RAILROAD RETIREMENT BOARD

PERFORMANCE AND ACCOUNTABILITY REPORT

FISCAL YEAR 2020

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Railroad Retirement Board
Performance and Accountability Report
Fiscal Year 2020

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RRB's fiscal year 2020 Performance and Accountability Report is available online at: www.RRB.gov

MESSAGE FROM THE BOARD MEMBERS

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Message from the Board Members

This fiscal year 2020 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, 2019 through September 30, 2020, were reduced by 5.9 percent. The reduction was required by the sequestration order issued by the President in accordance with the BCA. For fiscal year 2021, a sequestration reduction of 5.7 percent was applied starting October 1, 2020.

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 16, 2020

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MANAGEMENT'S DISCUSSION AND ANALYSIS

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 2020, the RRB trust funds realized a net of $4.8 billion, representing 44 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, one Worker, Homeownership, and Business Assistance Act of 2009 funds, and five Coronavirus Aid, Relief, and Economic Security Act of 2020 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 BOARD**
  - Chairman, Erhard R. Chorlé
  - Labor Member, John Bragg
  - Management Member, Tom Jayne
  - **OFFICE OF EQUAL OPPORTUNITY** — Pamela M. Tate
  - **OFFICE OF INSPECTOR GENERAL** — Martin J. Dickman
  - **CHIEF ACTUARY *** / **BUREAU OF THE ACTUARY AND RESEARCH** — VACANT

EXECUTIVE COMMITTEE

- **MEMBER** — Shawna R. Weekley
- **MEMBER** — Ana M. Kocur
- **MEMBER** — Keith B. Earley
- **MEMBER** — Crystal Coleman
- **SENIOR EXECUTIVE OFFICER** — Daniel J. Fadden
- **MEMBER** — Terryne F. Murphy

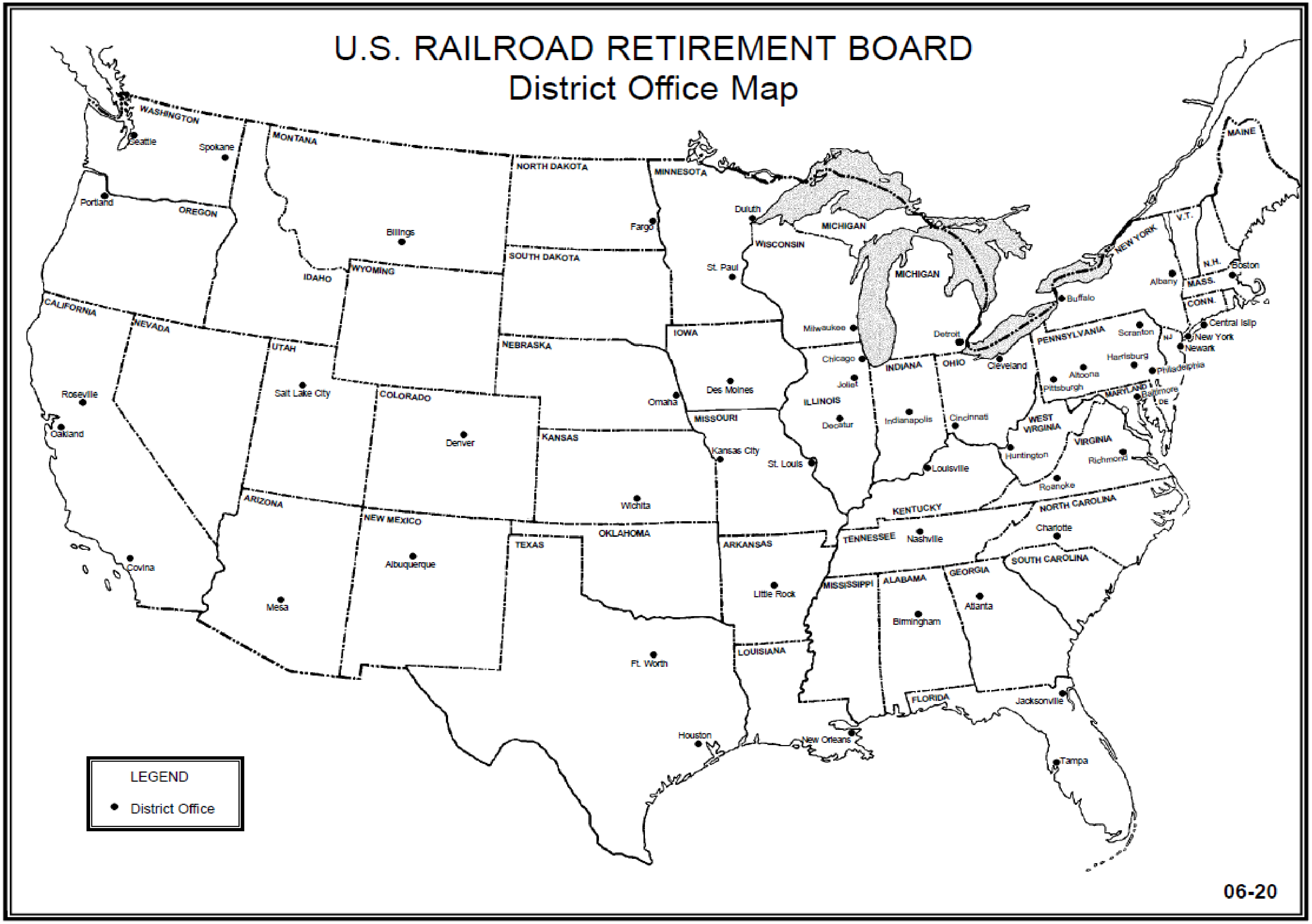
Units reporting to the Executive Committee

- **CHIEF FINANCIAL OFFICER** / **BUREAU OF FISCAL OPERATIONS** — Shawna R. Weekley
- **OFFICE OF GENERAL COUNSEL** — Ana M. Kocur
  - **OFFICE OF LEGISLATIVE AFFAIRS** — Beverly Britton Fraser
  - **BUREAU OF HEARINGS AND APPEALS** — Spirodoula Mavrothalasitis
  - **SECRETARY TO THE BOARD** — Stephanie Hillyard
- **OFFICE OF ADMINISTRATION** — Keith B. Earley
  - **ACQUISITION MANAGEMENT** — Paul T. Ahern
  - **BUILDING AND SUPPORT OPERATIONS** — Scott Rush
  - **BUREAU OF HUMAN RESOURCES** — Marguerite V. Daniels
  - **PUBLIC AFFAIRS** — Michael P. Freeman
- **OFFICE OF PROGRAMS** — Crystal Coleman
  - **POLICY AND SYSTEMS** — Kimberly A. Price
  - **PROGRAM EVALUATION AND MANAGEMENT SERVICES** — Janet M. Hallman
  - **RETIREMENT/ SURVIVOR BENEFITS** — Valerie F. Allen
  - **DISABILITY BENEFITS** — Sherita Boots
  - **UNEMPLOYMENT AND PROGRAMS SUPPORT** — Micheal T. Pawlak
- **BUREAU OF FIELD SERVICE** — Daniel J. Fadden
- **CHIEF INFORMATION OFFICER** / **BUREAU OF INFORMATION SERVICES** — Terryne F. Murphy

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

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

September 2020


U.S. RAILROAD RETIREMENT BOARD
District Office Map
WASHINGTON
Seattle
Spokane
OREGON
Portland
CALIFORNIA
Roseville
Oakland
Covina
NEVADA
IDAHO
MONTANA
Billings
WYOMING
UTAH
Salt Lake City
ARIZONA
Mesa
COLORADO
Denver
NEW MEXICO
Albuquerque
NORTH DAKOTA
Fargo
SOUTH DAKOTA
NEBRASKA
Omaha
KANSAS
Wichita
OKLAHOMA
TEXAS
Ft. Worth
Houston
MINNESOTA
Duluth
St. Paul
IOWA
Des Moines
MISSOURI
Kansas City
St. Louis
ARKANSAS
Little Rock
LOUISIANA
New Orleans
WISCONSIN
Milwaukee
MICHIGAN
MICHIGAN
Detroit
ILLINOIS
Chicago
Joliet
Decatur
INDIANA
Indianapolis
OHIO
Cleveland
Cincinnati
KENTUCKY
Louisville
TENNESSEE
Nashville
MISSISSIPPI
ALABAMA
Birmingham
GEORGIA
Atlanta
FLORIDA
Jacksonville
Tampa
SOUTH CAROLINA
NORTH CAROLINA
Charlotte
VIRGINIA
Richmond
Roanoke
WEST VIRGINIA
Huntington
PENNSYLVANIA
Pittsburgh
Altoona
Harrisburg
Scranton
Philadelphia
MARYLAND
Baltimore
DE
NJ
Newark
New York
Central Islip
NEW YORK
Buffalo
Albany
V.T.
N.H.
MAINE
MASS.
Boston
CONN.
LEGEND
District Office
06-20

Performance Goals, Objectives, and Results

During fiscal year 2020 (ended September 30, 2020), benefit payments totaled $13.6 billion, net of recoveries and offsetting collections. Of this amount, benefit payments for the railroad retirement and survivor benefits program totaled $13.2 billion, for the railroad unemployment and sickness insurance benefits program totaled $198.9 million, for the CARES Act programs totaled $154.8 million, and vested dual benefits program totaled $14.1 million, net of recoveries and offsetting collections. During fiscal year 2020, the RRB also paid benefits on behalf of SSA (for which the RRB is reimbursed) amounting to $2.0 billion to about 127,000 beneficiaries.

In fiscal year 2020, 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 2020 included:

- Providing payments to about 528,000 retirement and survivor beneficiaries.
- Providing payments to about 25,000 unemployment insurance beneficiaries.
- Providing payments to about 17,000 sickness insurance beneficiaries.
- Providing payments to about 7,000 vested dual benefit beneficiaries.
- Processing 15,940 retirement, survivor, and disability applications for benefits (through April 30, 2020).
- Processing 138,504 applications and claims for unemployment and sickness insurance benefits (through April 30, 2020).
- Issuing 244,278 certificates of employee railroad service and compensation (mailed on June 15, 2020).

During fiscal year 2020, 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 2020 were not available at the time this report was published. For those objectives, we reported part-year performance information for fiscal year 2020, if available. We also reported actual results from prior years, as applicable.

Summary of Achievement by Strategic Goal for Fiscal Year 2020

Strategic Goal I: Modernize Information Technology (IT) Operations to sustain mission essential services. For fiscal year 2020, we reorganized our efforts to accomplish the IT Modernization from seven distinct initiatives to a comprehensive three-phased approach. During fiscal year 2020, we continued efforts in the Stabilize phase to leverage current technologies within RRB's infrastructure, which will serve as the foundation for the next phase, Modernize.

Strategic Goal II: Provide Excellent Customer Service. For fiscal year 2020, we met or exceeded most of timeliness goals and maintained the level of Internet services available to employers.

Strategic Goal III: Serve as Responsible Stewards for Our Customers' Trust Funds and Agency Resources. In fiscal year 2020**,** the RRB continued to fulfill its fiduciary responsibilities to the rail community. Additionally, benefit payment accuracy rates met or exceeded targets.

Strategic Goals and Objectives

For fiscal year 2020, the three overriding strategic goals were Modernizing Information Technology (IT) operations, providing excellent customer service and serving as responsible stewards of our customer's trust funds. The **IT operations** initiative involved utilizing a three-phased approach to enable RRB is accomplish its mission essential functions in a secure, reliable enterprise IT environment, streamline core business processes, and achieve more efficient and effective benefits administration. The **service** initiative involved continuing to achieve our customers' expectations for customized, high quality service as well as position the agency to achieve rising customer expectations for new and improved services in the future. The **stewardship** initiative was multifaceted and involved protecting the trust funds, fulfilling responsibilities, ensuring the accuracy and integrity of benefit payments as well as addressing efficacy of security operations. The three strategic goals are summarized below:

STRATEGIC GOAL I: 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 performance plan, submitted as a component of the FY 2020 Budget submission, reflected the strategic objective that focused on achieving this goal.

Strategic Objective I-A: Legacy Systems Modernization

During fiscal year 2020, the RRB reorganized its efforts to accomplish the IT Modernization from seven distinct initiatives to a comprehensive three-phased approach. The shift to a three-phased approach afforded the RRB the opportunity to holistically capture, plan, and implement a strategy that addresses all of its needs concerning modernization. The phases are:

- Phase 1 – Stabilize: this phase allows the RRB to leverage current technologies within its infrastructure which serve as the foundation for the next phase.
- Phase 2 – Modernize: during this phase the RRB will undertake the modernization and optimization of mission-essential applications and systems across people, process, and technology areas.
- Phase 3 – Perform: this phase ensures the successful integration and transition of modernized applications and systems into the RRB enterprise.

In addition to reorganizing the IT modernization effort overall, the RRB determined new strategic objectives going forward that better align to the three-phased approach discussed above. They are presented in the Performance section of this document.

STRATEGIC GOAL II: 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 performance plan, submitted as a component of the FY 2020 Budget submission, reflected the following two strategic objectives that focused on the specifics of achieving this goal.

Strategic Objective II-A: Pay benefits timely.
Strategic Objective II-B: Provide a range of choices in service delivery methods.

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. Our performance plan, submitted as a component of the FY 2020 Budget Submission, reflected the following four objectives that focused on achieving this goal.

> **Strategic Objective III-A:** Ensure that trust fund assets are protected, collected, recorded, and reported appropriately.
> **Strategic Objective III-B:** Ensure the accuracy and integrity of benefit programs.
> **Strategic Objective III-C:** Ensure effectiveness, efficiency, and security of operations.
> **Strategic Objective III-D:** Effectively carry out responsibilities with respect to the NRRIT.

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.

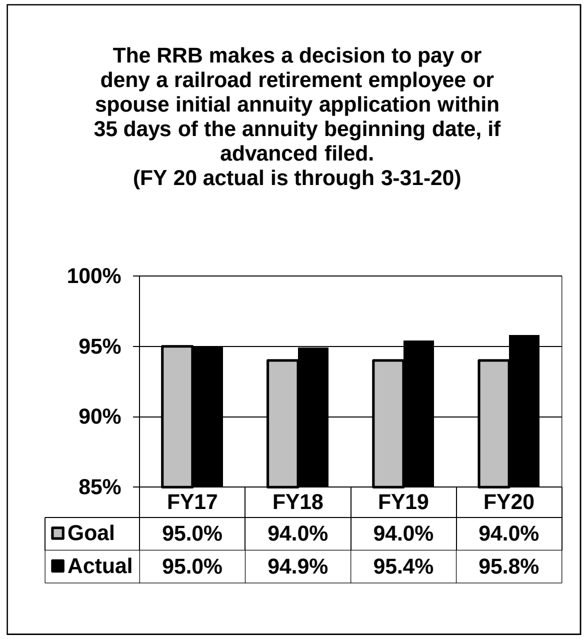
<u>Key performance indicator 1:</u> Timeliness of initial railroad retirement annuity payments, when advanced filed (Objective II-A-1)

FY 2020 goal: 94.0%
Our FY 2020 performance: 95.8% through the 2nd quarter

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

FY 2019 goal: 94.0%
Our FY 2019 performance: 95.4%

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



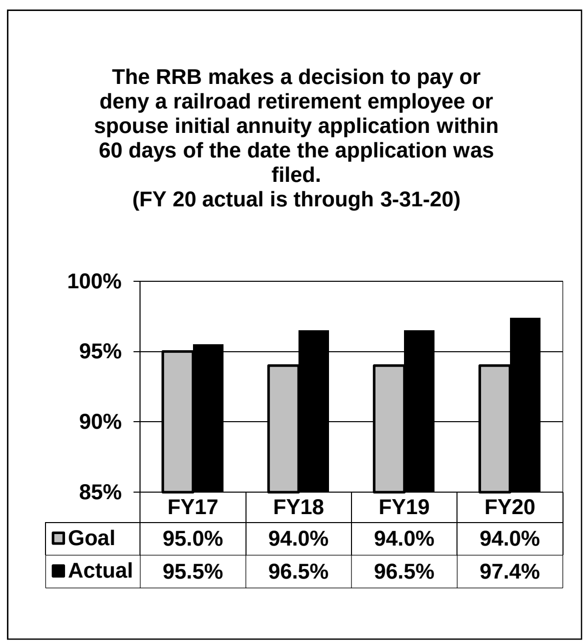
<u>Key performance indicator 2:</u> Timeliness of initial railroad retirement annuity payments, if not advanced filed (Objective II-A-2)

FY 2020 goal: 94.0%
Our FY 2020 performance: 97.4% through the 2nd quarter

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

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

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



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

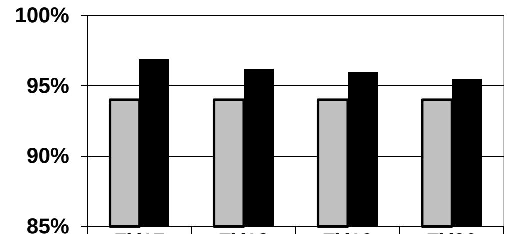
FY 2020 goal: 94.0%
Our FY 2020 performance: 95.5% through the 2nd quarter

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

FY 2019 goal: 94.0%
Our FY 2019 performance: 96.0%

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

RRB makes a decision to pay, deny or transfer to SSA an initial annuity application for a retirement survivor not already receiving a benefit within 60 days of the annuity beginning date or date filed (whichever is later). (FY 20 actual is through 3-31-20)



	FY17	FY18	FY19	FY20
Goal	94.0%	94.0%	94.0%	94.0%
Actual	96.9%	96.2%	96.0%	95.5%

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

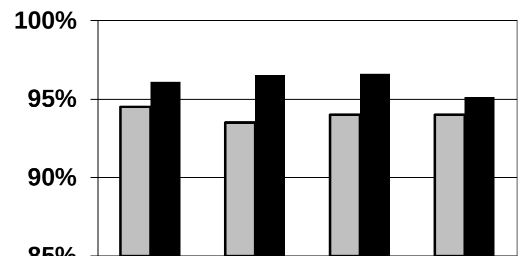
FY 2020 goal: 94.0%
Our FY 2020 performance: 95.1% through the 2nd quarter

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

FY 2019 goal: 94.0%
Our FY 2019 performance: 96.6%

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

RRB makes a decision to pay, deny or transfer to SSA an initial annuity application for a survivor already receiving benefits as a spouse within 30 days of the RRB's receipt of first notice of the employee's death. (FY 20 actual is through 3-31-20)



	FY17	FY18	FY19	FY20
Goal	94.5%	93.5%	94.0%	94.0%
Actual	96.1%	96.5%	96.6%	95.1%

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

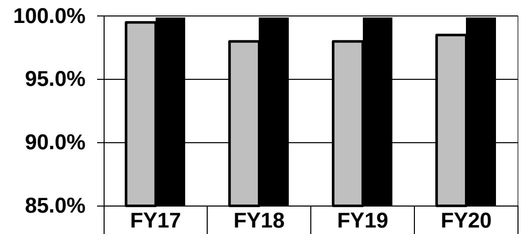
FY 2020 goal: 98.5%
Our FY 2020 performance: 99.9% through the 2nd quarter

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

FY 2019 goal: 98.0%
Our FY 2019 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 20 actual is through 3-31-20)



	FY17	FY18	FY19	FY20
Goal	99.5%	98.0%	98.0%	98.5%
Actual	99.9%	99.9%	99.9%	99.9%

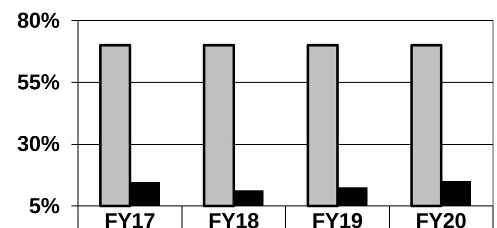
<u>Key performance indicator 6:</u> Timeliness of disability decisions (Objective II-A-7)

FY 2020 goal: 70.0%
Our FY 2020 performance: 15.0% through the 2nd quarter

We are not achieving our goal.

