Further, the Agency understands and takes very seriously the mandate of the FISMA to ensure adequate security protections for Federal information systems and information. As the Agency continues the development and implementation of its IT modernization initiatives, we anticipate the cybersecurity posture of the Agency will improve and sustain at acceptable levels.

Finally, preliminary audit results for the FY 2019 FISMA audit indicate that Kearney & Company will assess our overall maturity at Level 2 – *Defined* and will recognize significant improvements in the Configuration Management, Identity and Access Management, Security Training, and Incident Response domains that matured from Level 1 – *Ad-Hoc* to Level 2 – *Defined*. The preliminary FY 2019 audit results demonstrate progress in improving our information security program and practices across the Agency as required by FISMA, OMB policy and guidelines, and National Institute of Science and Technology standards and guidelines. The RRB will continue to make incremental steps to reach the overall maturity goal of Level 4 – *Managed and Measurable*.

cc: The Board
Executive Committee

OTHER INFORMATION

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UNITED STATES RAILROAD RETIREMENT BOARD

OFFICE OF INSPECTOR GENERAL

Management and Performance Challenges Facing the Railroad Retirement Board

Introduction

The Reports Consolidation Act of 2000 and Office of Management and Budget (OMB) Circular A- 136 require the Inspectors General to identify what they consider the most serious management challenges facing its respective agency and briefly assess the agency's progress in addressing these challenges.

The Railroad Retirement Board (RRB) is an independent agency in the executive branch of the Federal Government. The RRB's primary function is to administer comprehensive retirement-survivor and unemployment-sickness benefit programs for the nation's railroad workers and their families, under the Railroad Retirement and Railroad Unemployment Insurance Acts. As part of the retirement program, the RRB also has administrative responsibilities under the Social Security Act for certain benefit payments and railroad workers' Medicare coverage.

In fiscal year 2018, the RRB paid retirement-survivor benefits of nearly $12.7 billion to about 540,000 beneficiaries. The RRB also paid net unemployment-sickness benefits of $93 million (including recoveries of about $100,000 in expired temporary extended unemployment benefits under the American Recovery and Reinvestment Act of 2009, the Worker, Homeownership, and Business Assistance Act of 2009, and subsequent reauthorizing legislation) to about 24,000 claimants.

We are no longer reporting on challenges of the RRB oversight of the National Railroad Retirement Investment Trust (NRRIT) and human capital management. The NRRIT has been removed as a challenge because they have been unresponsive to the audit concerns we expressed in numerous audit reports. It is incumbent upon the RRB Board members to pursue the oversight needed to ensure effective management of the net assets the NRRIT holds for the RRB which was approximately $26.6 billion as of September 30, 2018. The challenge for human capital management has been removed because the agency has taken some steps regarding this challenge as a result of a review conducted by the Office of Personnel Management.

This year we are introducing new challenges for financial management and reporting concerns and compliance issues. This year's management challenges are:

- Improve Agency Disability Program Integrity
- Improve Information Technology Security and Complete System Modernization
- Improve Management of Railroad Medicare
- Improve Payment Accuracy and Transparency
- Financial Management and Reporting Issues
- Compliance Concerns Identified

The challenges this year include items relating to prior Office of Inspector General (OIG) concerns or those identified in prior audits, the President's Management Agenda, and areas related to the RRB's ability to meet its core mission.

Challenge 1 - Improve Agency Disability Program Integrity

Why is this a serious management challenge? The OIG has remained concerned since uncovering a fraud scheme at the Long Island Rail Road that remained undetected by RRB Management.[1]

The RRB approves and processes disability benefit payments to railroad employees in support of total and permanent and occupational disabilities. Occupational disabilities are awarded if a physical or mental impairment permanently disqualifies the railroad employee from performing his or her regular railroad occupation, even though the employee may be able to perform other types of work.

The OIG identified deficiencies in the occupational disability program and has made numerous recommendations for improvement in program integrity. While the RRB has taken some actions to address the challenge, additional improvements are needed. The approval rate for occupational disabilities remained close to 100 percent at 97.8 percent during fiscal year 2018 and has remained consistent through July 2019. During fiscal year 2018, the RRB paid approximately $697 million to 16,000 occupationally disabled annuitants. The average monthly occupational disability annuity was $3,164.

As a result of prior concerns expressed by the OIG, the RRB developed a disability program improvement plan (DPIP) to track improvements to its disability program. An OIG contracted audit of the DPIP found that the actions taken as a result of the DPIP were not fully effective in establishing a risk based approach to prevent future fraud and abuse in RRB's disability programs. Specifically, the actions taken did not (1) establish a dedicated entity within RRB to lead the fraud risk management process, (2) establish

[1] 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 retirees, doctors, and disability facilitators. This case was prosecuted by the U.S. Attorney's Office for the Southern District of New York.

a fraud risk assessment process tailored to the disability programs that routinely determines and updates the fraud risk profile for the programs, and (3) establish an ongoing fraud risk monitoring process to evaluate the effectiveness of corrective actions and identify new risks. The Office of Programs concurred with the three recommendations to address these weaknesses, but indicated they do not have the authority to take the recommended actions and will forward them to the RRB Board.

The OIG contracted two other audits of the agency's disability program. These audits determined that the RRB did not effectively consider fraud risk indicators in the disability decision process and provided three recommendations. They also determined that RRB medical experts did not always reach a consistent medical assessment based on the medical evidence and provided two recommendations. RRB management did not concur with any of these recommendations.

See Appendix A for a list of relevant reports.

Challenge 2 – Improve Information Technology Security and Complete System Modernization

Why is this a serious management challenge? Improving cybersecurity and modernizing the RRB's systems is vital to support the ability to meet its core mission. Managing cybersecurity risks is critical to improvement of the security posture of the federal networks and critical infrastructure. Executive Order 13800 emphasizes the importance of strengthening the cybersecurity of federal networks. In the fiscal year 2020 RRB Budget Justification, RRB acknowledged that they received $20 million towards information technology modernization in fiscal years 2018 and 2019.