FY 2019 goal: 70.0%
Our FY 2019 performance: 12.5%

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 20 actual is through 3-31-20)



	FY17	FY18	FY19	FY20
Goal	70.0%	70.0%	70.0%	70.0%
Actual	14.7%	11.3%	12.5%	15.0%

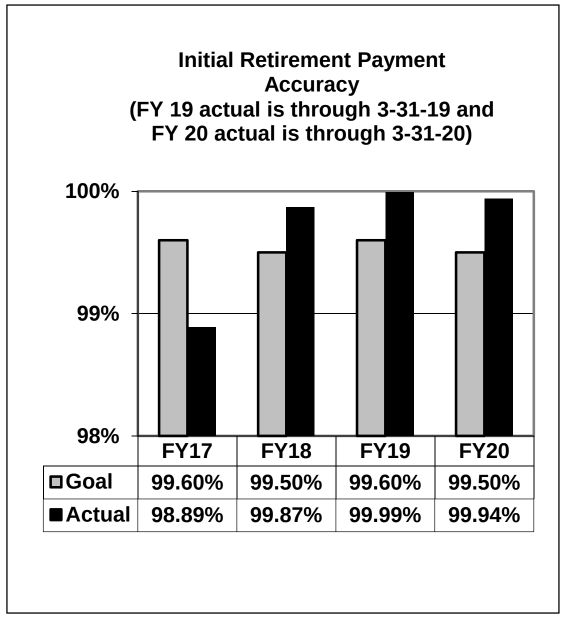
Initial disability decision timeliness performance was below the goal of 70% within 100 days for multiple reasons, including a continued effort in the Disability Benefits Division (DBD) to finalize decisions on cases that were greater than 2 years old. At the start of Fiscal Year 2019, cases with filing dates 2017 and earlier was 36.1% of the total workload balance. At the end of the fiscal year, this balance was significantly reduced to approximately 5.8% of the pending work, an 85% reduction. At the start of FY 2019, there were over 2,100 cases pending. However, at the end of FY 2019, the total pending balance decreased by 8% and more than 70% of the cases pending had 2019 filing dates.

In an effort to reduce the number of pending cases and improve timeliness, DBD hired additional initial claims examiners. The initial training phase takes approximately 8 months. The new hires will begin production in FY 2020. They will focus on the more current applications and this 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.



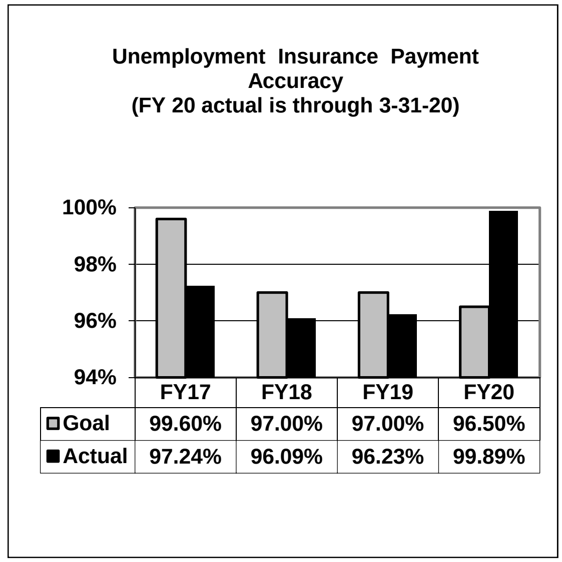
FY 2020 goal: 99.50%
Our FY 2020 performance: 99.94%
through the 2nd quarter

FY 2019 goal: 99.60%
Our FY 2019 performance: 99.99%
through 2nd quarter FY 2019

We are achieving 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.

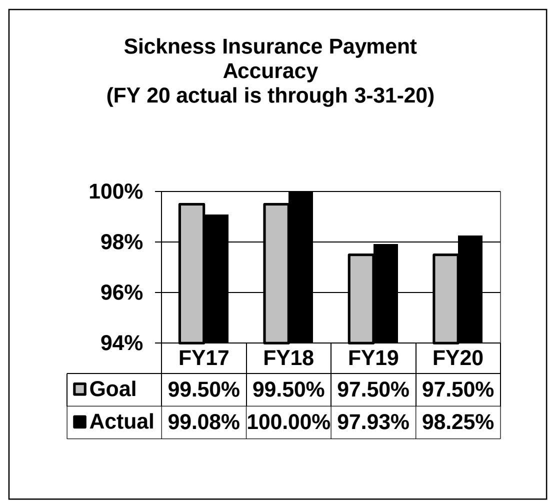
FY 2020 goal: 96.50%
Our FY 2020 performance: 99.89% through the 2nd quarter

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

FY 2019 goal: 97.00%
Our FY 2019 performance: 96.23%

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 2020 goal: 97.50%
Our FY 2020 performance: 98.25% through the 2nd quarter

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

FY 2019 goal: 97.50%
Our FY 2019 performance: 97.93%

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.

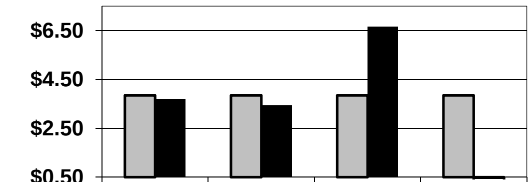
<u>Key performance indicator 10:</u> Return on investment in program integrity activities (Objective III-B-5)

FY 2020 goal: $ 3.85: $1
Our FY 2020 performance: Not Available

FY 2019 goal: $3.85: $1
Our FY 2019 performance: $6.66: $1

We achieved our goal.

Our fiscal year 2019 goal was to achieve a return of $3.85 for each dollar spent on program integrity activities. We achieved a rate of return of $6.66 for each dollar spent.



	FY17	FY18	FY19	FY20
Goal	$3.85	$3.85	$3.85	$3.85
Actual	$3.70	$3.44	$6.66	$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)

	2020	2019
NET POSITION AT SEPTEMBER 30		
Social Security Equivalent Benefit Account	$662.4	$772.4
Railroad Retirement Account 1/	24,686.9	25,481.1
Railroad Retirement Administrative Fund	47,1	46.5
Railroad Unemployment Insurance Trust Fund -		
Benefit Payments	(7.9)	127.4
Administrative Expenses	11.7	9.2
Limitation on the Office of Inspector General	7.2	5.9
Dual Benefits Payments Account	7.6	7.6
Federal Payments to the Railroad Retirement Accounts	0.9	0.8
American Recovery and Reinvestment Act of 2009		
Railroad Unemployment Insurance Extended Benefit Payments – Recovery Act (no year dollars)	9.7	9.7
Worker, Homeownership, and Business Assistance Act of 2009		
Administrative Expenses, Railroad Unemployment Insurance Extended Benefit Payments	-	-
Coronavirus Aid, Relief, and Economic Security Act of 2020		
Railroad Unemployment Insurance Extended Benefits (no year dollars) 1a/	120.7	134.2
Railroad Unemployment Insurance Enhanced Benefit Payments (no year dollars)	289.8	-
Railroad Unemployment Insurance Waiver of 7 Day Period	43.9	-
Payment to Limitation on Administration	4.0	-
Administrative Expenses	-	-
Total	**$25,884.0**	**$26,594.8**
FINANCING SOURCES FOR FISCAL YEAR		
Social Security Equivalent Benefit Account	$7,535.0	$7,612.4
Railroad Retirement Account 2/	4,804.0	4,459.7
Railroad Retirement Administrative Trust Fund	146.0	146.1
Railroad Unemployment Insurance Trust Fund -		
Benefit Payments	63.5	120.0
Administrative Expenses	2.5	0.1
Limitation on the Office of Inspector General	11.0	11.2
Dual Benefits Payments Account	14.1	17.3
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		
Administrative Expenses, Railroad Unemployment Insurance Extended Benefit Payments	-	-
Coronavirus Aid, Relief, and Economic Security Act		
Railroad Unemployment Insurance Extended Benefits (no year dollars) 1a/	13.6	0.3
Railroad Unemployment Insurance Enhanced Benefit Payments (no year dollars)	135.2	-
Railroad Unemployment Insurance Waiver of 7 Day Period	6.1	-
Payment to Limitation on Administration	5.9	-
Administrative Expenses	-	-
Total	$12,736.9	$12,367.1
BENEFIT PAYMENTS FOR FISCAL YEAR 4/		
Social Security Equivalent Benefit Account	$7,645.0	$7,553.0
Railroad Retirement Account	5,598.9	5,594.8
Railroad Unemployment Insurance Trust Fund -		
Unemployment Insurance	131.4	40.3
Sickness Insurance	67.5	52.9
Dual Benefits Payments Account	14.1	17.3
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		
Administrative Expenses, Railroad Unemployment Insurance Extended Benefit Payments	-	-
Coronavirus Aid, Relief, and Economic Security Act		
Railroad Unemployment Insurance Extended Benefits (no year dollars) 1a/	13.5	0.2
Railroad Unemployment Insurance Enhanced Benefit Payments (no year dollars)	135.2	-
Railroad Unemployment Insurance Waiver of 7 Day Period	6.1	-
Payment to Limitation on Administration	-	-
Administrative Expenses	-	-
Total	$13,611.7	$13,258.5

1/ NRRIT-held net assets are a financing source and are included in the Railroad Retirement Account above.
1a/ Funds were reported in FY2019 as Worker, Homeownership, and Business Assistance Act of 2009.
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.

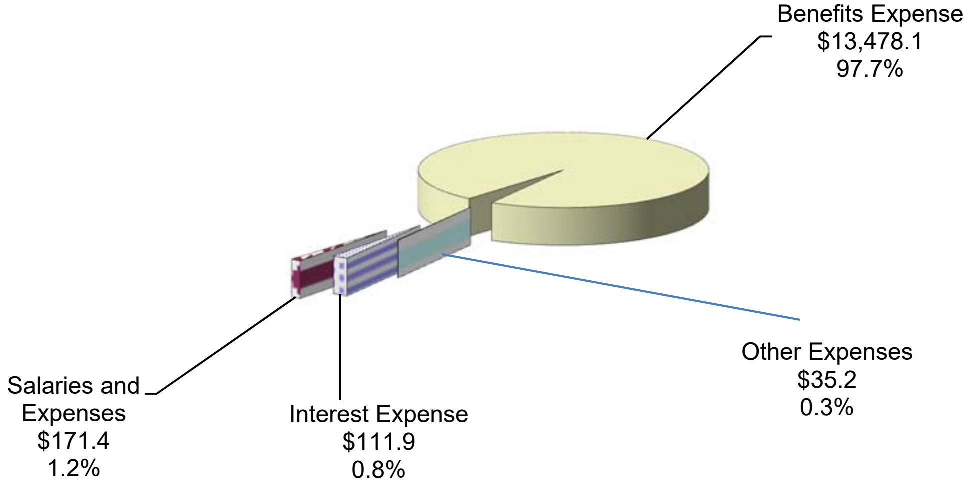
Comparison of Net Cost of Operations and Financing Sources

The net cost of operations for fiscal years 2020 and 2019 was $13,767.0 million and $13,398.4 million, respectively. The details of the net cost of operations by type, amount, increase or decrease, and percentage change from fiscal year 2019 to fiscal year 2020 are shown below. Additional information regarding the net cost of operations and financing sources for fiscal years 2020 and 2019 is shown on the following pages.

NET COST OF OPERATIONS
(In millions)

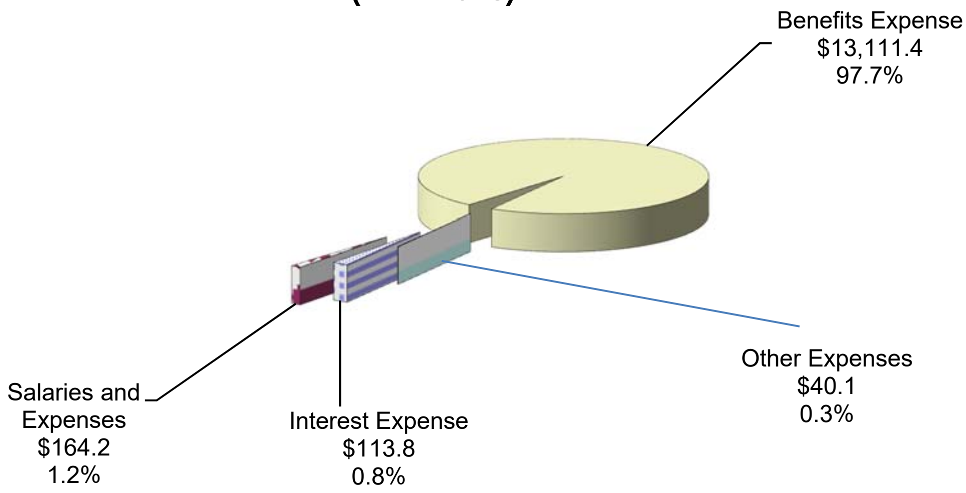
	FY 2020	FY 2019	Amount of Increase (Decrease)	Percent of Increase (Decrease)
Interest expense – Treasury borrowing	$111.9	$113.8	$(1.9)	(1.7)%
Salaries and expenses	171.4	164.2	7.2	4.4%
Benefits expense	13,478.1	13,111.4	366.7	2.8%
Other expenses	35.2	40.1	(4.9)	(12.2)%
Subtotal	**13,796.6**	**13,429.5**	**367.1**	**2.7%**
Less: Earned revenues	(29.6)	31.1	(60.7)	(195.2)%
Net cost of operations	**$13,767.0**	**$13,398.4**	**$368.6**	**2.8%**

FY 2020
NET COST OF OPERATIONS
(In millions)



Totals $13,796.6 million, excluding reimbursements, and earned revenues of $(29.6) million.

FY 2019
NET COST OF OPERATIONS
(In millions)



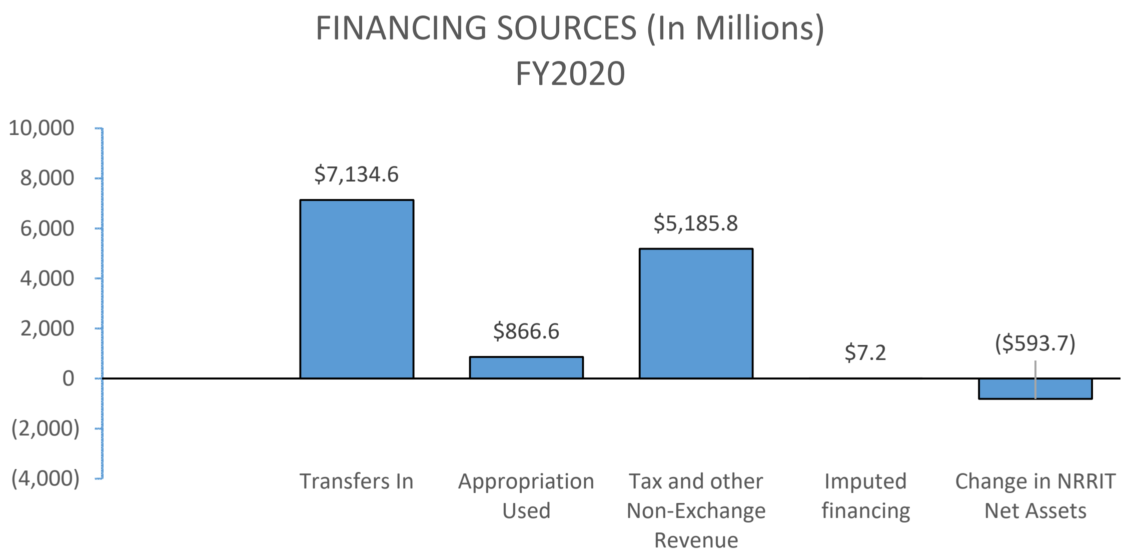
Totals $13,429.5 million, excluding reimbursements and earned revenues of $31.1 million.

The following table shows financing sources (excluding changes in unexpended appropriations) by type, amount, increase or decrease, and percentage change from fiscal year 2019 to fiscal year 2020.