RRB is required by the Federal Information System Modernization Act (FISMA) to report the status of its information security program to the OMB and FISMA metrics to the Department of Homeland Security. An annual independent assessment of the agency's IT program is performed of the cybersecurity of federal networks and critical infrastructure.

In the annual FISMA audit for fiscal year 2018, the OIG's contractor found that RRB did not comply with FISMA legislation and OMB guidance and that sampled security controls selected from National Institute of Science and Technology Special Publication 800-53, Rev.4 demonstrated ineffectiveness, and thus the RRB's Information Security Program did not provide reasonable assurance of adequate security. The overall information security program has weaknesses that impact the cybersecurity framework that include deficiencies in the areas of risk management, configuration management, identity and access management, data protection and privacy, security training, information security continuous monitoring, incident response, and contingency planning. A total of 31 recommendations were made and although these findings are consistent with prior FISMA audit results, RRB management disagreed with the conclusion that the RRB's Information Security Program is not providing adequate assurance of adequate security. RRB has taken action to implement two of these recommendations.

OIG recently completed an audit of selected Federal Information System Controls Audit Manual controls and determined that the selected information system controls were not always adequate. The audit determined that the agency did not update all management control review and assessable unit documentation, the budget allocation prevented necessary reinvestigations, and they did not maintain comprehensive personal identity verification replacement policy and procedures. Of the four recommendations, the agency concurred with two and did not concur with the other two.

In fiscal year 2019, the Chief Information Officer introduced an initiative called "On Track to Tomorrow." The initiative is composed of several information technology projects that will improve efficiency of operations, adhere to governance, and provide increased value to the railroad community. The OIG contracted for two IT audits related to RRB's modernization program in fiscal year 2019. A contracted audit of the mainframe applications re-platform determined that the plan is progressing in accordance with established project goals and the RRB's goals are reasonable and attainable. The audit did not result in any recommendations.

The contracted audit of the legacy systems modernization initiatives determined that the project is progressing effectively for phase one of the four phase project. The contractor determined that the legacy systems migration services project was managed effectively and completed. The re-engineering assessment project is underway. They assessed that the status of project outcomes and anticipated improvements were realized for the applications that were converted. The audit did not result in any recommendations. The assessment of the re-engineering mission essential programs could not be fully assessed for effectiveness because the project was awarded after the audit scope ended.

Refer to Appendix A for a list of relevant reports for this challenge.

Challenge 3 – Improve Management of Railroad Medicare

Why is this a serious management challenge? The Medicare topic is included on the President's Management Agenda.

The Social Security Administration gave RRB legislative authority to administer certain provisions of the Medicare program for railroad employees. These provisions included enrollment, premium collection, payment of benefits, selection of a carrier to process Medicare Part B claims nationwide, and management and oversight of the contract carrier. RRB is also responsible for administering a contract with its Part B carrier, Palmetto, GBA. At the end of fiscal year 2018, approximately 475,000 qualified Railroad Retirement beneficiaries were enrolled in Railroad Medicare (RM), and approximately 455,000 were also enrolled in Medicare Part B. During calendar year 2018, Palmetto processed more than 8.5 million RM claims, and made approximately $867 million in payments for Part B medical services. The Centers for Medicare and Medicaid Services (CMS) reimbursed RRB for $31.4 million in RM program costs during fiscal year 2018: Of that amount, $16.7 million was for the RRB's railroad specialty Medicare administrative contractor (SMAC) and $14.7 million was for RRB expenses incurred for administering the program.[2]

In response to our recent audits, agency management indicated that it will no longer provide the required reporting and oversight responsibilities for the RM program. This response is of concern given the authority and reporting responsibility the RRB has for the Medicare Part B program. We disagree that the RRB is not responsible for oversight and reporting responsibilities for this program, and therefore stand by the recommendations made in our recent audit reports.

Our audits have identified improper payments that could have been prevented, improvements needed for improper payment reporting, and the need for improved controls and support to validate the accuracy of reimbursements the RRB receives to administer the RM program.

While benefits received under RM are solely for retired railroad workers, the quality of healthcare, monthly premium cost, and customer service are not distinct from traditional Medicare. If RRB management denies ownership of its RM program responsibilities and does not accept responsibility for minimizing improper payments, there is no practical reason for its existence.

- **Oversight to Prevent Improper Payments**

OIG has determined that Palmetto's controls were not fully adequate to detect and prevent the payment of improper evaluation and management (E/M) services and to ensure that the services were in accordance with Medicare's coverage and medical necessity requirements. E/M services represent different types of physician/patient encounters, such as office visits or hospital visits. Within each type of encounter, there are different levels of care. Medicare only allows payment where the E/M service is medically necessary. Palmetto's medical review coverage of E/M services was minimal and only represented approximately one percent of E/M services. We identified additional edits that were agreed to by Palmetto and which would help to detect and prevent improper payments. We identified estimated improper payments ranging from $0.9 million to $3.5 million for E/M services. In our most recent audit report of RRB Medicare, RRB management did not concur with 32 of our 34 recommendations for improvement. Management stated that it is not responsible for the RM program and only reviews Palmetto's contract performance and it believes the E/M improper payments can only be recovered under special limited circumstances. Because our findings addressed Palmetto's Statement of Work functional requirements under the RRB's contract authority, we continue to see the need for these corrective actions.

[2] Palmetto GBA is the Railroad Specialty Medicare Administrative Contractor (RRB SMAC) and processes Part B claims for Railroad Retirement beneficiaries nationwide. As the SMAC, Palmetto has administrative responsibility for processing Railroad Retirement beneficiary claims only.

- **Reporting Improper Payments**

OIG has determined that improvements were needed regarding RRB's reporting for RM improper payments. We disagreed with management's response that they will no longer report RM improper payments because such reporting is redundant to Medicare improper payment reporting completed by the United States Department of Health and Human Services (HHS). Although the RRB received RRB Board approval to cease the reporting of improper RM payment data, such approval is not sufficient because IPERA does not provide authority to the RRB's Board to grant relief from reporting. Under IPERA, OMB approval is needed to provide RRB with any reporting relief. The RRB identified RM as being susceptible for improper payments, thus subjecting the program to improper payment reporting requirements. Once an agency starts reporting, they must report for a minimum of two consecutive years before requesting that OMB grant them relief from annual reporting.