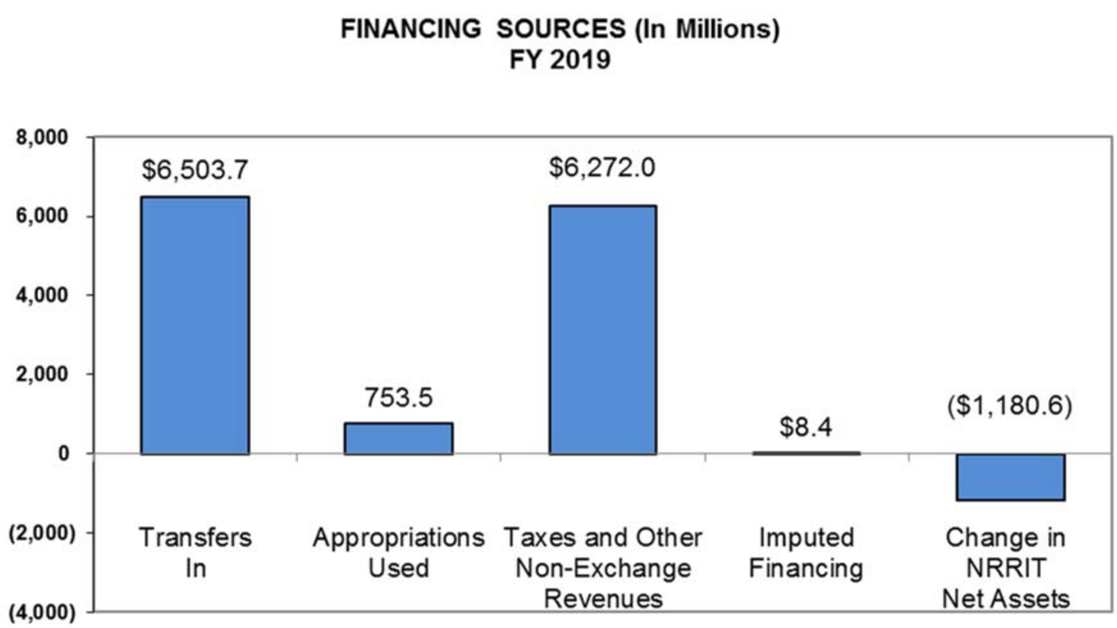
FINANCING SOURCES
(in millions)

	FY 2020	FY 2019	Amount of Increase (Decrease)	Percent of Increase (Decrease)
Budgetary Financing Sources:				
Appropriations used	$866.6	$ 753.5	$113.1	15.0%
Taxes and other non-exchange revenues:				
Payroll taxes	5,172.9	6,219.5	(1,046.4)	(16.8)%
Interest revenue and other income	35.1	45.3	(10.2)	(22.6)%
Carriers refunds – principal	(104.8)	(130.1)	25.3	19.4%
Railroad Unemployment Insurance (RUI) Revenue	82.7	137.3	(54.6)	(39.8)%
Subtotal	**$6,052.5**	**$7,025.5**	**$(973.0)**	**(13.8)%**
Transfers in:				
Financial Interchange, net	4,854.6	4,709.7	144.9	3.1%
NRRIT	2,280.0	1,794.0	486.0	27.1%
Subtotal	**$7,134.6**	**$6,503.7**	**$630.9**	**9.7%**
TOTAL BUDGETARY FINANCING SOURCES	**$13,187.1**	**$13,529.2**	**$(342.2)**	**(25.3)%**
Other Financing Sources :				
Imputed financing	7.2	8.4	(1.2)	(15.2)%
Change in NRRIT net assets	(593.7)	(1,180.6)	586.9	49.7%
Gain/(Loss) in Contingency	136.3	10.1	126.2	1,248.1%
TOTAL OTHER FINANCING SOURCES	**(450.2)**	**(1,162.1)**	**711.9**	**61.3%**
TOTAL FINANCING SOURCES	**$12,736.9**	**$12,367.1**	**$369.8**	**3.0%**

The most significant difference between the RRB's financial statements for fiscal year 2019 and fiscal year 2020 was the change in NRRIT net assets and decrease in Payroll Taxes. The decrease in NRRIT net assets of about $593.7 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 2019 and 2020 are shown in the RRB's Financial Section of this publication.



Total Financing Sources $12,600.6 million, excluding $136.3 million gain contingency.



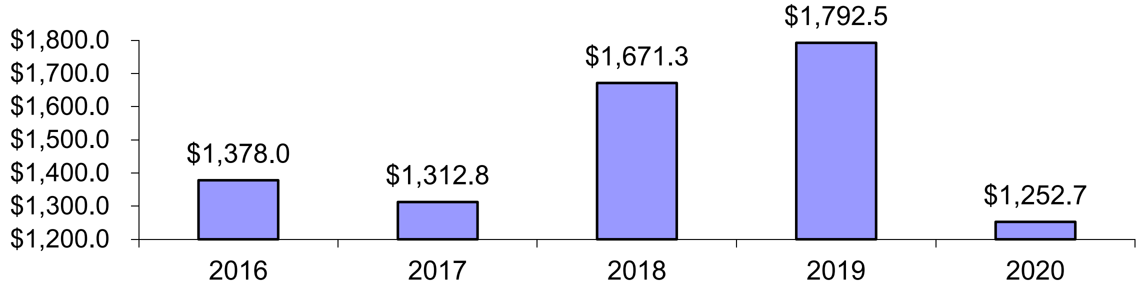
Total Financing Sources $12,357.0 million, excluding $10.1 million gain contingency.

Railroad Retirement Investments at Treasury

The book value of all railroad retirement investments, including accrued interest, decreased to $1,252.7 million as of September 30, 2020, from $1,792.5 million on September 30, 2019 (excludes NRRIT net assets). The graph below reflects the book value of the railroad retirement investments from September 30, 2016, through September 30, 2020.

INVESTMENT BALANCES HELD AT TREASURY (BOOK VALUE)
AT SEPTEMBER 30, 2016-2020

(In millions, excluding NRRIT net assets)

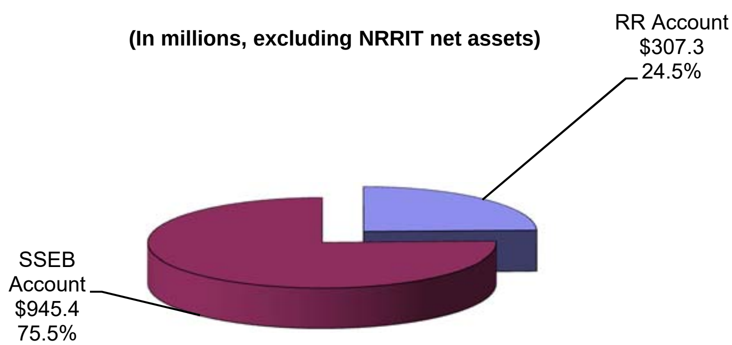


The following chart shows the portfolio of the railroad retirement investments as of September 30, 2020.

RAILROAD RETIREMENT INVESTMENTS HELD AT TREASURY
AS OF SEPTEMBER 30, 2020

AT BOOK VALUE
Total $1,252.7

(In millions, excluding NRRIT net assets)



Railroad Retirement Account: On September 30, 2020 and 2019, the book values of the RR Account investments, excluding NRRIT assets, including accrued interest, totaled $307,323,788 and $698,701,028, respectively. The balance on September 30, 2020, consisted of $306,847,000 in 3.000 percent par value specials (with market value equal to face value) maturing on October 1, 2020, and $476,788 in accrued interest. 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. 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, 2020 and 2019, the book values of the SSEB Account investments, including accrued interest, totaled $945,386,040 and $1,093,823,176, respectively. The balance on September 30, 2020, consisted of $944,036,000 in 3.000 percent par value specials maturing on October 1, 2020, and $1,350,040 in accrued interest. 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.

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 2020 are $32.2 billion, a 1.8 percent decrease over last year. Of the total assets, $ 24.8 billion relates to funds held by the NRRIT. The net asset value of funds held by the NRRIT decreased from fiscal year 2019 by 2.3 percent. Our investments totaled $1.3 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 2020 are $6.3 billion. Liabilities increased by $136.7 million or 2.2 percent in fiscal year 2020. Also, benefits due increased by $9.5 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 2020, our net cost of operations was $13,767 billion, an increase over last year of $368.6 million, or 2.8 percent. A table for the net cost of operations for fiscal years 2020 and 2019 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 2020 is $25.9 billion. The statement shows a decrease in the net position of the agency of $1,030 million attributable to the change in cumulative results of operations. Total financing sources for 2020 are $12.7 billion. A table for financing sources for fiscal years 2020 and 2019 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 $26.9 billion as of September 30, 2018 to $26.0 billion as of September 30, 2019, a net change in the open group measure of ($0.9) 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 $1.7 billion is due to changes in economic data, assumptions, and methods. Select assumptions for the Cost of Living Adjustment (COLA), wage increase, and investment return 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 2019-2093 to fiscal years 2020-2094) resulted in a change of $(2.8) 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 change of $0.2 billion in the open group measure. This year there were no changes in law, policy, or methodology and programmatic data.

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

TABLE OF KEY MEASURES

Dollars in Millions	As reported in FY 2020	As reported in FY 2019	Increase / $	(Decrease) %
COSTS				
Total Financing Sources	$12,736.9	$12,367.1	369.8	3.0
Less: Net Cost	$13,767.0	$13,398.4	368.6	2.8
Net Change of Cumulative Results of Operations	**$(1,030.1)**	**$(1,031.3)**	**1.2**	**0.2**
NET POSITION				
Assets	$32,188.3	$32,762.3	(574.0)	(1.8)
Liabilities	$6,304.3	$6,167.5	136.8	2.2
Net Position (Assets minus Liabilities)	**$25,884.0**	**$26,594.8**	**(710.8)**	**(2.7)**

Dollars in Billions	10/1/2019	10/1/2018	Increase / $	(Decrease) %
SOCIAL INSURANCE				
Social Insurance Net Expenditures (Open Group)[1]	$26.0	$26.9	(0.9)	(3.4)

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

Coronavirus Aid, Relief, and Economic Security Act or the CARES Act

On March 27, 2020, President Trump signed Public Law (P.L.) 116-136, *Coronavirus Aid, Relief, and Economic Security Act of 2020* (CARES Act). The CARES Act is a law meant to address the economic fallout of the 2020 coronavirus pandemic in the United States. It includes 3 provisions that impact the payment of benefits under the Railroad Unemployment Insurance Act, each having a separate Treasury appropriation for the payment of those benefits.

Section 2112 of the CARES Act provides for the waiver of the 7-day waiting period for both unemployment and sickness benefits for registration periods beginning March 28, 2020 through periods beginning December 31, 2020. This provision is funded by a separate Treasury appropriation of $50M and is payable until the end of a person's entitlement or until the appropriation runs out, whichever comes first.

Section 2113 of the CARES Act provides for the payment of enhanced unemployment benefits in the amount of $1,200.00 for registration periods beginning on or after April 1, 2020 through periods beginning July 31, 2020. This provision is funded by a separate Treasury appropriation of $425M and is payable until the end of a person's entitlement or until the appropriation runs out, whichever comes first.

Section 2114 of the CARES Act provides for the payment of extended unemployment benefits for anyone who received regular unemployment benefits in the benefit year that began July 1, 2019 and ending June 30, 2020. Employees with less than 10 years of service are entitled to 65 days of extended unemployment benefits and employees with 10 or more years of service are entitled to 65 additional days of extended unemployment benefits through registration periods beginning December 31, 2020. This provision is funded by a separate Treasury appropriation of using remaining funds previously appropriated under P.L. 111-5, *American Recovery and Reinvestment Act of 2009* and P.L. 111-92, *Worker, Homeowner, Business Assistance Act of 2009* of approximately $142M. These benefits are payable until the end of a person's entitlement or until the appropriation runs out, whichever comes first.

As of September 30, 2020, the RRB has implemented Sections 2112, 2113 and 2114 and has expended $5,307,495, $134,767,510, $12,713,804 respectively.

Additionally, the CARES Act provided an additional $5M for the RRB's Limitation of Administration account to remain available until September 30, 2021. The funding provided therein is to prevent, prepare for, and respond to coronavirus, including the purchase of information technology equipment to improve the mobility of the workforce and provide for additional hiring or overtime hours as needed to administer the Railroad Unemployment Insurance Act. As of September 30, 2020 the RRB has obligated $4,130,099 of the $5M.

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 2020, 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 2020, 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.

For fiscal year 2020, the OIG asserts that two material weaknesses exist; the first relates to financial reporting, which the OIG revised due to the closure of the ineffective controls aspect of the material weakness, and now includes the following two components (1) communication with the NRRIT's auditor and (2) social insurance valuation methodology. The OIG will again report a second material weakness related to deficient internal controls at the agency wide level. In fiscal year 2018, the OIG asserted this material weakness existed because four of the five components

[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).

of internal control were not assessed by the RRB in conformance with GAO and OMB requirements at the agency wide level. In fiscal years 2019 and 2020, the OIG expanded this material weakness to include information technology security and financial reporting controls; compliance with indirect laws, regulations, contracts, treaties, and international agreements; compliance with Railroad Retirement Act benefit payment provisions; 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 first, second, and third quarters of fiscal year 2020, 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 since the third quarter of fiscal year of 2019 through the third quarter of fiscal year 2020 has been 0%. These actions have improved the accuracy and completeness of recorded amounts and the overall effectiveness of financial reporting internal controls. The OIG recognized the effectiveness and efficiency of these corrective actions and closed the ineffective internal controls component of the previously cited financial reporting material weakness.

Further, the agency has continued making strides in implementing Enterprise Risk Management (ERM) at the RRB by leveraging the Management Control Review (MCR) infrastructure already in place. In fiscal year 2020, we incorporated an ERM based reporting structure into the MCR guide aimed at enhancing our ability to identify potential events that may affect the agency and manage the related risks within our risk appetite. In fiscal year 2021, we will fully implement the new ERM based MCR reporting along with training of responsible officials. 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 2020 FISMA audit indicate that Kearney & Company will assess our overall maturity at Level 2 – *Defined*, maintaining the rating from 2019. The RRB realized fifteen significant improvements across each of the eight domains, improving several lower level ratings to Consistently Implemented, which is one-step lower than Level 4 – *Managed and Measurable.* Additionally, for the Configuration Management domain, the Agency improved from Level 1 – *Ad-Hoc* to Level 2 – *Defined,* and for the Data Protection and Privacy domain, the Agency improved from Level 2 – *Defined* to Level 3 – *Consistently Implemented*.

The preliminary FY 2020 audit results further 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*.

[2] Memorandum from Debra Stringfellow-Wheat, Assistant Inspector General for Audit, OIG to Shawna Weekley, Chief Financial Officer, RRB, October 30, 2020 (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 and CGI Federal successfully implemented an upgrade of the FMIS software (Momentum Financials) from version 7.03 to version 7.6 in March 2020. The project was 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 (GSA), travel (CWTSatoTravel) and employee relocation services (Bureau of the Fiscal Service). The RRB's human resources shared service provider is IBM (i.e. GSA, RRB's previous provider, transitioned the functions to IBM in FY 2019). 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 a three-phased, 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 has been and is currently contracting re-platform services and software to transition mission essential programs from the end-of-life mainframe hardware. During fiscal year 2020, however, we faced some challenges with our re-platform approach, which caused the RRB to pause the contract to ensure sufficient mitigation of operational, schedule and cost risks incurred during Q2 and Q3 this fiscal year. Additionally, during fiscal year 2020, the RRB completed the contract, which assessed RRB's core current businesses and developed a To-Be Blueprint for modernization. That contractor also delivered a proposed transition plan towards the To-Be State. During fiscal year 2020, we began tailoring our next steps towards modernization based on these results, as well as agency priorities and available resources. Additionally, the RRB began planning to identify core business processes to receive direct positive impact as a result of modernization of applications and systems, setting the course to complete the Stabilize Phase and enter the Modernize Phase in fiscal year 2021. 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 is developing a comprehensive plan, which outlines the agency's human capital policies, programs and practices as they support this Strategic Plan. This will also include a detailed analysis of the demographic features of the RRB workforce and the skills needed to fulfill our mission. It also will establish 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 2020-2094, 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 2020-2030. The results indicate that, except for small short-term cash flow problems in fiscal years 2020 and 2021 under all employment assumptions and in fiscal year 2022 under the pessimistic assumption, the Railroad Unemployment Insurance (RUI) Account will be solvent during the 11-year projection period.

Based on the May 2020 Section 7105 report, the short-term cash flow problem ranges from $120 million to $179 million over the course of FY 2020 through FY 2022. This results in loans from the RR account to the RUIA account primarily due to increased unemployment from the global COVID-19 pandemic. The system resolves itself when excess RUIA account taxes are collected through a combination of experience rating surcharges and lower unemployment/sickness benefits, which leads to the loans being paid off with interest no later than FY 2023.

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.

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 2020 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 2017 through March 31, 2020 (except as noted), followed by a discussion of our unmet performance goals and objectives for fiscal year 2019. At the time this report was prepared, actual fiscal year 2020 information was unavailable. Unmet fiscal year 2020 goals and indicators will be presented in next year's report. This performance report was prepared by RRB employees.

Railroad Retirement Board Fiscal Year 2020 Performance Plan	**2017 Actual (At $113.5m)**	**2018 Actual (At $123.5m)**	**2019 Actual (At $123.5m 2/6/)**	**2020 Planned 1/ (At $123.5m 3/)**	**2020 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-1: Complete AA-3: 80%	AA-3: new strategic direction, moved to Modernize phase	AA-1: Complete AA-3: new strategic direction, moved to Modernize phase
I-A-3. Transition Mission Essential Programs from the End-of-Life Mainframe hardware.		New Goal for FY 2019	10%	50%	50%

Railroad Retirement Board Fiscal Year 2020 Performance Plan	2017 Actual (At $113.5m)	2018 Actual (At $123.5m)	2019 Actual (At $123.5m[2/6/])	2020 Planned [1/] (At $123.5m [3/])	2020 Actual [1/] (At $123.5m [3/])
I-A-4. Complete the assessment for re-engineering Mission Essential Programs.		New Goal for FY 2019	50%	100%	100%
I-A-5. Complete the migration of agency network and telecommunication services to new services in EIS.		New Goal for FY 2019	0%	50%	50%

Railroad Retirement Board Fiscal Year 2020 Performance Plan	2017 Actual (At $113.5m)	2018 Actual (At $123.5m)	2019 Actual (At $123.5m[2/6/])	2020 Planned [1/] (At $123.5m [3/])	2020 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)	95.0%	94.9%	95.4%	94.0%	95.8%
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)	95.5%	96.5%	96.5%	94.0%	97.4%
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)	96.9%	96.2%	96.0%	94.0%	95.5%

Railroad Retirement Board Fiscal Year 2020 Performance Plan	2017 Actual (At $113.5m)	2018 Actual (At $123.5m)	2019 Actual (At $123.5m[2/6/])	2020 Planned [1/] (At $123.5m [3/])	2020 Actual [1/] (At $123.5m [3/])
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)	96.1%	96.5%	96.6%	94.0%	95.1%
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)	97.5%	98.2%	97.3%	97.0%	97.3%
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%	98.5%	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)	14.7%	11.3%	12.5%	70.0%	15.0%
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)	92.5%	91.5%	85.2%	94.0%	86.4%
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)	217	217	207	207	207
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[4/]	19 services available[4/]	22 services available	19 services available[4/]

Railroad Retirement Board **Fiscal Year 2020 Performance Plan**		**2017 Actual** **(At $113.5m)**	**2018 Actual** **(At $123.5m)**	**2019 Actual** **(At $123.5m 2/6/)**	**2020 Planned 1/** **(At $123.5m 3/)**	**2020 Actual 1/** **(At $123.5m 3/)**
II-B-2. Enable employers to use the Internet to conduct business with the RRB, in support of the Government Paperwork Elimination Act.	a) Employers using ERS:	99.0%	99.3%	99.2%	99.0%	99.6%
(Measures: percentage of employers who use the on-line ERS; number of services available through electronic media)	b) Internet services:	29 Internet services available	30 Internet services available	30 Internet services available	31 Internet services available	30 Internet services available

Railroad Retirement Board Fiscal Year 2020 Performance Plan		2017 Actual (At $113.5m)	2018 Actual (At $123.5m)	2019 Actual (At $123.5m [2/6/])	2020 Planned [1/] (At $123.5m [3/])	2020 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.)		92.14%	91.70%	91.70%	85.00%	94.33%
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	98.89%	99.87%	99.99% (through 2nd quarter FY 2019)	99.50%	99.94%
	b) Sample post recurring payments	99.94%	99.56%	99.94% (through 2nd quarter FY 2019)	99.50%	Not Available
III-B-2. Achieve a railroad unemployment/sickness insurance benefit payment accuracy rate [5/] of at least 99%. (Measure: percent accuracy rate)	a) Unemployment	97.24%	96.09%	96.23%	96.50%	99.89%
	b) Sickness	99.08%	100.00%	97.93%	97.50%	98.25%
III-B-3. Overall Initial Disability Determination Accuracy. (Measure: % of Case Accuracy)		94.40%	94.40%	Not Available	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%)		Reporting relief granted by OMB	Reporting relief granted by OMB	Reporting relief granted by OMB	1.00%	Not Available

Railroad Retirement Board Fiscal Year 2020 Performance Plan	2017 Actual (At $113.5m)	2018 Actual (At $123.5m)	2019 Actual (At $123.5m[2/6/])	2020 Planned [1/] (At $123.5m [3/])	2020 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)	$3.70: $1.00	$3.44:$1.00	$6.66: $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)	Complete	Complete	Complete	Complete	Complete
III-C-2. Deliver – Deliver on Budget. Percent of IT Projects costs within 10% of budgeted costs.	100%	85%	100%	85%	100%
III-C-3. Deliver – Meet Customer Expectations. RRB.gov online services, continuous availability experienced by end users. a. Continuous availability target	99.20%	98.92%	98.99%	95.00%	99.55%
b. Hours of outage allowed per month	6.52 hours	7.77 hours	7.38 hours	7 hours	3.22 hours
III-C-4. Innovate – Design for Modularity. Strategy for Continuity of Operations Improvements.	Not Completed	Yes. Completed applying HTTPS-only standard to www.rrb.gov.	Cloud based enterprise test lab: No.	Implement cloud-based enterprise test lab – Yes	Implement cloud-based enterprise test lab – No
III-C-5. Innovate – Adopt New Technologies. Percentage of investments that evaluated cloud alternatives.	50%	99.93%	100%	98.5%	100%

Railroad Retirement Board Fiscal Year 2020 Performance Plan	2017 Actual (At $113.5m)	2018 Actual (At $123.5m)	2019 Actual (At $123.5m[2/6/])	2020 Planned [1/] (At $123.5m [3/])	2020 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.	99.82%	99.93%	100%	99%	100%
III-C-7. Protect – Percentage of agency employees required to use a Personal Identity Verification card to authenticate.	74%	77%	73%	Unprivileged Network Users ≥ 85% Privileged Network Users 100%	66% Unprivileged Network Users ≥ 63% Privileged Network Users 100%
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 2020 performance targets shown in the RRB's Congressional Justification of Budget Estimates, released on February 10, 2020. Unless otherwise noted, actual results represent status as of March 31, 2020, and as reported in the RRB's FY 2022 Budget Submission, dated September 14, 2020.

2/ 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.

3/ Public Law 116-94, the Further Consolidated Appropriations Act, 2020, 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 actual services available for goal II-B-1 was incorrectly reported in the FY 2018 and FY 2019 Performance and Accountability Reports. The Retirement Application form AA-1 pilot program went into production in late FY 2018; however, full implementation of this new service is presently on hold. The correct number of actual services available for FY 2018, FY 2019, and mid-year FY 2020 is 19.

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

6/ The amounts reported in the 2019 Performance and Accountability Report for 2019 Actual results were reported as of March 31, 2019 unless otherwise noted.

Discussion of Unmet Performance Goals and Indicators for Fiscal Year 2019

INDICATOR	*DISCUSSION OF VARIANCE*
Performance Indicator I-A-2. Deliver online retirement forms (AA-1, AA-3) as citizen-centric digital solutions.	We originally planned on completing the Form AA-3 (100%) in FY 19. We have now decided to move the completion of the form to the Modernized phase of the overall IT Modernization project in order to take advantage of the integration with other modernized benefit processes and the enhanced customer experience.
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 2019 goal was 70.0%, and the actual was 12.5%.	DBD did not reach its goal of 70% initial filings rated within 100 days due to DBD's significant reduction of cases with filing dates prior to 2017. At the start of the fiscal year, there were nearly 900 cases with filing dates 2017 and earlier. At the end of the fiscal year, there were 158 cases, which equates to an 82.3% decrease. At the end of FY 2019, approximately 8% of the pending workload was from 2017. DBD's elimination of cases from 2015, 2016, and the significant reduction in the cases with filing dates in 2017, impacted DBD's timeliness.

INDICATOR	*DISCUSSION OF VARIANCE*
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 2019 goal was 94.0% and the actual was 85.2%.	This payment goal is shared by both RBD and SBD Divisions. Both RBD and SBD had staff to adjudicate the initial disability payments but the combination of loss of staff, promoting newly trained inexperienced staff, and overall low staffing levels to authorize the payments attributed to RSBD not meeting the goal. RBD has not been sufficiently staffed in our Legal Partition section which also awards initial disability applications. During fiscal year 2019 one experienced claims examiner received a promotion leaving this section with only two experienced examiners. During fiscal year 2019 a request was released to all eligible examiners in RBD to secure a volunteer to lateral over to the Legal Partition/Garnishment Unit. One employee volunteered; however, the required training lasted approximately 4 to 5 months which took resources away from actual case processing. This section has been short staffed since the beginning of fiscal year 2016 causing delays in payments and adjustments. RBD also initiated a new process to assist in meeting the customer service payment goal for initial disability cases involving Legal Partition, yet we still remain short staffed. The survivor disability initial application volume represents on average approximately 10% of the initial disability applications received annually. Since the volume is small, one missed payment can lower the overall payment percentage. During the first quarter of fiscal year 2019, a mechanical system processing error was identified and corrected. This caused delays in processing the payments for initial survivor disability cases.
Performance Indicator 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) Our fiscal year 2019 goal was 22 services available and the actual was 19 services available.	Policy and Systems did not meet the goal for actual services available in FY 2019 due to higher priority projects including re-platforming and re-engineering.

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 2019 goal was 97.00%, and the actual was 96.23%.	Field Service has continued to see high staff attrition rates over the last few years. While we were able to hire 20 new Claim Representatives very late in FY 2019 (2 have since left for other Federal jobs), they have only recently completed their 6-month Initial Training Period. Since the start of FY 2019, we have lost a total of 60 FTEs in Field Service and given the current COVID-19 Pandemic, it is questionable at this time whether we will able to add any additional new hires in FY 2020. The continued loss of experienced Field Service employees, in addition to limited hiring of staff replacements, are both directly attributable to the slight decrease seen in the unemployment payment accuracy rate.
Performance Indicator III-C-7. Protect – Percentage of agency employees required to use a Personal Identity Verification (PIV) card to authenticate. Our fiscal year 2019 goal was Network Users > 85% and the actual was for Network Users 73%.	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 73%. We have now started using a different solution called CyberArk for tracking and protecting the network for both privileged and unpriviledged network users. We anticipate to be on track for the next reporting period to meet or exceed the goals.

Program Evaluations

PROGRAM EVALUATION	*RESULTS IN FISCAL YEAR 2020*
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 2020, 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 2020, addresses the 11 fiscal year period 2020 through 2030. The report indicated that even as maximum benefits are expected to increase 44 percent from 2019 to 2030, except for small short-term cash flow problems in fiscal years 2020-2022, 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 charts within this Performance Section, and published on our website at www.RRB.gov.
Program integrity report	Our most recent program integrity report was for fiscal year 2019. It showed that program integrity activities resulted in the establishment of about $12.9 million in recoverables, benefit savings of $919,016, and 52 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 2020*
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 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 FY2020.

PROGRAM EVALUATION	*RESULTS IN FISCAL YEAR 2020*
Electronic government (e-Gov) activities	See pages 53 through 54 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

As the RRB continues its commitment to accomplish its top priority – the IT Modernization (or RRB Transformation), during fiscal year 2020, there were several enhancements to existing applications, which are intended to incrementally improve the services provided to the US Railroad Industry.

The RRB continued 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 for a total of 31 automated ERSnet services.

In FY 2020, as a part of our Citizen Services Improvements initiative, we worked with the U.S. General Services Administration (GSA) Login.gov solution to implement identity proofing and multi-factor authentication services at the RRB. The RRB was the first Federal agency to partner with Login.gov and provide identity verification to citizens at the higher Identity Assurance Level 2 (IAL2). Login.gov has stated the RRB's contributions were invaluable to their success with IAL2. They have since started pilot programs with other Federal agencies to identity proof individuals at the same level. This will allow individuals to securely access information or 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.

In fiscal year 2020, 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 2020 have an impact on the SPEED project. In consideration of those two higher priorities, in May 2020, 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.

In fiscal year 2020, we completed the two phases of the SEARCH Expansion Project. (SEARCH is the Service Earnings and Railroad Compensation History). The first phase was the table expansion to increase the table from 2020 to 2034 (an additional 14 years) which was completed in October 2019. The second phase involved expanding the Average Indexed Monthly Earnings (AIME) amount to 99999 and the Tier II contribution amount to $999,999.99 in SEARCH and other related systems which was completed in June 2020. The completion of the two phases ensures the correct annuity rate calculation.

In fiscal year 2021, RRB staff plans to 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.

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, 2019, through September 30, 2020, are being reduced by 5.9 percent. The reduction is required by the sequestration order issued by the President in accordance with the BCA. For fiscal year 2021, a sequestration reduction of 5.7 percent will be applied starting on October 1, 2020.

Succession Planning and Training

Strategic Management of Human Capital – Like many agencies, the RRB has an aging workforce. Nearly 42 percent of our employees have 20 or more years of service and 35 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. The Bureau of Human Resources continues to partner with senior management to develop a succession plan methodology and strategy to drive and support RRB's mission. The succession planning process includes analyzing workforce data, trends and projected attrition in an effort to evaluate, prioritize and address future staff and skills needed for the RRB 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.

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 FY 2019, we received over 5300 outside applications. 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 M-20-04, *Fiscal Year 2019-2020 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 and continue by participating the CDM Dynamic and Evolving Federal Enterprise Network Defense

(DEFEND) 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 DEFEND program to provide better visibility of current hardware and software and to automatically detect unauthorized hardware and software.
    - The RRB has implemented two phases of the CDM program and is forwarding RRB data to the CDM Federal Dashboard:
        - Hardware Asset Management “HWAM” to provide visibility into all hardware devices on the RRB Network
        - Vulnerability Management “VULN” to provide visibility to known vulnerabilities present on the network
    - The RRB will implement these two phases of CDM DEFEND during fiscal year 2021
        - Software Asset Management “SWAM” to provide visibility into all software installed on the RRB network.
        - Configuration Settings Management “CSM” to manage configuration settings of assets on the RRB network.
- Identity Management – The RRB enforces multi-factor authentication for general users and have installed a privileged access management system (i.e. CyberArk) 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 the RRB ISCM strategy, we will continue to 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, 2020 AND 2019
(in dollars)

	FY 2020	FY 2019
ASSETS		
Intragovernmental:		
Fund Balance with Treasury (Note 3)	$646,502,184	$321,397,023
Investments (Note 4)	1,252,709,829	1,792,524,204
Accounts Receivable (Note 6)	5,406,228,945	5,172,102,127
Other	782,709	911,977
Total Intragovernmental	**7,306,223,667**	**7,286,935,331**
NRRIT Net Assets (Note 5)	24,822,289,000	25,415,964,974
Accounts Receivable, Net (Note 6)	57,475,334	55,916,918
General Property, Plant and Equipment, Net (Note 7)	2,275,201	2,984,518
Other	27,650	543,960
TOTAL ASSETS	**$32,188,290,852**	**$32,762,345,701**
LIABILITIES (Note 8)		
Intragovernmental:		
Accounts Payable	$476,596,930	$589,296,929
Debt	4,423,228,877	3,982,221,827
Other	1,173,013	1,591,358
Total Intragovernmental	**4,900,998,820**	**4,573,110,114**
Accounts Payable	2,164,134	29,925,329
Benefits Due and Payable	1,157,299,611	1,147,844,783
Other	243,780,812	416,662,924
TOTAL LIABILITIES	**$6,304,243,377**	**$6,167,543,150**
COMMITMENTS AND CONTINGENCIES (Note 9)		
NET POSITION		
Unexpended Appropriations - Funds from Dedicated Collections (Note 16)	$908,778	$895,391
Unexpended Appropriations - All Other Funds	466,890,837	147,544,183
Cumulative Results of Operations - Funds from Dedicated Collections (Note 16)	25,407,345,556	26,442,457,823
Cumulative Results of Operations - All Other Funds	8,902,304	3,905,154
Total Net Position - Funds from Dedicated Collections (Note 16)	25,408,254,334	26,443,353,214
Total Net Position - All Other Funds	475,793,141	151,449,337
TOTAL NET POSITION	**25,884,047,475**	**26,594,802,551**
TOTAL LIABILITIES AND NET POSITION	**$32,188,290,852**	**$32,762,345,701**

The accompanying notes are an integral part of these statements.

RAILROAD RETIREMENT BOARD
CONSOLIDATED STATEMENT OF NET COST
FOR THE YEARS ENDED SEPTEMBER 30, 2020 AND 2019
(in dollars)

	FY 2020	FY 2019
Gross Program Costs:		
Railroad Retirement Program		
Gross costs	$13,405,939,255	$13,305,212,735
Less: earned revenue	15,440,772	16,361,177
Net program costs	13,390,498,483	13,288,851,558
Railroad Unemployment and Sickness Insurance Program		
Gross costs	390,648,490	124,220,514
Less: earned revenue	14,063,718	14,677,697
Net program costs	376,584,772	109,542,817
Costs not assigned to programs		
Less: earned revenues not attributed to programs	62,251	29,687
Net cost of operations	**$13,767,021,004**	**$13,398,364,688**

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, 2020
(in dollars)

	FY 2020			
	Funds from Dedicated Collections	**All Other Funds**	**Eliminations**	**Consolidated Total**
Unexpended Appropriations:				
Beginning Balance	$895,391	$147,544,183		$148,439,574
Budgetary Financing Sources:				
Appropriations received	691,873,006	496,000,000		1,187,873,006
Appropriations transferred in/out	0	0		0
Other Adjustments	(126,747)	(1,798,504)		(1,925,251)
Appropriations used	(691,732,872)	(174,854,842)		(866,587,714)
Total Budgetary Financing Sources	13,387	319,346,654		319,360,041
Total Unexpended Appropriations	**$908,778**	**$466,890,837**		**$467,799,615**
Cumulative Results from Operations:				
Beginning Balances	$26,442,457,823	$3,905,154		$26,446,362,977
Adjustments:				
Corrections of errors (+/-)	0	0		0
Beginning Balance, as Adjusted	$26,442,457,823	$3,905,154		$26,446,362,977
Budgetary Financing Sources:				
Appropriations used	691,732,872	174,854,842		866,587,714
Nonexchange revenue	5,185,853,589	58,398	(9,866)	5,185,902,121
Transfers in from NRRIT (Note 10)	2,280,000,000			2,280,000,000
Transfers in/out without reimbursement	4,854,687,357			4,854,687,357
Other Financing Sources (Nonexchange):				
Imputed financing	7,152,527			7,152,527
Change in NRRIT assets	(593,675,974)			(593,675,974)
Gain/(Loss) contingency	136,252,142			136,252,142
Total Financing Sources	12,562,002,513	174,913,240	(9,866)	12,736,905,887
Net Cost of Operations	13,597,114,780	169,916,090	(9,866)	13,767,021,004
Net Change	**(1,035,112,267)**	**4,997,150**	**(0)**	**(1,030,115,117)**
Cumulative Results of Operations	**25,407,345,556**	**8,902,304**		**25,416,247,860**
Net Position	**$25,408,254,334**	**$475,793,141**		**$25,884,047,475**

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	0	0		0
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	0		$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	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
COMBINED STATEMENT OF BUDGETARY RESOURCES
FOR THE YEARS ENDED SEPTEMBER 30, 2020 AND 2019
(in dollars)

	FY 2020	FY 2019
Budgetary Resources		
Unobligated balance from prior year budget authority, net (discretionary and mandatory)	$182,245,726	$180,713,821
Appropriations (discretionary and mandatory)	9,955,876,628	9,856,490,162
Borrowing authority (discretionary and mandatory) Note 18	4,752,400,000	4,241,400,000
Spending authority from offsetting collections (discretionary and mandatory	185,297,130	185,474,554
Total budgetary resources	**$15,075,819,484**	**$14,464,078,537**
Status of budgetary resources		
New obligations and upward adjustments (total)	$14,573,641,372	$14,288,093,497
Unobligated balance, end of year		
Apportioned, unexpired accounts	464,702,756	14,647,257
Unapportioned, unexpired accounts	21,874,330	145,954,920
Unexpired unobligated balance, end of year	486,577,086	160,602,177
Expired, unobligated balance, end of year	15,601,026	15,382,863
Unobligated balance, end of year (total)	502,178,112	175,985,040
Total budgetary resources	**$15,075,819,484**	**$14,464,078,537**
Outlays, net		
Outlays, net (total) (discretionary and mandatory)	$14,464,228,377	$14,030,518,167
Distributed offsetting receipts (-)	(5,530,321,006)	(5,430,917,332)
Agency outlays, net (discretionary and mandatory)	**$8,933,907,371**	**$8,599,600,835**

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, 2019

(Present values in billions of dollars)

	10/1/2019	10/1/2018	10/1/2017	10/1/2016	10/1/2015
Current participants who have attained retirement age:					
Contributions and earmarked taxes	$92.3	$98.4	$87.6	$88.2	$85.3
Expenditures for scheduled future benefits	142.6	151.7	134.6	135.7	131.2
Present Value of estimated future revenue less estimated future expen	(50.3)	(53.3)	(47.0)	(47.5)	(45.8)
Current participants not yet having attained retirement age:					
Contributions and earmarked taxes	92.5	100.2	87.3	91.1	92.5
Expenditures for scheduled future benefits	96.3	104.8	92.3	97.5	99.0
Present Value of estimated future revenue less estimated future expen	(3.8)	(4.6)	(5.0)	(6.5)	(6.5)
Net estimated present value of future revenue less future expenditures for current participants (closed group measure)	(54.1)	(57.9)	(52.0)	(54.0)	(52.4)
Plus: Treasury securities and assets held by the program	27.3	28.3	27.9	26.6	26.3
Closed group surplus/(unfunded obligation)	($26.9)	($29.5)	($24.2)	($27.5)	($26.1)
Future participants:					
Contributions and earmarked taxes	$55.3	$63.2	$52.9	$61.0	$58.0
Expenditures for scheduled future benefits	27.2	32.3	27.5	31.9	30.2
Present Value of estimated future revenue less estimated future expen	28.1	31.0	25.4	29.2	27.8
Net estimated present value of future revenue less future expenditures for current and future participants (open group measure)	(26.0)	(26.9)	(26.6)	(24.9)	(24.6)
Plus: Treasury securities and assets held by the program	27.3	28.3	27.9	26.6	26.3
Open group surplus/(unfunded obligation)	$1.3	$1.4	$1.2	$1.7	$1.7

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

Railroad Retirement Board

Statement of Changes in Social Insurance Amounts

Open Group Measure

For the Two-Year Period Ended September 30, 2019

(dollars in billions)

Net Present Value 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/beginning of year 2019	$ (26.9)
Reasons for changes in the NPV during 2019:	
Changes in valuation period[1]	2.8
Changes in demographic data, assumptions, and methods[2]	(0.2)
Changes in economic data, assumptions, and methods[3]	(1.7)
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 2019	0.9
Net Present Value end of year 2019	$ (26.0)

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, 2020 and 2019

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 2020 are to be submitted to the President, the Congress, and the Director of OMB by November 16, 2020. 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 year balance sheet NRRIT amount is audited and restated. The prior year balance sheet unaudited NRRIT amount was within an acceptable materiality amount, not restated and used to meet the goal of November 15, 2019 for the release of RRB's financial statements. The prior year balance sheet unaudited NRRIT amount was used in the computations for the SOSI.