- **RRB Cost Allocation Plan**

CMS reimburses the RRB for Medicare related work performed. We previously determined that reimbursements the RRB received for Medicare related work was unsupported and therefore the reimbursements could be inaccurate. We audited the RRB's cost allocation plan which is the basis for reimbursement and found that RRB controls were not adequate to ensure that the RRB's cost allocation plan and reimbursement calculations were accurate and supported. We made 26 recommendations for corrective action and RRB management concurred with 10. The RRB has only implemented four of these audit recommendations.

See Appendix A for a list of relevant reports.

Challenge 4 - Improve Payment Accuracy and Transparency

Why is this a serious management challenge? The topics of data, accountability and transparency are included on the President's Management Agenda. Recent audits identified the need for improved payment accuracy and transparency.

One of the key drivers in the President's Management Agenda is an initiative to improve delivery of better results to the public and improving accountability to taxpayers. A specific strategy to accomplish this initiative is to improve the data available for decision-making and accountability. Fostering accountability and transparency is one way to improve data for both internal and external uses. Recent audits have identified instances where inaccurate reporting indicates the need to improve transparency at RRB.

- **Payment Accuracy to Recover Improper Payments**

As previously discussed in Challenge 3, we identified that RRB SMAC controls were considered ineffective. We also identified improper payments for 50 percent of the high risk E/M tests that we performed. Because RRB management stated that the improper payments cited in our audit report can only be recovered under special limited circumstances, it is apparent that they do not plan to recover the improper payments ranging from $0.9 million to $3.5 million cited in our audit report. We found that recovery of the cited improper payments is not restricted to special limited circumstances. Therefore, we cite the need to improve payment accuracy for the RM program through recovery of improper payments.

- **Transparency**

RRB must improve transparency by publishing accurate data. We cite instances in a Digital Accountability and Transparency Act (DATA Act) audit, improper payments audit, and an Acquisition Management audit.

Our previous audit under the DATA Act found that the files submitted for the first quarter of fiscal year 2017 were incomplete, inaccurate, and did not agree to RRB's source systems. The purpose of the submissions for the DATA Act reporting is to provide full disclosure of federal funds on a public website. RRB management has submitted closure requests for all seven recommendations that are being verified in the current Data Act audit.

Our most recent improper payments audit addressed transparency concerns for future reporting for the RM program. As discussed in Challenge 3, RRB management stated that it does not plan to report RM anymore because it is redundant to reporting completed by HHS. We responded that because the RRB's improper payment rate for RM exceeded the allowable threshold as provided by law, improper payment reporting for this program should not be combined with the larger HHS reporting. To combine RM with HHS reporting would decrease transparency and conceal the true state of improper payment errors within the RM program. According to OMB guidance, agencies should not put programs or activities into groupings that may mask significant improper payment rates by the large size or scope of a grouping. The intent of the guidance is to provide transparency of improper payment rates for the programs an agency is responsible for overseeing and administering. While maintaining the same principle of the guidance, a significant improper payment error rate of a small program should not be combined with a large program to allow the noncompliant smaller program to become compliant. We determined that because RM is administered by the RRB, and has a separate contractor, its improper payment reporting should also remain separate. RRB must improve transparency and accountability by reporting the RM program amounts.

In a recent audit of the acquisition management function at RRB, the OIG contractor found several instances of inaccurate reporting to the Federal Procurement Data System (FPDS). In a statistical sample, the OIG contractor identified several instances where the contract number reported on FPDS was incorrect and instances where amounts were reported under incorrect contract numbers. Inaccurate information reported to FPDS decreases transparency. RRB management agreed to take corrective action to ensure future information reported to FPDS will be accurate.

See Appendix A for a list of relevant reports.

Challenge 5 – Financial Management and Reporting Issues

Why is this a serious management challenge? Financial management and reporting is being presented as a new challenge this year as a result of recognizing the need for improvements in the areas as identified in the annual mandated financial statement audit and performance audits of 1) unapplied cash, 2) waivers and the write-off process, and 3) cash statements.

OIG has rendered a disclaimer audit opinion on the RRB's financial statements since fiscal year 2013 because OIG auditors have not been permitted to communicate with the RRB's component auditor as required by financial statement audit guidance. The audit firm employed by the National Railroad Retirement Investment Trust (NRRIT) is the RRB's component auditor. The NRRIT held approximately $26.6 billion of the RRB's $33.5 billion assets as reported in the RRB's fiscal year 2018 financial statements. The auditor's opinion also included two material weaknesses: financial reporting and deficient internal controls at the agency-wide level.

The material weakness for financial reporting has been reported since fiscal year 2014. During our fiscal year 2018 audit, we continued to find the need for internal control improvements and found that monetarily significant approvals were being made without adequate review of supporting documentation. The material weakness for deficient internal controls at the agency-wide level was reported for the first time. OMB guidance 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. This material weakness was reported because the five required components of internal control were not designed, implemented, and operating effectively. The five required components of internal control consist of: control environment, risk assessment, control activities, information and communication, and monitoring. Corrective actions related to the material weaknesses remain unimplemented.

The unapplied cash and waiver/write-off audits identified improvements needed to ensure 1) the accuracy and integrity of agency records, 2) protection of RRB trust funds, 3) internal controls, and 4) internal control supporting documentation. In these audits, we found that documented controls were outdated and incomplete and that other controls were not performing or were inadequate.

Unapplied cash consists of cash remittances that cannot be applied with the typical reasons being: the related debt has not been established or the remittance does not match an existing debt balance. The RRB has to examine its records to determine what debt to record the remittance against or to issue a refund for the remittance. In 2016, the records of unapplied cash were migrated from an older system to a new system. We determined that after the migration, improvements were still needed. Agency management concurred with only 5 of our 14 recommendations. All of the recommendations remain unimplemented.