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 116-94.

- 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. Per Division A of the CAREs Act, section 2114 amends the extended benefits that was originally created by ARRA to use of existing appropriation of $133 million.

- Railroad Unemployment Insurance Waiver of 7 Day Period – 6020/210123: General fund appropriation provided by Division A of the CAREs Act, section 2112.

- Railroad Unemployment Insurance Enhanced Benefit Payments – 60X0122: General fund appropriation provided by Division A of the CAREs Act, section 2113.

- Payment to Limitation on Administration – 6020/210121: General fund provided by the CAREs Act as a pass thru to LOA 6020/218237.

- Limitation on Administration – 6020/218237: General fund passed thru from 6020/210121 under CAREs Act

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 2020 and 2019, net payroll taxes transferred to the RRB by Treasury were $5.1 billion and $6.2 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 2020 and 2019, investments, including accrued interest, totaled $1.3 billion and $1.8 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 2020 due to the financial interchange advances during fiscal year 2019 included principal of $4.3 billion and interest of $121.4 million. 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.

- 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 2020, the RRB trust funds realized $5 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 $2.0 billion for fiscal year 2020 and $1.9 billion for fiscal year 2019.

- CMS participates in the annual financial interchange in the same manner as described for SSA. The RRB transferred $606 million and $570 million to CMS in fiscal years 2020 and 2019, 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 2020 and 2019 were $14.2 million and $13.6 million, respectively. The fiscal year 2020 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 $3.0 million for fiscal year 2020 and $3.4 million for fiscal year 2019.

- The Department of Labor invests RUIA contributions. Accounts receivable with the

Department of Labor amounted to $10 million and $120.4 million for fiscal years 2020 and 2019, respectively.

- NRRIT transfers funds to the RRB for payment of railroad retirement benefits. During fiscal years 2020 and 2019, the NRRIT transferred $2,280 million and $1,794 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:

	2020	2019
1. Status of Fund Balance with Treasury		
(1) Unobligated Balance		
(a) Available	$464,702,756	$14,647,257
(b) Unavailable	21,874,330	145,954,920
(2) Obligated Balance not yet Disbursed	159,925,099	160,794,46
(3) Non-Budgetary FBWT	-	-
Total	**$646,502,184**	**$321,397,023**
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 2020	$1,250,883,000	$1,826,829	$1,252,709,829
Non Marketable Par Value 2019	$1,789,771,000	$ 2,753,204	$1,792,524,204

The balance on September 30, 2020, consisted of investments in 3.000 percent par value specials (with market value equal to face value) maturing on October 1, 2020. 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. 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, 2020 and 2019. These figures were provided to the RRB by the NRRIT for the fiscal years ended September 30, 2020 and 2019.

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:

	2020	2019
Financial Interchange – Principal	$5,311,600,000	$4,961,300,000
Financial Interchange – Interest	84,700,000	90,400,000
Department of Labor	9,928,945	120,402,127
Total	**$5,406,228,945**	**$5,172,102,127**

- *Accounts Receivable, Net*

Accounts receivable, net at September 30 consisted of:

	2020	2019
Accounts receivable – Benefit overpayments	$50,220,742	$47,335,742
Accounts receivable – Past due RUI contributions and taxes	135,467	186,163
Accounts receivable – Interest, penalty & administrative costs	7,340,769	6,536,286
Accounts receivable - Criminal Restitution	14,370,275	15,941,273
Sub-Total	**$72,067,253**	**$69,999,464**

Accounts receivable - Criminal Restitution - Long Island Railroad	297,187,347	297,760,745
Total Gross Receivables	**$369,254,600**	**$367,760,209**
Less: Allowances for doubtful accounts	13,252,711	12,346,291
Less: Allowances for doubtful accounts-Criminal Restitution	4,311,083	4,833,995
Less: Allowances for doubtful accounts-Criminal Restitution - Long Island Railroad	294,215,472	294,663,005
Total Net Receivables	**$57,475,334**	**$55,916,918**

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, 2020		
Classes of Fixed Assets	**Service Lives**	**Cost**	**Accumulated Depreciation**	**Net Book Value**
Structures, facilities and leasehold improvements	15 years	$2,723,793	$2,723,793	$0
IT software	5 years	28,681,752	27,391,563	1,290,189
Equipment	5-10 years	6,747,644	6,692,147	55,497
Internal-Use Software in Development		929,515		929,515
Total		**$39,082,704**	**$36,807,503**	**$2,275,201**

Classes of Fixed Assets	Service Lives	Cost	At September 30, 2019 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**

8. Liabilities

Liabilities at September 30 consisted of:

	2020	2019
A. Intragovernmental:		
(1) Other – Unfunded Federal Employees Compensation Act (FECA) Liability	$134,946	$226,560
B. Public:		
(1) Other – Accrued Unfunded Leave	8,034,502	6,909,971
Total Liabilities Not Covered by Budgetary Resources	**$8,169,448**	**$7,136,531**
Total Liabilities Covered by Budgetary Resources	6,293,416,000	6,158,843,995
Total Liabilities Not Requiring Budgetary Resources	2,657,929	1,562,624
Total Liabilities	**$6,304,243,377**	**$6,167,543,150**

- *Debt*

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

	2020	2019
Beginning Balance, Principal	$3,933,900,000	$3,725,200,000
New Borrowing	4,787,300,000	4,301,200,000
Repayments	(4,336,800,000)	(4,092,500,000)
Ending Balance, Principal	**$4,384,400,000**	**$3,933,900,000**
Accrued Interest	38,828,877	48,321,829
Total	**$4,423,228,877**	**$3,982,221,827**

- *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 $15,902,818 and $15,365,285, at September 30, 2020 and 2019, 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 10,686 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	2020 Total
Intragovernmental:			
Employer Contributions & Payroll Taxes Payable		$1,038,066	$1,038,066
Unfunded FECA Liability		134,947	134,947
Other Liabilities With Related Budgetary Obligations			
Total Intragovernmental		**1,173,013**	**1,173,013**
Accrued Unfunded Liabilities		8,034,502	8,034,502
Accrued Payroll		3,994,020	3,994,020
Accrued RRB Contributions – Thrift Savings Plan		386,322	386,322
Other Unfunded Employment – Related Liability		396,757	396,757
Contingent Liability (see Note 9 for details)	$214,804,525		214,804,525
Other		16,164,686	16,164,686
Total Other Liabilities	**$214,804,525**	**$30,149,300**	**$244,953,825**

	Non-Current	Current	2019 Total
Intragovernmental:			
Employer Contributions & Payroll Taxes Payable		$1,889,067	$1,889,067
Unfunded FECA Liability		(297,709)	(297,709)
Other Liabilities With Related Budgetary Obligations			
Total Intragovernmental		**1,591,358**	**1,591,358**
Accrued Unfunded Liabilities		6,909,972	6,909,972
Accrued Payroll		3,327,843	3,327,843
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**

9. Commitments and Contingencies

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 $23.6 million in claims, the RRB's legal counsel has determined that it is probable that the RR and SSEB Accounts are contingently liable for $23.6 million. 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 $179.2 million, for forthcoming adjustments to the financial interchange for military service credits due SSA.

Commitments: As of September 30, 2020, the RRB had contractual arrangements which may result in future financial obligations of $69.3 million.

Contingent Loss Table

		Estimated Range of Loss	
FY 2020	**Accrued Liabilities**	**Lower End**	**Upper End**
Legal Contingencies:			
Probable	$35,604,525	$35,604,525	$35,604,525
Reasonably Possible	$0	$0	$0
Other Contingencies:			
Probable	$179,200,000	$179,200,000	$179,200,000
Reasonably Possible	$0	$0	$0

		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

10. Transfers To/From NRRIT

The RRB received a total of $2,280 million and $1,794 million from the NRRIT during fiscal years 2020 and 2019, 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

	2020	2019
Federal Undelivered Orders	$0	$0
Non-Federal Undelivered Orders	34,301,979	31,714,188
Total Federal/Non-Federal Undelivered Orders	**$34,301,979**	**$31,714,188**
Paid Undelivered Orders	$0	$0
Unpaid Undelivered Orders	34,301,979	31,714,188
Total Paid/Unpaid Undelivered Orders	**$34,301,979**	**$31,714,188**
Total Undelivered Orders	**$34,301,979**	**$31,714,188**

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, 2019, to amounts included in the Budget of the United States Government. A reconciliation was not performed for the period ended September 30, 2020, since the RRB's Performance and Accountability Report is published in November 2020, 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 2019 (in millions)	Budgetary Resources	New Obligations & Upward Adjustments (Total)	Distributed Offsetting Receipts	Net Outlays
1. Combined Statement of Budgetary Resources – September 30, 2019	$14,464	$14,288	$5,431	$8,600
2. Expenditure Transfers from Trust Funds	(135)			
3. Unobligated Balance, Brought Forward October 1, 2018 as adjusted	(169)			
4. Recoveries of Prior Year Unpaid Obligations	(7)			
5. Sickness Insurance Benefit Recoveries	(15)			
6. Administrative Expense Reimbursement	(35)			
7. Interfund Transfers: Federal Payment Obligations – Income Taxes Collected on Benefits (0113)	(736)			
8. Intrafund Transfers: Receipts from the Old-Age and Survivors Insurance (OASI) Trust Fund	(4,880)			
9. Intrafund Transfers: Receipts from the Disability Insurance (DI) Trust Fund	(71)			
FINANCIAL INTERCHANGE				
10. Accrued Receipts from the OASI and DI Trust Funds			(298)	298
11. Accrued Transfers to the Federal Hospital Insurance Trust Fund			550	(550)
NRRIT				
12. NRRIT Obligations / Outlays	1,853	1,853		1,853
13. Intrafund Transfers: NRRIT Transfer to RRA	(1,794)		1,794	(1,794)
14. Proprietary Receipts: NRRIT – Gains and Losses	(1,56)		156	(156)
15. Proprietary Receipts: NRRIT – Interest and Dividends	(454)		454	(454)
16. Rounding	(1)	(1)	(1)	(1)
17. Budget of the United States Government FY 2019 Actuals	**$7,864**	**$16,140**	**$8,086**	**$7,796**

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 10/1/2017 and 10/1/2018:*** Changes in the valuation period from fiscal years 2018-2092 to fiscal years 2019-2093 resulted in a change of about $(0.5) billion in the open group measure between 10/1/2017 and 10/1/2018.
    - ***Between 10/1/2018 and 10/1/2019*****:** Changes in the valuation period from fiscal years 2019-2093 to fiscal years 2020-2094 had a change of about $2.8 billion in the open group measure between 10/1/2018 and 10/1/2019.
  - Changes in demographic data, assumptions, and methods:
    - ***Between 10/1/2017 and 10/1/2018:*** 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.

- ***Between 10/1/2018 and 10/1/2019***: Demographic assumptions were not changed between the Statement of Social Insurance as of 10/1/2018 and the Statement of Social Insurance as of 10/1/2019. Changes in demographic data resulted in a change of about $(0.2) in the open group measure between 10/1/2018 and 10/1/2019.

- Changes in economic data, assumptions, and methods:

  - ***Between 10/1/2017 and 10/1/2018:*** 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. The actual rate of investment return for the quarter ending 12/31/2018 was -7.1%. Changes in economic data and assumptions resulted in a change about $0.2 billion in the open group measure from 10/1/2017 to 10/1/2018.

  - ***Between 10/1/2018 and 10/1/2019:*** Ultimate economic assumptions were not changed between the Statement of Social Insurance as of 10/1/2018 and the Statement of Social Insurance as of 10/1/2019, but there were changes in select economic assumptions. The actual COLA of 1.6% was used for 2020 in place of the 1.4% COLA assumed for 2020 in the prior year's report. A 0.5% COLA was assumed for 2021 instead of a 2.0% COLA, and a 1.5% COLA was assumed for 2022 instead of a 2.6% COLA. A 2.0 wage increase assumption was used for 2020 instead of a 3.6% wage increase assumption. The actual rate of investment return for the quarter ending 12/31/2019 was 5.3%. Finally, a 0% investment return was assumed for 2020 instead of the 7% ultimate investment return. Changes in economic data and assumptions resulted in a change about $(1.7) billion in the open group measure from 10/1/2018 to 10/1/2019.

- 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.

To estimate the 2020 investment return for the long-term projections needed for the Statement of Social Insurance, a benchmark consisting of 65% invested in the Federal Thrift Savings Plan (TSP) C Fund and 35% invested in the TSP F Fund with monthly rebalancing was used. Through April 30, 2020, this portfolio return was -4.2%. This was the latest available market data at the time. The actual asset return for the combined NRRIT, RR, and SSEB accounts has been over 95% correlated with an investment portfolio of the C-Fund and F-Fund with a 65%/35% allocation. A 95% correlation indicates that the returns have historically been very similar and provide a reasonable and appropriate basis to develop the assumed return for 2020. For the last eight months of 2020, the 7% long-term interest rate assumption was used, resulting in a return of 4.6%. This yields an estimated average investment return for 2020 of 0.2%, which was rounded to 0.0%. Using this assumption for 2020, the open group surplus as of October 1, 2019, is $1.26 billion (rounded to $1.3 billion in the Statement of Social Insurance). In the past, the ultimate long-term interest rate assumption has generally been used for all years of the projection. Had the ultimate long-term interest rate of 7% been used for 2020, the open group surplus as of October 1, 2019, would have been $1.21 billion (rounded to $1.2 billion and shown in Table 2 of the Required Supplementary Information).

In calculating the 75-year projections of income and expenditures for the Statement of Social Insurance, the actual rate of return for the period 10/1/2019–12/31/2019 was used rather than the long-term investment return assumption of 7%. The actual rate of return for this period is a significant fact that was taken into account, as it was known at the time the projections were calculated.

Because of the way the RUI experience rating system is structured, there is no long-term financial impact on the Trust funds due to the loans from the RR account to the RUI account.

15. <u>Significant Assumptions</u>

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 2020 Section 502 Report. Under employment assumption II, starting with an average 2019 employment of 214,000, (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 an annual rate of 8.0 percent for the first year, at a constant annual rate of 2.0 percent for the next 24 years, at a reducing rate over the next 25 years, and remain level thereafter..

Actuarial assumptions are those published in the Technical Supplement to the "Twenty-Seventh Actuarial Valuation of the Assets and Liabilities Under the Railroad Retirement Acts as of December 31, 2016." This may be found on the RRB's website, www.RRB.gov.

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

Table S-1.	2013 Base Year RRB Annuitants Mortality Table
Table S-2.	2013 Base Year RRB Disabled Mortality Table for Annuitants with Disability Freeze
Table S-3.	2013 Base Year RRB Disabled Mortality Table for Annuitants without Disability Freeze
Table S-4.	2012 RRB Active Service Mortality Table
Table S-5.	2013 Base Year RRB Spouse Total Termination Table
Table S-6.	Probability of a retired employee having a spouse eligible for railroad retirement benefits
Table S-7.	2013 RRB Mortality Table for Widows
Table S-8.	1997 RRB Remarriage Table
Table S-9.	2004 RRB Total Termination Table for Disabled Children
Table S-10.	2013 RRB Mortality Improvement Scale
Table S-11.	Calendar year rates of immediate age retirement
Table S-12.	Rates of immediate disability retirement and of eligibility for disability freeze
Table S-13.	Calendar year rates of final withdrawal
Table S-14.	Service months and salary scales
Table S-15.	Family characteristics of railroad employees assumed for the valuation of survivor benefits

Note 16 Funds from Dedicated Collections*

	8010 SSEB	8011 RRA	8051.001 RUIA Benefit Payments	0113 Federal Payments to RR Accounts	8237 Limitation on Administration	8051.002 RUIA Admin Expenses	8018 Limitation on OIG	Eliminations	Total Funds from Dedicated Collections*
Balance Sheet as of September 30, 2020									
Assets									
Fund Balance with Treasury	$29,859,506	$43,454,421	$24,867,509	$857,902	$59,469,976	$3,333,582	$7,470,885	$0	$169,313,781
Investments	945,386,041	307,323,788	0	0	0	0	0	0	1,252,709,829
NRRIT Net Invested Assets	0	24,822,289,000	0	0	0	0	0	0	24,822,289,000
Taxes and Interest Receivable	5,396,300,000	43,327,042	14,657,010	0	41,088	8,129,007	3,090	(1)	5,462,457,237
Other Assets	0	22,000,000	0	0	2,303,992	0	781,568	22,000,000	3,085,560
Total Assets	**6,371,545,547**	**25,238,394,251**	**39,524,519**	**857,902**	**61,815,056**	**11,462,589**	**8,255,544**	**21,999,999**	**31,709,855,407**
Liabilities Due and Payable	5,529,980,641	499,694,629	25,406,217	0	1,207,219	(227,936)	32,350	(1)	6,056,093,119
Other Liabilities	179,200,000	51,767,231	22,000,000	0	13,504,345	0	1,036,378	22,000,000	245,507,954
Total Liabilities	**5,709,180,641**	**551,461,860**	**47,406,217**	**0**	**14,711,564**	**(227,936)**	**1,068,728**	**21,999,999**	**6,301,601,073**
Unexpended Appropriations	0	0	0	857,902	50,876	0	0	0	908,778
Cumulative Results of Operations	662,364,906	24,686,932,391	(7,881,698)	0	47,052,616	11,690,525	7,186,816	0	25,407,345,556
Total Liabilities and Net Position	**$6,371,545,547**	**$25,238,394,251**	**$39,524,519**	**$857,902**	**$61,815,056**	**$11,462,589**	**$8,255,544**	**$21,999,999**	**$31,709,855,407**
Statement of Net Cost for the Period Ended September 30, 2020									
Gross Program Costs	$7,645,028,649	$5,598,358,284	$212,774,592	$9,866	$159,399,175	$0	$11,527,299	($434,866)	$13,626,663,000
Less Earned Revenues	0	12,262	14,055,063	0	14,059,746	0	1,846,751	(425,000)	29,548,823
Net Program Costs	**7,645,028,649**	**5,598,346,022**	**198,719,529**	**9,866**	**145,339,429**	**0**	**9,680,548**	**(9,866)**	**13,597,114,177**
Costs Not Attributable to Program Costs									0
Less Earned Revenues Not Attributable to Program Costs	0	2,710	0	0	6,553	0	0	0	9,263
Net Cost of Operations	**$7,645,028,649**	**$5,598,343,312**	**$198,719,529**	**$9,866**	**$145,332,876**	**$0**	**$9,680,548**	**($9,866)**	**$13,597,104,914**
Statement of Changes in Net Position for the Period Ended September 30, 2020									
Net Position Beginning of Period	$772,382,488	$25,481,269,460	$127,356,433	$844,516	$46,490,885	$9,157,904	$5,851,529	$0	26,443,353,214
Corrections of errors (+/-)									
Beginning Balance, as Adjusted	$772,382,488	$25,481,269,460	$127,356,433	$844,516	$46,490,885	$9,157,904	$5,851,529	$0	$26,443,353,214
Appropriations Received	0	0	0	691,873,006	0	0	0	0	691,873,006
Expended Appropriations	0	0	0	(691,732,872)	0	0	0	0	(691,732,872)
Other Adjustments	0	0	0	(126,747)	0	0	0	0	(126,747)
Appropriations Used	0	0	0	691,732,872	0	0	0	0	691,732,872
Taxes and Non-Exchange Revenue	2,353,347,928	2,749,876,320	55,443,538	0	0	27,185,803	0	(9,866)	5,185,843,722
Other Financing Sources	5,181,663,140	231,553,755	8,037,861	(691,723,007)	145,946,237	(24,653,182)	11,015,077	0	4,861,839,882
Transfers In From NRRIT	0	2,280,000,000	0	0	(0)	0	0	0	2,280,000,000
Change in NRRIT Assets	0	(593,675,974)	0	0	0	0	0	0	(593,675,974)
Gain/(Loss) contingency	0	136,252,142	0	0	(0)	0	0	0	136,252,142
Net Cost of Operations	(7,645,028,649)	(5,598,343,312)	(198,719,529)	(9,866)	(145,332,876)	-	(9,680,548)	9,866	(13,597,104,914)
Change in Net Position	(110,017,581)	(794,337,069)	(135,238,130)	13,386	613,361	2,532,621	1,334,529	0	(1,035,098,885)
Net Position End of Period	**$662,364,907**	**$24,686,932,391**	**($7,881,697)**	**$857,902**	**$47,104,246**	**$11,690,525**	**$7,186,058**	**$0**	**$25,408,254,332**

*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, 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

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 $4,752,400,000.

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 $593.7 million in NRRIT net assets from the SOSI, October 1, 2019, valuation date and the September 30, 2020, balance sheet date. Other than this event, no other material events or transactions have occurred subsequent to September 30, 2020 of which we are aware. We have evaluated subsequent events through November 16, 2020, the date the financial statements were released.

21. Permanent Indefinite Appropriations

In fiscal year 2020, 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. 60X0122 – Railroad Unemployment Insurance Enhanced Benefit Payments, 060X0122, funds railroad unemployment insurance benefits provided by the Coronavirus Aid, Relief, and Economic Security Act, or the CARES Act of 2020, P.L 116-136. Our authority to use these collections is P.L. 116-136.

c. 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).

d. 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).

e. 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.

f. 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 2020, including CARES Act payments. 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 2020 offset by higher delivered orders unpaid in Fiscal Year 2020.

Budget and Accrual Reconciliation for
For the year ended September 30, 2020

	Intra-governmental	With the public	Total FY 2020
NET COST	**$135,362,139**	**$13,631,658,865**	**$13,767,021,004**
Components of Net Cost That Are Not Part of Net Outlays:			
Other			
Increase/(decrease) in assets:			
Accounts receivable	(5,466,847,003)	828,645	(5,466,018,358)
Investments			
Other assets	(129,267)	(1,225,626)	(1,354,893)
(Increase)/decrease in liabilities:			
Accounts payable	(111,900,987)	18,328,681	(93,572,306)
Salaries and benefits	(47,034)	(927,237)	(974,271)
Insurance and guarantee program liabilities			
Environmental and disposal liabilities			
Other liabilities	627,816,344	(780,445)	627,035,899
Other financing sources:			
Federal employee retirement benefit costs paid by OPM and imputed to the agency	(7,152,527)		(7,152,527)
Transfers out (in) without reimbursement	684,320,504		684,320,504
Total Components of Net Cost That Are Not Part of Net Outlays	**(4,273,939,970)**	**16,224,018**	**(4,257,715,952)**
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		(575,397,681)	(575,397,681)
Total Components of Net Outlays That Are Not Part of Net Cost		(575,397,681)	(575,397,681)
Other Temporary Timing Differences			
NET OUTLAYS	**($4,138,577,831)**	**$13,072,485,202**	**$8,933,907,371**

Budget and Accrual Reconciliation for
For the year ended 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**

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 Government-wide 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 Railroad Retirement Board's (financial statements and Railroad Retirement Board'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 2020 FR will be posted to this site as soon as it is released. The term "intragovernmental" is used in this note to refer to amounts that result from other components of the Federal Government.

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 individuals, businesses, non-profit entities, and State, local, and foreign governments.

Reclassification of Balance Sheet to Line Items Used for the Government-wide Balance Sheet as of September 30, 2020

FY 2020 Railroad Retirement Board Balance Sheet		Line Items Used to Prepare FY 2020 Government-wide Balance Sheet					
Financial Statement Line	**Amounts**	**Dedicated Collections Combined**	**Dedicated Collections Eliminations**	**All Other Amounts (with Eliminations)**	**Eliminations Between Dedicated and All Other**	**Total**	**Reclassified Financial Statement Line**
ASSETS							
Intragovernmental:							Intragovernmental:
Fund Balance with Treasury	646,502,184	169,313,781	0	477,188,403	0	646,502,184	Fund Balance with Treasury (Note 3)
Investments	1,252,709,829	1,250,883,000	0	0	0	1,250,883,000	Federal investments (Note 5)
		1,826,829	0	0	0	1,826,829	Interest receivable - investments (Note 5)
Accounts Receivable	5,406,228,945	5,406,228,940	1	0	0	5,406,228,941	Transfers receivable
		22,000,000	(22,000,000)	0	0	0	Loans receivable
Other	782,709	782,709	0	0	0	782,709	Advances to others and prepayments
Total Intragovernmental	7,306,223,667	6,851,035,259	(21,999,999)	477,188,403	0	7,306,223,664	Total Intragovernmental
NRRIT Net Assets*	24,822,289,000	24,822,289,000	0	0	0	24,822,289,000	Securities and investments (Note 5)
Accounts Receivable, Net	57,475,334	56,228,296	0	1,247,038	0	57,475,334	Accounts Receivable, Net
General Property, Plant and Equipment, Net	2,275,201	2,275,201	0	0	0	2,275,201	General property, plant, and equipment, net (Note 10)
Other	27,650	27,650	0	0	0	27,650	Other assets (Note 12)
TOTAL ASSETS	32,188,290,852	31,731,855,407	(21,999,999)	478,435,441	0	32,188,290,849	TOTAL ASSETS
LIABILITIES							LIABILITIES
Intragovernmental:							Intragovernmental
Accounts Payable	476,596,930	476,599,999	1	0	0	476,600,000	Transfers payable
		(3,070)	0	0	0	(3,070)	Interest payable - loans and not otherwise classified
Debt	4,423,228,877	38,828,877	0	0	0	38,828,877	Interest payable - loans and not otherwise classified
		4,406,400,000	(22,000,000)	0	0	4,384,400,000	Loans payable
Other	1,173,013	1,125,978	0	0	0	1,125,978	Benefit program contributions payable (Note 15)
		47,034	0	0	0	47,034	Other liabilities (without reciprocals) (Note 15)
Total Intragovernmental	4,900,998,820	4,922,998,818	(21,999,999)	0	0	4,900,998,820	Total Intragovernmental
Accounts Payable	2,164,134	1,796,769	0	367,366	0	2,164,134	Accounts payable
Benefits Due and Payable	1,157,299,611	1,155,024,674	0	2,274,937	0	1,157,299,611	Benefits due and payable
Other	243,780,812						
		8,817,580	0	0	0	8,817,580	Federal employee and veteran benefits payable (Note 15)
		234,963,232	0	0	0	234,963,232	Other liabilities (Notes 17, 18, and 19)
TOTAL LIABILITIES	6,304,243,377	6,323,601,073	(21,999,999)	2,642,303	0	6,304,243,377	TOTAL LIABILITIES
COMMITMENTS AND CONTINGENCIES							COMMITMENTS AND CONTINGENCIES
NET POSITION							NET POSITION
Unexpended Appropriations - Funds from Dedicated Collections	908,778	908,777	0	0	0	908,777	Unexpended appropriations - Funds from Dedicated Collections
Unexpended Appropriations - All Other Funds	466,890,837	0	0	466,890,834	0	466,890,834	Unexpended appropriations - Funds other than those from Dedicated Collections
Cumulative Results of Operations - Funds from Dedicated Collections	25,407,345,556	25,407,345,556	996	0	0	25,407,346,553	Cumulative results of operations - Funds from Dedicated Collections
Cumulative Results of Operations - All Other Funds	8,902,304	0	0	8,902,304	(996)	8,901,308	Cumulative results of operations - Funds other than those from Dedicated Collections
Total Net Position - Funds from Dedicated Collections	25,408,254,334	25,408,254,333	996	0	0	25,408,255,330	Total Net Position - Funds from Dedicated Collections
Total Net Position - All Other Funds	475,793,141	0	0	475,793,138	(996)	475,792,142	Total Net Position - All Other Funds
TOTAL NET POSITION	25,884,047,475	25,408,254,333	996	475,793,138	(996)	25,884,047,471	TOTAL NET POSITION
TOTAL LIABILITIES AND NET POSITION	32,188,290,852	31,731,855,405	(21,999,003)	478,435,441	(996)	32,188,290,847	TOTAL LIABILITIES AND NET POSITION

Difference due to rounding $5

Reclassification of Statement of Net Cost to Line Items Used for the Government-wide Statement of Net Cost for the Year Ending September 30, 2020

FY 2020 Railroad Retirement Board SNC		Line Items Used to Prepare FY 2020 Government-wide SNC					
Financial Statement Line	**Amounts**	**Dedicated Collections Combined**	**Dedicated Collections Eliminations**	**All Other Amounts (with Eliminations)**	**Eliminations Between Dedicated and All Other**	**Total**	**Reclassified Financial Statement Line**
Gross Program Costs:							
Railroad Retirement Program							
Gross Costs	13,405,939,255						***Non-Federal Costs***
		13,240,952,723	0	14,142,895	0	13,255,095,618	Non-Federal Gross Costs
							Intragovernmental Costs
		19,609,672	0	0	0	19,609,672	Benefit Program Costs
		7,152,527	0	0	0	7,152,527	Imputed Costs
		7,089,578	(425,000)	0	0	6,664,578	Buy/Sell Costs
		111,910,853	(9,866)	0	0	111,900,986	Borrowing and Other Interest Expense
		5,515,874	0	0	0	5,515,874	Other expenses (without reciprocals)
Total Gross Costs	13,405,939,255	13,392,231,226	(434,866)	14,142,895	0	13,405,939,255	*Total Reclassified Gross Costs*
Less: Earned Revenue	15,440,772						
		12,262	0	0	0	12,262	Non-federal earned revenue
		15,853,510	(425,000)	0	0	15,428,510	Federal Buy/sell revenue (exchange)
Total Earned Revenue	15,440,772	15,865,772	(425,000)	0	0	15,440,772	Total Reclassified Earned Revenue
Net Program Costs	13,390,498,483	13,376,365,454	(9,866)	14,142,895	0	13,390,498,483	
Railroad Unemployment and Sickness Insurance Program							
Gross Costs	390,648,490						
		234,866,640	0	155,781,850	0	390,648,490	Non-federal gross cost
Total Gross Costs	390,648,490	234,866,640	0	155,781,850	0	390,648,490	*Total Reclassified Gross Costs*
Earned Revenue	14,063,718						
		14,055,063	0	8,655	0	14,063,718	Non-federal earned revenue
Total Earned Revenue	14,063,718	14,055,063	0	8,655	0	14,063,718	Total Reclassified Earned Revenue
Net Program Costs	376,584,772						
		220,811,576	0	155,773,195	0	376,584,772	
Costs not assigned to programs							
Less: earned revenues not attributed to programs	62,251						
		9,263	0	0	0	9,263	Non-federal earned revenue
		52,988	0	0	0	52,988	Federal Buy/sell revenue (exchange)
Total Earned Revenue not attributed to programs	62,251	62,251	0	0	0	62,251	
Net Cost of Operations	$13,767,021,004	$13,597,114,780	(9,866)	$169,916,090	$0	$13,767,021,004	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 Ending September 30, 2020

FY 2020 Railroad Retirement Board SCNP		Line Items Used to Prepare FY 2020 Government-wide SCNP					
Financial Statement Line	**Amounts**	**Dedicated Collections Combined**	**Dedicated Collections Eliminations**	**All Other Amounts (with Eliminations)**	**Eliminations Between Dedicated and All Other**	**Total**	**Reclassified Financial Statement Line**
UNEXPENDED APPROPRIATIONS							
Unexpended Appropriations, Beginning Balance	148,439,574	895,390	0	147,544,180	0	148,439,570	Net Position, Beginning of Period
Appropriations Received	1,187,873,006	691,873,006	0	496,000,000	0	1,187,873,006	Appropriations Received as Adjusted
Other Adjustments	(1,925,251)	(126,747)	0	(1,798,504)	0	(1,925,251)	Appropriations Received as Adjusted
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	(866,587,714)	(691,732,872)	0	(174,854,842)	0	(866,587,714)	Appropriations Used (Federal)
Total Unexpended Appropriations	467,799,615	908,777	0	466,890,834	0	467,799,611	
CUMULATIVE RESULTS OF OPERATIONS							
Cumulative Results, Beginning Balance	26,446,362,977	26,442,457,823	0	3,905,155	0	26,446,362,977	Net Position, Beginning of Period
Corrections of Errors							Corrections of Errors
Appropriations Used	866,587,714	691,732,872	0	174,854,842	0	866,587,714	Appropriations expended
Change in NRRIT assets	(593,675,974)	(593,675,974)	0	0	0	(593,675,974)	Other taxes and receipts
Gain/Loss contingency	136,252,142	136,252,142	0	0	0	136,252,142	Other taxes and receipts
Non-Exchange Revenues	5,185,902,121						
		121,299,842	0	57,402	0	121,357,244	Other taxes and receipts
		36,599,414	0	0	0	36,599,414	Federal securities interest revenue including associated gains and losses (non-exchange) (RC 03) /1
		8,870	(8,870)	996	(996)	0	Borrowings and other interest revenue (non-exchange)
		5,027,945,463	0	0	0	5,027,945,463	Other taxes and receipts
Total Non-Exchange Revenues	5,185,902,121	5,185,853,589	(8,870)	58,398	(996)	5,185,902,121	*Total Reclassified Non-Exchange Revenues*
Transfers from NRRIT	2,280,000,000	2,280,000,000	0	0	0	2,280,000,000	Expenditure transfers-in of financing sources
Transfers In/Out w/o Reimbursement-Budgetary	4,854,687,357						
		91,879,344	(91,977,247)	0	0	(97,903)	Non-expenditure transfers-in of unexpended appropriations and financing sources
		(91,879,344)	91,977,247	0	0	97,903	Non-expenditure transfers-out of unexpended appropriations and financing sources
		6,178,949,180	(826,745,956)	5,000,000	(5,000,000)	5,352,203,224	Expenditure transfers-in of financing sources
		(1,324,261,823)	826,745,956	(5,000,000)	5,000,000	(497,515,867)	Expenditure transfers-out of financing sources
Total Transfers In/Out w/o Reimbursement-Budgetary	4,854,687,357	4,854,687,357	0	0	0	4,854,687,357	*Total Reclassified Transfers-In/Out w/o Reimbursement – Budgetary*
Imputed Financing	7,152,527	7,152,527	0	0	0	7,152,527	Imputed Financing Sources (Federal)
Total Financing Sources	12,736,905,887	12,562,002,513	(8,870)	174,913,240	(996)	12,736,905,887	
Net Cost of Operations	13,767,021,004	13,597,114,780	(9,866)	169,916,090	0	13,767,021,004	Net Cost
Net Change	(1,030,115,117)	(1,035,112,267)	996	4,997,149	(996)	(1,030,115,117)	
Ending Balance-Cumulative Results of Operations	25,416,247,860	25,407,345,556	996	8,902,304	(996)	25,416,247,860	**Net Position-Ending Balance**
Total Net Position	$25,884,047,475	$25,408,254,333	$996	$475,793,138	-$996.33	$25,884,047,471	**Total Net Position**

$4 Difference due to rounding

24. Covid-19 Activity

Public Law (P.L.) 116-136, *Coronavirus Aid, Relief, and Economic Security Act of 2020* (CARES Act) was enacted in fiscal year 2020 and it is meant to address the economic fallout of the 2020 coronavirus pandemic in the United States. It includes 3 provisions that impact the payment of benefits under the Railroad Unemployment Insurance Act, each having a separate Treasury appropriation for the payment of those benefits.