A waiver may be requested by a beneficiary who has been determined to have received an erroneous overpayment. A waiver may be granted if the RRB determines that (1) the overpaid person is without fault and (2) recovery would be contrary to the purpose of the Railroad Retirement Act or the Railroad Unemployment Insurance Act, or would be against equity or good conscience. A write-off is the suspension or termination of collection action and a waiver of recovery is the RRB waiving its right to collect. Agency management concurred with three of our recommendations and partially concurred with one. These four recommendations remain unimplemented.

Our contracted audit determined that several control weaknesses in the preparation of the Statement of Changes in Cash and Investment Balances (SCCIB) could affect the reliability of the statements. These statements are used by the various bureaus within the RRB including Bureaus of Actuary and Legislative Affairs. The audit also determined that the universe of general ledger transactions supporting SCCIB funds do not reconcile with the respective subsidiary ledgers and related trial balance. The audit concluded that these internal control matters coupled with the exceptions noted in the transactions significantly affects the reliability of amounts reported in the SCCIB. RRB management did not concur with any of the 17 recommendations made to address the issues noted and indicated they will stop preparing these statements because it is not cost effective.

Refer to Appendix A for a list of relevant reports for this challenge.

Challenge 6 – Compliance Concerns Identified

Why is this a serious management challenge? Our audits have shown that the RRB has been noncompliant with various guidance. This can have a far reaching impact on the protection of federal trust funds, assets, government wide improper payments, and the effectiveness of agency operations.

Recent audits, found that the RRB was not in compliance in the following areas:

- **Improper Payment Reporting**

The RRB was noncompliant with IPERA because the improper payment rate of 10.53 percent for the RM exceeded the 10 percent threshold defined in the law. Although RRB management asserted they will no longer report RM improper payments, OIG disagreed and stated that the RRB should continue to report RM improper payments. The RRB is required to fulfill its responsibility for having appropriate procedures to ensure beneficiaries cannot erroneously or fraudulently receive RM Part B benefits or pay premiums for such benefits. Additionally, the RRB's SMAC determines if RM payments to providers should be made on behalf of the RRB's beneficiaries. RM payment errors were caused by incorrect coding, insufficient documentation, and medical necessity as reported by the RRB in its Fiscal Year 2018 Performance and Accountability Report. The RRB is responsible for oversight of its SMAC, including determining if the SMAC had fulfilled its contractual obligations and if they should be paid for work performed.

If the RRB follows through with its intentions of not reporting next year, it will be masking the fact that its SMAC performance in reducing improper payments has deteriorated further because we have documentation to show that next year's RM improper payment rate will be 12.5 percent.

- **Enterprise Risk Management**

The RRB's enterprise risk management (ERM) process was not fully effective because RRB had not complied with all of the internal control requirements specified in OMB guidance and did not implement the ERM process agency-wide. ERM is a discipline that deals with identifying, assessing, and managing risks. It provides an enterprise wide, strategically aligned portfolio view that provides better insight about how to most effectively prioritize resource allocations to ensure successful mission delivery. Revised OMB guidance emphasizes the importance of coordinating ERM activities with the strategic planning and review process, and internal controls required by the Federal Managers' Financial Integrity Act and Government Accountability Office's *Standards for Internal Control in the Federal Government*. We made ten recommendations, of which seven remain unimplemented.

- **Federal Travel Regulations**

A 2017 OIG audit found that the RRB did not always comply with the federal travel regulations (FTR) because internal controls were not always enforced or adequate. This audit report included 19 recommendations citing noncompliance with FTR and RRB policies and procedures. Although RRB management concurred with 13 of the recommendations and corrective actions are pending they have not been completed.

- **Acquisition Management**

RRB did not always adhere to Federal Acquisition Regulations (FAR) guidance. Per FAR guidance, closeout procedures include ensuring that excess funds are de-obligated. Our contracted audit identified six RRB acquisitions where obligated funds remained in the agency's financial reporting system beyond the closeout date. FAR guidance also provides for ensuring that timely and accurate reporting of contractual actions in the FPDS. The contracted audit also identified 12 instances where the contract number was incorrectly reported.

Refer to Appendix A for a list of relevant reports for this challenge.

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 adhere to applicable authoritative guidance.

Original Signed By:

Martin J. Dickman
Inspector General

October 10, 2019

APPENDIX A-AUDIT REPORTS

Please visit https://www.rrb.gov/OurAgency/InspectorGeneral/Library for our audit reports.

Improve Agency Disability Program Integrity

- RRB OIG Report No. 19-15, *The Implementation of the Disability Program Improvement Plan at the Railroad Retirement Board Did Not Result in a Fully Established Fraud Risk Assessment Process,* September 27, 2019
- RRB OIG Report No. 19-16, *The Railroad Retirement Board Disability Programs Do Not Effectively Consider Fraud Risk Indicators in the Disability Process,* September 27, 2019
- RRB OIG Report No. 19-17, *The Use of Medical Experts During Disability Determinations at the Railroad Retirement Board Can Be Improved,* September 27, 2019

Improve Information Technology Security and Complete System Modernization

- RRB OIG Report No. 19-03, *Performance Audit of RRB's Compliance with the Federal Information Security Modernization Act of 2014 Fiscal Year 2018,* December 19, 2018
- RRB OIG Report No. 19-07, *Selected General Information System Controls at the Railroad Retirement Board Were Not Always Adequate,* May 14, 2019
- RRB OIG Report No. 19-11, *Mainframe Applications Re-Platform Initiative at the Railroad Retirement Board is Progressing in Accordance with Established Project Goals,* September 26, 2019
- RRB OIG Report No. 19-12, *The Legacy Systems Modernization Initiatives at the Railroad Retirement Board are Progressing Effectively,* September 26, 2019