Section 2112 of the CARES Act provides for the waiver of the 7-day waiting period for both unemployment and sickness benefits for registration periods beginning March 28, 2020 through periods beginning December 31, 2020. This provision is funded by a separate Treasury appropriation of $50M and is payable until the end of a person's entitlement or until the appropriation runs out, whichever comes first.

Section 2113 of the CARES Act provides for the payment of enhanced unemployment benefits in the amount of $1,200.00 for registration periods beginning on or after April 1, 2020 through periods beginning July 31, 2020. This provision is funded by a separate Treasury appropriation of $425M and is payable until the end of a person's entitlement or until the appropriation runs out, whichever comes first.

Section 2114 of the CARES Act provides for the payment of extended unemployment benefits for anyone who received regular unemployment benefits in the benefit year that began July 1, 2019 and ending June 30, 2020. Employees with less than 10 years of service are entitled to 65 days of extended unemployment benefits and employees with 10 or more years of service are entitled to 65 additional days of extended unemployment benefits through registration periods beginning December 31, 2020. This provision is funded by a separate Treasury appropriation using remaining funds previously appropriated under P.L. 111-5, *American Recovery and Reinvestment Act of 2009* and P.L. 111-92, *Worker, Homeowner, Business Assistance Act of 2009* of approximately $142M. These benefits are payable until the end of a person's entitlement or until the appropriation runs out, whichever comes first.

As of September 30, 2020, the RRB has implemented Sections 2112, 2113 and 2114 and has expended $5,307,495, $134,767,510, $12,713,804 respectively.

Additionally, the CARES Act provided an additional $5M for the RRB's Limitation of Administration account to remain available until September 30, 2021. The funding provided therein is to prevent, prepare for, and respond to coronavirus, including the purchase of information technology equipment to improve the mobility of the workforce and provide for additional hiring or overtime hours as needed to administer the Railroad Unemployment Insurance Act. As of September 30, 2020 the RRB has obligated $4,130,099 of the $5M.

The accounts established for the CARES Act funds are listed in note 1 to the financial statements.

Required Supplementary Information

Social Insurance

Program Financing

Payroll taxes paid by railroad employers and 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 that social security would have received and computing the amount of additional benefits that 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 $85.9 billion, or 35.8% of the estimated future revenue of $240.1 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, 2019. The figures in the table are based on the 2020 Section 502 Report extended through fiscal year 2094. The present values of estimated future revenue and expenditures in the table are based on estimates of revenue and expenditures through the fiscal year 2094. 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 2020 Section 502 Report. Under employment assumption II, starting with an average 2019 employment of 214,000, (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 an annual rate of 8.0 percent for the first year, a constant annual rate of 2.0 percent for the next 24 years, at a reducing rate for 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.

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

The SOSI and the required supplementary information are based on actuarial and economic assumptions used in the 2020 Section 502 Report extended through fiscal year 2094, 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;

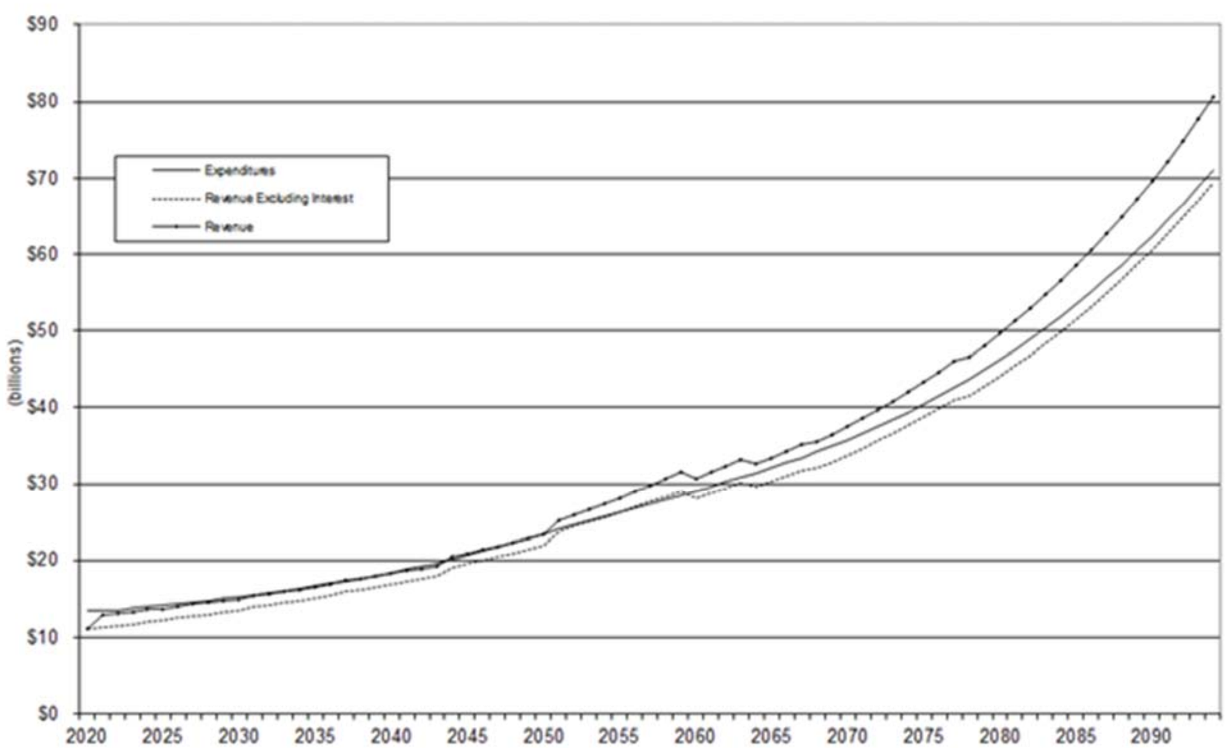
(2) estimated annual revenue excluding interest and expenditures in nominal dollars and as a percentage of taxable payroll;

(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.

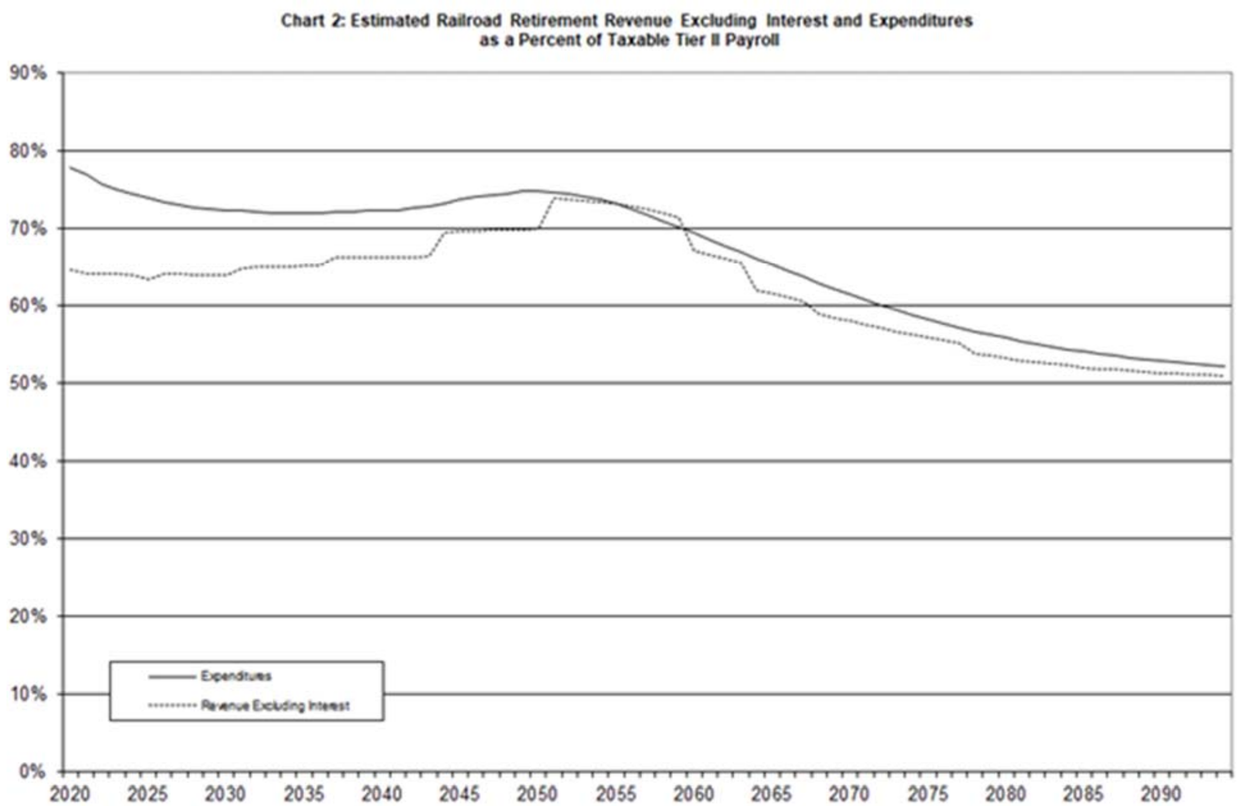
Chart 1: Estimated Revenue and Expenditures



Cashflow Projections – Chart 1 shows actuarial estimates of railroad retirement annual revenue, revenue excluding interest, and expenditures for 2020-2094 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 2037, 2044 through 2047, and 2051 through 2094. Without investment income, however, annual expenditures are greater than annual revenue throughout most of the period, except in 2056 through 2059. 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 remain relatively stable, ranging between 72% and 78% through 2057, 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.



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, 2019, and are based on estimates of revenue and expenditures during the fiscal years 2020-2094 projection period.

Employment: Average employment in the railroad industry has been in decline for decades. Although employment was relatively stable between 2000 and 2015, 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 2019 is equal to 214,000. Employment assumptions I and II, based on a model developed by the Association of American Railroads, assumed that (1) passenger employment will remain at the level of 48,000 and (2) except as noted below, 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 differed 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. In 2020, an additional decline in freight employment of 5, 6 or 7 percent between 2019 and 2020 is assumed to recognize a decline in employment to 197,000 in January 2020. The assumed declines in freight employment for 2020 are thus 5.5 percent, 8 percent, and 10.5 percent under employment assumptions I, II and III, respectively. 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, 2020-2094
(in billions)

Employment Assumption	I	II	III
Present Value	$2.3	$1.3	$(2.4)
Average Tier II tax rate[a]	17.6%	19.8%	21.7%

[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

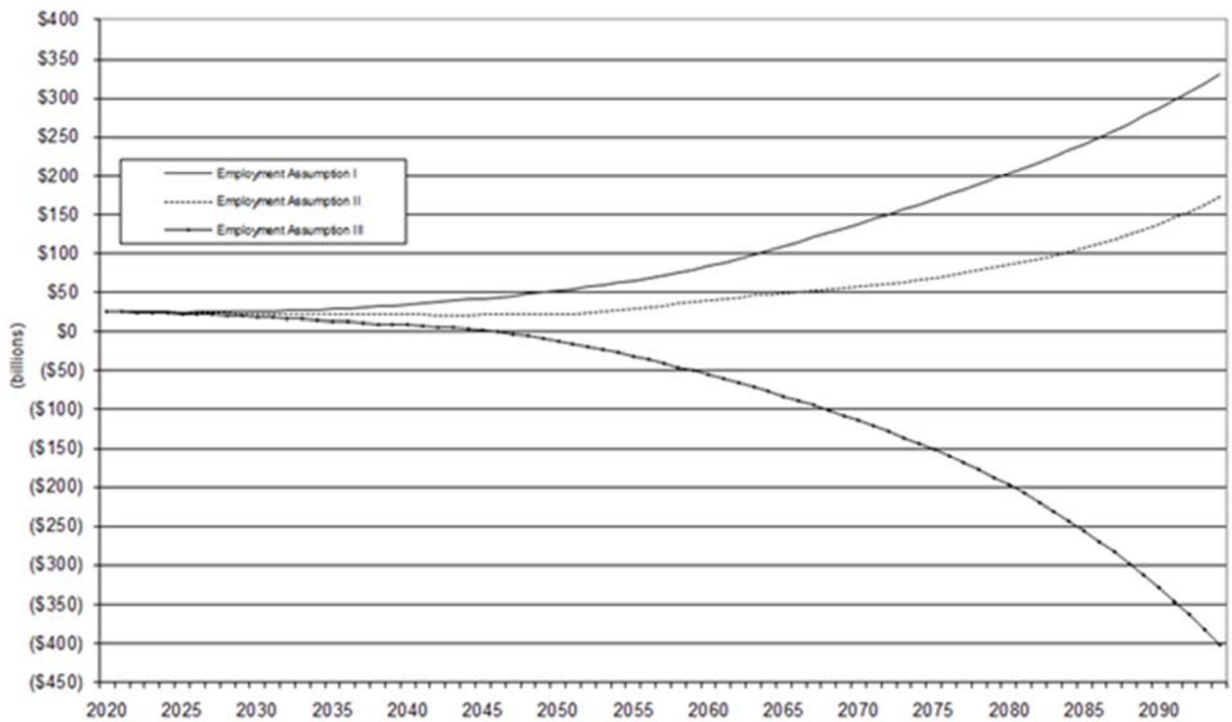


Chart 3a shows the combined balance of the accounts under each of the three employment assumptions. Note that the combined account balance is positive throughout the entire period for assumptions I and II but becomes negative in 2046 for assumption III and remains so throughout the remainder of the period. 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

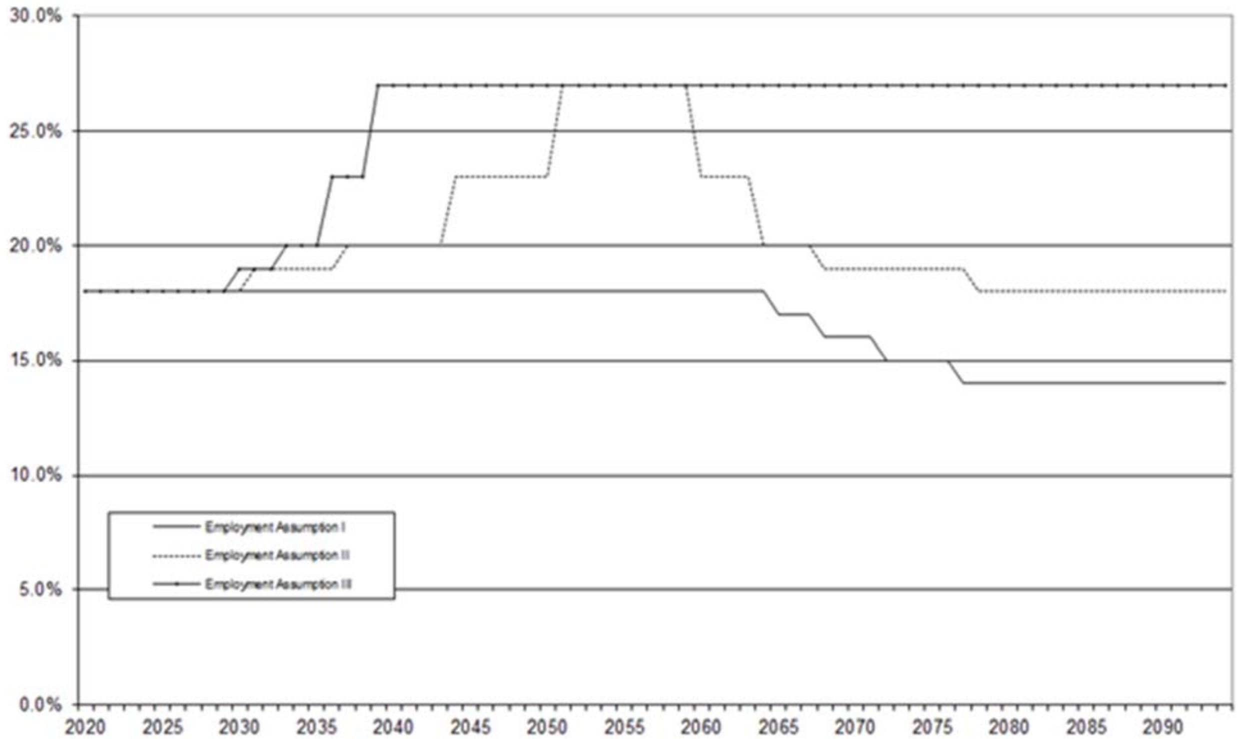


Chart 3b shows the tier II tax rate under these employment assumptions. The tax rate reaches 14 percent in 2077 under employment assumption I and remains at that level through the end of the projection period. Under employment assumption II, the tax rate first increases to 27 percent in 2051 through 2059 and then decreases until it reaches 18 percent in 2078, 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 2039, 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, 2020-2094
(in billions)

Investment Return Assumption	4%	7%	10%
Present Value	$5.7	$1.2	$0.8
Average Tier II tax rate	22.2%	19.4%	16.0%

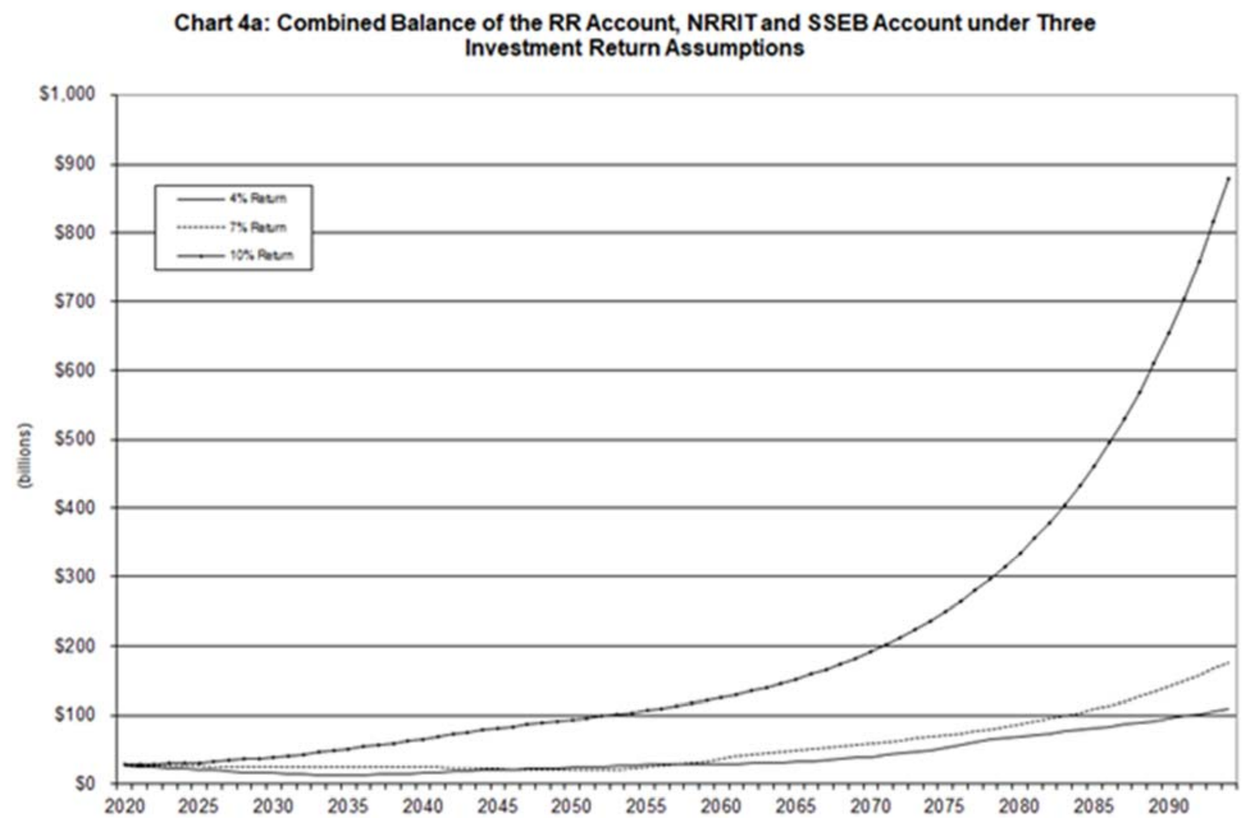


Chart 4a shows the combined account balance under the three investment return assumptions for the projection period. At a 4 percent investment return, the account balance remains positive, reaching its lowest value in 2036, and then increases until 2056, decreases for the next two years, and then increases again through the remainder of the projection period. With a 7 percent investment return, the account balance decreases through 2052, after which it increases again through the remainder of the projection period. A 10 percent investment return results in a combined balance that increases throughout the projection period. Although the 4 percent scenario shows the lowest account balance at the end of the projection period, the concurrent use of a 4 percent discount rate results in the highest surplus on January 1, 2020.