Improve Management of Railroad Medicare

- RRB OIG Report No. 16-10, *Railroad Retirement Board Did Not Calculate Reimbursed Medicare Costs in Accordance with Federal Requirements,* August 22, 2016
- RRB OIG Report No. 19-09, *Audit of Railroad Retirement Board's Compliance with Improper Payments Elimination and Recovery Act in Fiscal Year 2018 Performance and Accountability Report,* May 30, 2019
- RRB OIG Report No. 19-10, *Railroad Medicare Controls Over Evaluation and Management Services Were Not Fully Adequate,* August 5, 2019

Improve Payment Accuracy and Transparency

- RRB OIG Report No. 18-01, *Railroad Retirement Board's Initial DATA Act Submission, While Timely, Was Not Complete or Accurate,* November 8, 2017
- RRB OIG Report No. 19-09, *Audit of Railroad Retirement Board's Compliance with Improper Payments Elimination and Recovery Act in Fiscal Year 2018 Performance and Accountability Report,* May 30, 2019
- RRB OIG Report No. 19-10, *Railroad Medicare Controls Over Evaluation and Management Services Were Not Fully Adequate,* August 5, 2019

- RRB OIG Report No. 19-14, *The Acquisition Management Function at the Railroad Retirement Board Was Not Fully Adequate or Effective,* September 27, 2019

Financial Management and Reporting Issues

- RRB OIG Report No. 19-01, *Report on the Railroad Retirement Board's Financial Statements Fiscal Year 2018,* November 15, 2018
- RRB OIG Report No. 19-05, *Railroad Retirement Board Write-off and Waiver Processes were not Fully Efficient, Effective, or Adequate,* Revised April 23, 2019
- RRB OIG Report No. 19-08, *Improvements Needed for the Unapplied Cash Process at the Railroad Retirement Board,* May 16, 2019
- RRB OIG Report No. 19-13, *Internal Control Weaknesses Noted in the Preparation of the Railroad Retirement Board's Statement of Changes in Cash and Investment Balances Could Affect Reliability of the Statements,* September 27, 2019

Compliance Concerns Identified

- RRB OIG Report No. 17-04, *Railroad Retirement Board Did Not Always Comply with the Federal Travel Regulation,* April 11, 2017
- RRB OIG Report No. 18-07, *Enterprise Risk Management Process at The Railroad Retirement Board Was Not Fully Effective,* July 9, 2018
- RRB OIG Report No. 19-09, *Audit of Railroad Retirement Board's Compliance with Improper Payments Elimination and Recovery Act in Fiscal Year 2018 Performance and Accountability Report,* May 30, 2019
- RRB OIG Report No. 19-14, *The Acquisition Management Function at the Railroad Retirement Board Was Not Fully Adequate or Effective,* September 27, 2019

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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 – Improve Agency Disability Program Integrity

The RRB recognizes the importance of identifying and mitigating fraud risk throughout the programs it administers. In this regard, the Board has established the Fraud Risk Assessment Committee (Committee). The members of the Committee include: (1) the Director of Programs; (2) the Chief Risk Officer; (3) the General Counsel; (4) the Chief Actuary; (5) the Director of Field Services; and (6) the Chief Information Officer. The purpose of the Committee is to assess, and offer solutions to mitigate fraud risk in the administration of all of the Agency's programs, including the disability program.

The Committee, will undertake a number of initiatives, including, but not limited to, (1) conducting a review and assessment of any change or proposed change in the policies or procedures through which the RRB administers its programs that either the Committee or the Board deems necessary; (2) reviewing the data and other tools currently available to the RRB and determining the best ways in which to use those tools to assess and mitigate any fraud risk; (3) suggesting any new tools which the RRB may develop or acquire to improve its understanding or awareness of fraud risk to the RRB's programs or better address the mitigation of such risk; (4) reviewing the RRB's current internal processes and controls and their effectiveness as well as determining any modifications or updates which could be made to improve program integrity and/or mitigate risk; and (5) considering any other initiatives that the Committee determines appropriate or which it is directed to undertake by the Board.

Challenge 2 – Improve Information Technology Security and System Modernization

The RRB acknowledges the OIG's concern with its ability to establish and maintain a secure and reliable information technology environment for its data, applications, and systems. We understand and take very seriously the mandate of the *Federal Information Security Management Act of 2002* (FISMA), as amended by the *Federal Information Security Modernization Act of 2014,* to ensure adequate security protections for Federal information systems and information. As the RRB continues the development and implementation of its IT modernization initiatives, we anticipate the cybersecurity posture of the Agency will improve and sustain at acceptable levels.

Preliminary audit results for the FY 2019 FISMA audit indicate that Kearney & Company will assess our overall maturity at Level 2 – *Defined* and will recognize significant improvements in the Configuration Management, Identity and Access Management, Security Training, and Incident Response domains that matured from Level 1 – *Ad-Hoc* to Level 2 – *Defined.* The preliminary FY 2019 audit results demonstrate progress in improving our information security program and practices across the Agency as required by FISMA, OMB policy and guidelines, and National Institute of Science and Technology standards and guidelines. The RRB will continue to make incremental steps to reach the overall maturity goal of Level 4 – *Managed and Measurable*.

<u>Challenge 3 – Improve Management of Railroad Medicare</u>

The RRB has never denied responsibility for those portions of the Railroad Medicare program over which it has authority. The RRB acknowledges its responsibilities under the Social Security Act to administer certain provisions of the Medicare program for the railroad, which includes the administration of the Specialty Medicare Administrative Contractor (SMAC) contract, with Palmetto GBA, LLC. In contrast to the OIG's statement, the RRB does not have authority to pay Medicare beneficiaries or providers directly. Notwithstanding the Agency's specified Medicare responsibilities for railroad annuitants, the Centers for Medicare & Medicaid Services (CMS), a component of the Department of Health and Human Services (HHS), administers the Medicare program as a whole.

The Memorandum of Understanding between the HHS, CMS, and the RRB (MOU13-61)[1] defines the scope of the relationship for both CMS and RRB regarding roles and responsibilities under the SMAC contract to provide specified health insurance benefit administration. MOU13-61 addresses the responsibilities of CMS and RRB relating to Medicare Part B claims processing and payment services, in support of the Medicare fee-for-service (FFS) program for a nationwide jurisdiction. MOU13-61 states the RRB and CMS shall work in partnership and cooperate with each other throughout the duration of the RRB SMAC contract. Further, MOU13-61 dictates that while the RRB will assess the SMAC performance, CMS provides overall program guidance. The RRB confirmed with CMS that CMS is responsible for the Medicare program as a whole, including CMS' responsibility to report on Medicare improper payments in the HHS annual Agency Financial Report (AFR).

1. <u>Evaluation and Management (E/M) Services Audit</u>: The RRB takes seriously its Medicare responsibilities and SMAC contract administration duties in accordance with CMS Medicare program guidance. It should be noted that prior to the end of audit fieldwork, the SMAC implemented certain detective or preventive edits that the OIG identified during the course of the audit. Further, the SMAC received the OIG's estimated improper payment information for E/M services in August 2019. CMS prescribes Medicare program guidance for re-evaluating claim determinations as they relate to all Medicare Administrative Contractors to include the RRB SMAC. In accordance with CMS guidance and the terms and conditions of the contract, the SMAC is currently reviewing the OIG's improper payment audit results. The RRB is committed to continued dialogue, partnership, and cooperation with CMS to ensure that the SMAC meets the terms and conditions under the contract.

2. <u>Improper Payments Audit:</u> The RRB disagrees with the OIG's representation that the RRB is not correctly reporting improper payments. The OIG's assertion relates in part to CMS' Comprehensive Error Rate Testing (CERT) program. Pursuant to an OIG recommendation, the RRB reported its SMAC CERT results in its fiscal year (FY) 2018 Performance and Accountability Report (P&AR). However, since CMS also reported these results in HHS' FY 2018 Agency Financial Report ("AFR"), CMS reached out to RRB for further information. Through dialogue with CMS, RRB learned that its reporting of its SMAC FY 2018 CERT results was duplicative and resulted in an overstatement of the Medicare improper payment reporting by the Federal Government as a whole. CMS reports a combined overall error rate, which includes all MACs and the RRB SMAC. As such, CMS and RRB agreed that RRB would no longer separately report CERT information. RRB shared this decision with OMB. This is in no way an attempt to mask

[1] *Memorandum of Understanding, MOU13-61,* entered into by the Department of Health and Human Services, Centers for Medicare & Medicaid Services and the Railroad Retirement Board, April 12, 2013 (on file at RRB).

any significant improper payment rates, but rather to ensure correct improper payment reporting consistent with CMS' administration of its Medicare program.

3. Cost Allocation Plan: Five of the six recommendations discussed herein related to an audit from 2016. Since then, through ongoing dialogue with the CMS, the Agency has clarified its calculation methodology and streamlined the CAP report format to the acceptance of CMS. Additionally, during fiscal year 2019 the Agency submitted closure requests for all six recommendations as all corrective actions have been completed. Management does not believe that further corrective action is necessary for these recommendations; as such, we disagree that this matter contributes to a serious management concern or challenge.

Challenge 4 – Improve Payment Accuracy and Transparency

The RRB fully supports the Data, Accountability, and Transparency Cross-Agency Priority (CAP) goal as outlined in the President's Management Agenda. The RRB takes very seriously its responsibility for payment accuracy and transparency to ensure delivery of high quality data for internal and external customers. We disagree that the elements discussed, individually or collectively, rise to the level of a serious management concern or challenge.

1. Payment Accuracy for Railroad Medicare: CMS prescribes Medicare guidance to the MACs and the RRB SMAC, which includes improper payments. Though the OIG asserts that the SMAC made improper payments and failed to take action to collect payments that the OIG deemed improper, the OIG did not provide the data file to the SMAC to verify these payments for the period covering 2013 to 2016 until August 2019. The SMAC is currently reviewing the file it received from the OIG. The SMAC will take appropriate action in accordance with CMS guidance.

2. Transparency: The OIG states that OMB guidance instructs that agencies should not put programs or activities into groupings that may mask significant improper payment rates by the large size or scope of a grouping. Medicare is the responsibility of CMS as a whole. Although Section 1842(g) of the Social Security Act provides the RRB with the authority to contract with a carrier to perform Medicare Part B functions, CMS and RRB agree that Medicare FFS is one program for improper payment purposes.

   For purposes of calculating and reporting improper payments, OMB Circular A-123, Appendix C, Part I(A)(4) authorizes each Federal agency to determine the definition of a "program" that most clearly identifies and reports improper payments. Circular A-123, Appendix C further instructs that agencies should not report subcomponents of a large program in an effort to reduce the size and fall below the statutory thresholds, and advises that agencies may consider using the groupings of programs listed in the Catalog of Federal Domestic Assistance (CFDA) when defining a program. The October 2018 CFDA lists all Medicare Part B programs as one program under CMS, and does not list any Medicare programs under the Railroad Retirement Board. CMS reported the combined improper payment results in the HHS' AFR.

3. DATA Act: We continue to make great strides in ensuring that the Agency's DATA Act submissions are complete, accurate and agree to applicable source systems. The OIG's fiscal year 2019 audit results demonstrate that the RRB has achieved the "higher" quality level validated by an extremely low error rate of 0.43%; as such, we disagree that this matter contributes to a serious management concern or challenge.

4. Acquisition Management: We continue to report high quality information into the Federal Procurement Data System (FPDS). The OIG's fiscal year 2019 audit report cited 12 erroneous FPDS entries out of the total population entries spanning from fiscal year 2013 through 2018 or 3,264 entries. The OIG's audit results indicate that the RRB has an extremely low error rate of 0.37%. As such, we disagree that this matter contributes to a serious management concern or challenge.

Challenge 5 – Financial Management and Reporting Issues

The OIG has identified a new management challenge, which asserts the need for improvements related to two material weaknesses identified in the financial statement audit as well as results of performance audits covering the topics of 1) unapplied cash, 2) waivers and write-off processes, and 3) cash statements. We continue to design and implement cost effective internal controls striving toward optimal operational efficiency. Though more improvements will come, we disagree with the OIG's characterization and consolidation of these matters into a serious management challenge. Specific comments are included below:

1. Disclaimer Audit Opinion: The Agency will continue to cooperate with the OIG and provide all NRRIT related information within its possession which the OIG requests. The Agency does not have the authority to compel the NRRIT auditors to provide their work papers to, or speak with the OIG. Additionally, the NRRIT and the United States Government Accountability Office (GAO) entered into an MOU giving GAO access to information and including NRRIT's financial information in the government-wide financial statements.[2] Therefore, the RRB disagrees with the OIG's inclusion of this matter as both a basis for a disclaimer of opinion and as a component of the financial reporting material weakness.

2. Material weaknesses:

    a. *Financial reporting*: The OIG bases this discussion of the financial reporting material weakness upon fiscal year 2018 audit results. In fiscal year 2019, we expanded our quality assurance sampling plan for journal and standard vouchers. The quality assurance review covered 100% of journal vouchers and one-third of standard vouchers processed during the 3rd quarter, April 2019 through June 2019, where voucher amounts ranged from $5 million to $5 billion. Of the 32 vouchers reviewed, the review did not disclose any procedural or substantive errors. The error rate for the 3rd quarter of fiscal year 2019 was 0%, whereas the error rate for the same time period in fiscal year 2018 was 10.7%. We will continue to review and strengthen our voucher processing internal controls as necessary; however, we disagree that this matter rises to the level of material weakness or serious management concern.

    b. *Deficient internal controls at the agency-wide level:* We acknowledge the OIG's concern and continue to make strides implementing Enterprise Risk Management (ERM) at the RRB by leveraging the Management Control Review (MCR) infrastructure already in place. In fiscal year 2019, we incorporated critical changes to the MCR guide to reflect core ERM principles, conducted training for responsible officials and Agency leadership, as well as updated the

[2] 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 (on file at RRB).

Agency's risk profile. We are committed to strong internal controls and will move forward with the next phase of ERM implementation.

3. Unapplied cash: We concurred with the audit recommendations to update internal control documentation and perform the necessary test of controls. During fiscal year 2019, we submitted to the OIG corrective actions and closure requests for three of the five recommendations for which the Agency concurred. We will continue to implement corrective actions to close the remaining recommendations. It should be noted that the OIG stated in the audit report that unapplied cash is not material to the Agency's financial statements; as such, we disagree that this matter rises to the level of a serious management concern.

4. Waivers and write-off processes: We concurred with three of the four recommendations and partially concurred with one. We will continue to implement corrective actions to meet the intent of the recommendations, which focused on updating the policies, procedures, and internal control documentation as well as conducting training, as appropriate. The audit results did not take exception to the actual waivers or write-offs sampled during their audit fieldwork. As such, we disagree that this matter rises to the level of a serious management concern.

5. Cash statements: The Statement of Changes in Cash and Investment Balances (SCCIB) were produced and distributed internally to RRB for awareness purposes and were not required by any authoritative source. Therefore, in the interest of effective and efficient operations as well as economical utilization of government resources, we have discontinued the publication and distribution of the SCCIB. As such, we disagree that this matter rises to the level of a serious management concern.

Challenge 6 – Compliance Concerns Identified

The OIG has identified a management challenge that asserts that the RRB has been noncompliant with various guidance, which could influence the protection of federal trust funds, assets, government wide improper payments, and effectiveness of Agency operations. We are committed to serving as responsible stewards for our customer's trust funds and agency resources. We disagree with the OIG's characterization and consolidation of the following topics into a serious management challenge.

1. Improper Payment Reporting: As discussed above, CMS is responsible for the Medicare program as a whole. Although Section 1842(g) of the Social Security Act provides the RRB with the authority to contract with a carrier to perform Medicare Part B functions, CMS and RRB agree that Medicare FFS is one program for improper payment purposes. As such, CMS and RRB agreed that RRB would no longer separately report CERT information inasmuch as the RRB SMAC is included in the full CERT report issued by HHS. RRB shared this decision with OMB. This is in no way an attempt to mask any significant improper payment rates, but rather to ensure correct improper payment reporting consistent with CMS' administration of its Medicare program. The RRB will continue to work in partnership with CMS and carry out our responsibility for proper administration of the SMAC contract with Palmetto.

2. Enterprise Risk Management: See Challenge 5, Material Weaknesses discussion at 2.b, *Deficient internal controls at the agency-wide level.*

3. Federal Travel Regulations: We concurred with 12 of the 19 recommendations and partially concurred with one. The Agency has adopted a new circular, which it believes covers the items raised by the OIG. As such, we disagree that this matter rises to the level of a serious management concern.

4. Acquisition Management: The referenced audit results have indicated that, while revisions to policies and procedures concerning de-obligation of funds may be necessary, large stale obligations do not exist after contract/order closeout. The auditors reviewed all contracts closed out spanning fiscal year 2013 through 2018 and identified $66,857.18 that needed to be de-obligated. Upon notification, the RRB immediately de-obligated these funds prior to the conclusion of audit fieldwork and is in the process of updating its policies and procedures related to this process. It should be noted that while stale obligations should be de-obligated timely the OIG's finding of $66,857.18 does not materially impact the solvency of the Railroad Retirement Trust Fund System which as of September 30, 2019 totaled $27.5 billion. As such, we disagree that this matter rises to the level of a serious management concern. See also Challenge 4, Acquisition Management for details concerning FPDS reporting accuracy.

Payment Integrity

Introduction

The Improper Payments Information Act of 2002 (IPIA) (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 the IPIA.

The enactment of the IPERIA 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, and Part II.A.3. The OMB granted us reporting relief for these two programs in July 2018.

In fiscal year 2018, the RRB reported the results of the Centers for Medicare & Medicaid Services (CMS) Comprehensive Error Rate Testing (CERT) program as it pertained to the RRB's Specialty Medicare Administrative Contractor (RRB SMAC). The CERT program is administered by CMS and includes testing for all Medicare Administrative Contractors, including the RRB SMAC. Fiscal year 2018 was the first year that the SMAC was included in the testing program. As a result, the RRB reported the findings in the 2018 P&AR. It was subsequently learned that these same testing results were captured by the Department of Health and Human Services in their 2018 Agency Financial Report, resulting in duplicative reporting. After consultation with the RRB Office of General Counsel (OGC) and Centers for Medicare and Medicaid Services (CMS), it was decided that the RRB would no longer report the results of this testing in the P&AR. This decision was shared with OMB with no objections. As such, the RRB will cease reporting Railroad Medicare improper payment data beginning with the fiscal year 2019 Payment Integrity Report.

Additional information on RRB improper payments reporting can be found at www.paymentaccuracy.gov.

I. Payment Reporting

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

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. The agency is diligent in its recovery efforts for overpayments.

The RRB collected $57,784,635 under the RRA's program with an overpayment balance of $55,247,733 at the end of fiscal year 2018. For the period of fiscal years 2009 through 2018, the RRB recovered $500,956,757 in RRA overpayments.

The RRB collected $25,493,055 under the RUIA program with an overpayment balance of $8,918,223 at the end of fiscal year 2018. For the period of fiscal years 2009 through 2018, the RRB recovered $264,679,150 in RUIA overpayments.

During fiscal year 2018 the RRB waived $813,502.66 ($803,918.63 RRA and $9,584.03 RUIA) of benefit overpayments based on criteria established in the Code of Federal Regulations. The amounts determined to be uncollectable in fiscal year 2018 were $341,516.67 ($305,786.94 RRA and $35,729.73 RUIA). The RRB utilizes the criteria contained in Part 31 of the Code of Federal Regulations (CFR), Chapter IX - *Federal Claims Collection Standards* which prescribes standards for Federal agency use in the administrative collection, offset, compromise, and suspension or termination of collection activity for civil claims. The RRB will determine some overpayments to be uncollectible based upon the results of comprehensive collection efforts (to include administrative collection, offset, and transfer to the Department of the Treasury's cross-servicing program or Department of Justice). When comprehensive collection activities have failed, an uncollectable determination can be made and the debt will be closed as uncollectable.

In addition to the RRB's benefit payment programs the RRB's vendor and employee payment programs expend more than $1 million annually. Therefore, we are describing actions we have taken to detect and quantify potential improper payments in those programs. Quantifying potential improper payments will enable the RRB to determine if a payment recapture audit program is cost-effective. The following paragraphs describe on-going quality assurance (QA) reviews that are used to identify improper payments.

The Bureau of Fiscal Operations Financial Compliance Section (FCS) conducts numerous QA reviews focused on detecting improper payments in the vendor payments program. Specifically, the FCS conducts QA reviews of 1) payment vouchers, 2) potential duplicate invoice payments, 3) vendors subject to the Prompt Payment Act, 4) compliance with the Prompt Payment Act, and 5) open obligations review for current and prior fiscal years, among others. The payment voucher review is intended to determine if payments issued through the RRB's financial management system are supported by billing documents. The potential duplicate invoice review determines if duplicate payments were issued. The FCS' QA reviews constitute a robust monitoring program for improper vendor payments. The most recent vendor payment QA reviews conducted during quarter two of fiscal year 2019 concluded that there were no improper vendor payments.

Further, the FCS initiated an employee payment QA review to identify potential improper employee payments and to quantify the impact of those payments. The most recent employee payment QA review conducted in June/July 2019 concluded that there were no improper employee payments.

These QA review results confirm risk assessment estimates that indicate non-benefit paying programs are not susceptible to significant improper payments. The FCS will continue monitoring efforts for vendor and employee payments to detect improper payments. The QA results demonstrate that an improper payment recapture program for vendor and employee payments is not necessary, or cost effective, at this time.

The RRB's collection program is in full compliance with the Debt Collection Improvement Act of 1996 and the Digital Transparency Act of 2014. 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.

Overpayments Recaptured Outside of Payment Recapture Audits
($ in millions)

Agency Source	Program	Amount Identified FY 18	Amount Recaptured FY 18	Amount Identified FY 17	Amount Recaptured FY 17	Cumulative Amount Identified FY 09 - FY 18	Cumulative Amount Recaptured FY 09 – FY 18
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	$50.35*	$72.00**	$45.09*	$70.22**	$488.00	$501.00
	RUIA	$24.55*	$25.49**	$26.00*	$25.95**	$277.60	$264.68

* 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 2018.

IV. Barriers.

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

V. Accountability.

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

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.

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.

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.

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. The risk assessments for non-benefit paying programs 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	1				1
Total Material Weaknesses	**2**				**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	1					1
Total Material Weaknesses	**2**					**2**
Conformance with Financial Management System Requirements (FMFIA §4)						
Statement of Assurance	Systems conform					

[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.

Civil Monetary Penalty Adjustment for Inflation

The RRB published its 2019 civil monetary penalty inflation adjustment on February 1, 2019 (84 Fed. Reg. 1251). The maximum civil penalty under the Program Fraud Civil Remedies Act was increased to $11,463, and the penalty range under the False Claims Act was increased to a minimum penalty of $11,463 and a maximum penalty of $22,927.

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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

<u>S</u>

SFFAS	Statement of Federal Financial Accounting Standards
SI	Sickness Insurance
SMAC	Specialty Medicare Administrative Contractor
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

<u>T</u>

Treasury	Department of the Treasury

<u>U</u>

UI	Unemployment Insurance
USC	United States Code

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

Board Members

Chairman	Erhard R. Chorlé
Labor Member	John Bragg
Management Member	Thomas Jayne

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 R. Weekley
Chief Information Officer	Terryne F. Murphy
Director of Administration	Keith B. Earley
Director of Programs	Crystal Coleman
General Counsel	Ana M. Kocur

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