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

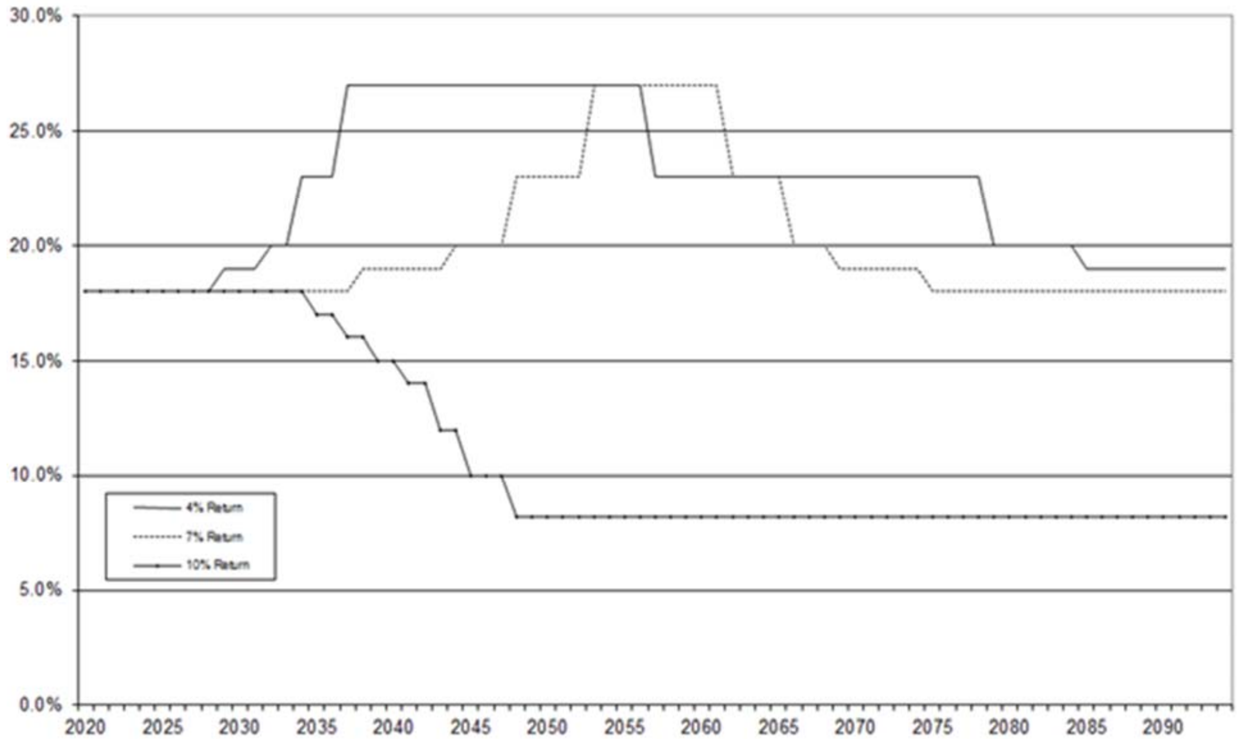
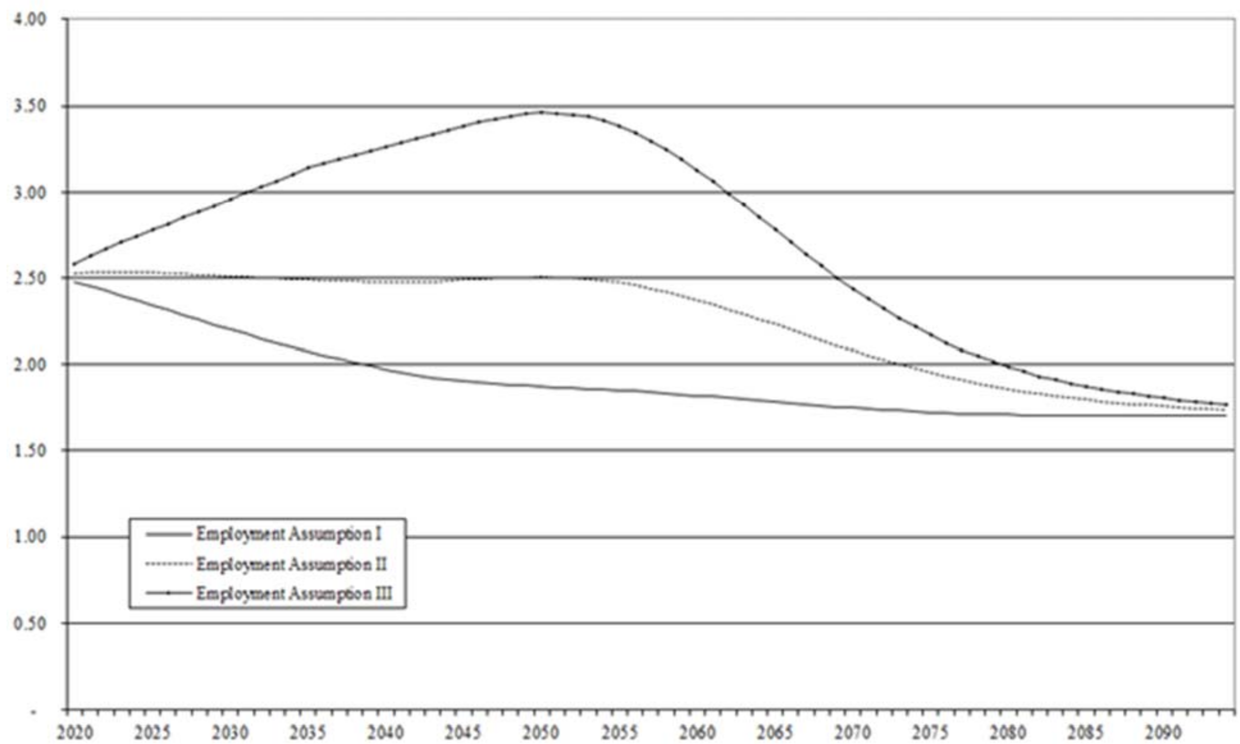


Chart 4b shows the tier II tax rate under the same three investment return assumptions. With a 4 percent investment return, the maximum tier II tax rate of 27 percent applies in 2037 through 2056. With the 7 percent investment return, the maximum tax rate applies in 2053 through 2061. With a 10 percent 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 2020. For assumption II, the ratio is approximately 2.5 through 2056 before it decreases. For assumption III, the ratio increases until it is highest in 2050 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, 2020

(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)	$34,122,460	$144,055,288	$4,067,978	$182,245,726
Appropriations (discretionary and mandatory)	9,261,557,970	694,318,658	-	9,955,876,628
Borrowing authority (discretionary and mandatory) Note 18	4,752,400,000	-	-	4,752,400,000
Spending authority from offsetting collections (discretionary and mandatory)	157,578,588	14,871,790	12,846,752	185,297,130
Total budgetary resources	**$14,205,659,018**	**$853,245,736**	**$16,914,730**	**$15,075,819,484**
Status of budgetary resources				
New obligations and upward adjustments (total)	$14,170,562,965	$391,035,922	$12,042,485	$14,573,641,372
Unobligated balance, end of year				
Apportioned, unexpired accounts	11,771,462	452,931,294	-	464,702,756
Unapportioned, unexpired accounts	12,070,046	9,278,520	525,764	21,874,330
Unexpired unobligated balance, end of year	23,841,508	462,209,814	525,764	486,577,086
Expired unobligated balance, end of year	11,254,545	-	4,346,481	15,601,026
Unobligated balance, end of year (total)	35,096,053	462,209,814	4,872,245	502,178,112
Total budgetary resources	**$14,205,659,018**	**$853,245,736**	**$16,914,730**	**$15,075,819,484**
Outlays, net				
Outlays, net (total) (discretionary and mandatory)	$14,104,865,389	$361,234,972	($1,871,984)	$14,464,228,377
Distributed offsetting receipts (-)	(5,530,321,006)	-	-	(5,530,321,006)
Agency outlays, net (discretionary and mandatory)	**$8,574,544,383**	**$361,234,972**	**($1,871,984)**	**$8,933,907,371**

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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, 2020 and 2019; 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, 2019, October 1, 2018, October 1, 2017, October 1, 2016, and October 1, 2015, the statement of changes in social insurance amounts for the period ended September 30, 2019; 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*, on July 27, 2020, we made an inquiry to the NRRIT's Chair requesting communication with and cooperation from NRRIT auditors. We did not receive a response to our inquiry for the current fiscal year. In prior years, 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 $24.8 billion and $25.4 billion or 77 and 78 percent of the total assets reported for the RRB for fiscal years 2020 and 2019, respectively. NRRIT assets also represent approximately 91 and 90 percent of the Treasury securities and assets held by the Railroad Retirement program as of October 1, 2019 and October 1, 2018, 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 $594 million during fiscal year 2020 and a net loss of $1.2 billion during fiscal year 2019.

In fiscal year 2018, we notified RRB management, and in fiscal year 2019 we informed both RRB management and the NRRIT Chair that NRRIT auditors' system of quality control had received a peer review rating of pass with deficiency, for the year ended March 31, 2017 that remained in effect at the time of our audit. This created a situation in which the independent public accountant (IPA) might not have reasonable assurance of performing or reporting in conformity with applicable professional standards. The deficiency was identified in the IPA's system of quality control whereby actions by senior audit management and other individuals failed to comply with the firm's quality control policies and procedures related to its leadership responsibilities, relevant ethical

[1] Misstatements in the National Railroad Retirement Investment Trust net assets could be both material and pervasive. American Institute of Certified Public Accountants (AICPA) AU-C 705A.06 defines pervasive as, "[a] term used in the context of misstatements to describe the effects on the financial statements of misstatements or the possible effects on the financial statements of misstatements, if any that are undetected due to an inability to obtain sufficient appropriate audit evidence." In context to the RRB's financial statements, the "[p]ervasive effects on the financial statements are those that, in the auditor's professional judgment" are confined to specific elements, accounts, or items of the financial statements, and "represent or could represent a substantial proportion of the financial statements."

requirements and monitoring and potentially negating the reasonable assurance of performing or reporting in conformity with applicable professional standards.

We also informed 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 were identified in the audits inspected. Of notable concern to the NRRIT, the IPA's procedures related to the valuation and disclosure of investments and derivatives were not sufficient even where a fraud risk was identified.

PCAOB inspection reports released in January 2019 for 2016 and 2017 and April 2020 for 2018 indicated that the previously reported 2015 deficiencies remained largely unchecked.

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 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.

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]

[2] United States Government Accountability Office (GAO), *Government Auditing Standards, 2018 Revision,* GAO-18-568G, Paragraph 5.03 (Washington, D.C.: July 2018).
[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.: April 2020).

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. In July 2019, we requested that this information be provided by RRB and NRRIT. 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 and per our request the information was provided on July 29, 2020 and September 14, 2020. From a meeting summary provided by NRRIT to the RRB, we learned that while NRRIT's audit committee believed that a heightened level of concern existed which required close monitoring, NRRIT had opted to retain its auditor. The materials provided and the NRRIT's audit committee determination did not sufficiently alleviate our concerns to warrant removal of this audit concern. The cited peer review rating had also not been updated and therefore our audit concerns continue to exist.

While corrective actions have progressed, the IPA's peer review rating, its failure to perform sufficient audit procedures, and the material significance of its PCAOB reported quality control and testing deficiencies continue to directly impact the RRB's reporting of its fiscal year 2015 through 2020 financial statements including its Statement of Social Insurance, and other NRRIT supported financial information.

Disclaimer of Opinion

Due to the significance of the matters described in the Basis for Disclaimer of Opinion paragraphs, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the financial position of the RRB, its consolidated net cost of operations and changes in net position, and combined budgetary resources as of September 30, 2020 and 2019; and the financial condition of the Railroad Retirement program as of October 1, 2019, October 1, 2018, October 1, 2017, October 1, 2016, and October 1, 2015, and changes in the financial condition of the program for the period ended September 30, 2019. 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's 2019 and 2020, 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 $4.8 billion (net), or about 36 percent of the financing sources reported on the RRB's statement of changes in net position for fiscal year 2020 before considering the change in the reported value of NRRIT net assets. For fiscal year 2019, financial interchange transfers of approximately $4.7 billion (net) represented about 35 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 95, and Combining Statement of Budgetary Resources on page 105. 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.

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.

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

Intended Purpose of Report on Internal Control over Financial Reporting

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

Material Weaknesses

Financial Reporting

- Ineffective Controls

This 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.[5] This material weakness has been closed due to RRB management's corrective actions. The three remaining recommendations were closed during the current fiscal year. RRB OIG also observed that the financial impact of inadequate supporting documentation declined from $14.2 billion in fiscal year 2016 to $503 million in fiscal year 2017 to $0 in fiscal years 2018 and 2019. The corrective actions taken by RRB management included:

- BFO's Accounting Section developed and published a new Preparation of RRB Financial Statements – Standard Operating Procedure (SOP) in the Accounting Procedure Guide. The SOP addresses the RRB's core financial statements and includes detailed how-to steps, controls and flow charts.
- BFO's Accounting Section updated and issued Accounting Procedures Guide, Exhibit 2E, Preparation of Standard Voucher (SV) or Journal Voucher (JV), and Exhibit 2M, SV's and JV's Documentation List. In addition, a Voucher Status Report was established to monitor the completion of monthly accounting vouchers and a new control was implemented that required each preparer to perform monthly JV/SV secondary reviews and certifications. The changes led to improved voucher accuracy and more timely preparation and during BFO's third quarter fiscal year 2019 quality assurance evaluation, no substantive

[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).

errors or procedural errors were found. In addition, no substantive errors or procedural errors were found during our fiscal year 2020 audit.

- 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. NRRIT did not respond to our July 27, 2020 letter request 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.

Our concerns with RRB management's lack of knowledge and awareness concerning NRRIT investment decisions heightened as the RRB received an inquiry on July 7, 2020 from the White House National Security Advisor and the Director of the National Economic Council. The letter stated that the NRRIT was believed to have been investing hundreds of millions in railroad worker's retirement assets in investments directly supporting the People's Republic of China. The letter also indicated that these investments appear to support increased Chinese militarization, human rights violations, religious oppression, and violate existing U.S. sanctions. In addition to being a national security risk, the investments are also considered to be of much greater economic risk to railroad retirees as the Chinese government has prevented compliance with U.S security laws and impeded PCAOB and SEC oversight and inspections leaving these railroad retiree assets vulnerable and exposed to significant and unnecessary financial risks and fiduciary concerns. RRB responded on July 8, 2020 that the NRRIT's investment authority is not subject to direct oversight or approval by the RRB; however, RRB will make further inquiries concerning the risk of NRRIT's investments. On July 30, 2020, NRRIT responded to the RRB that it had not invested in the two Chinese companies cited in the letter. NRRIT further stated that it relies on the Office of Foreign Assets Control to identify sanctioned companies and noncompliance with SEC and PCAOB reporting requirements would not be a deterrent to investing in Chinese and other foreign companies. NRRIT also noted that its investments in Chinese companies have been justified by their return performance. RRB OIG has no audit authority to validate the accuracy of the NRRIT's statements regarding its investments.

The OIG had previously identified and reported related concerns including NRRIT's more than $2 billion in secretive offshore investments, its failure to address investment compliance with international law and other geopolitical risks, and NRRIT's lack of disclosure of more than 71 percent of its assets totaling more than $17 billion in offshore, international, and private investments. The RRB responded that they had no knowledge of these investments and had not inquired due to their arm's length oversight relationship with the NRRIT.[6]

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.

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.

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.[7]

Management's Comments and Our Response

RRB management continues to disagree with our material weakness and disclaimer of opinion in response to our inability to communicate with the NRRIT's auditor as required by the AICPA's group audit requirements. RRB management stated that it does not have the authority to compel the NRRIT auditors to provide their work papers to, or speak with the OIG. They also believe they have provided the OIG access to NRRIT related information in accordance with the 2002 Memorandum of Understanding between the RRB, NRRIT,

[6] RRB OIG, *Management Information Report, Limited Oversight of the National Railroad Retirement Investment Trust Puts Railroad Retirement Assets at Risk,* Report No. 19-04 (Chicago, IL: December 19, 2018).
[7] RRB OIG, *Fiscal Year 2014 Financial Statement Audit Letter to Management,* Report No. 15-05 (Chicago, IL: March 31, 2015).

Department of the Treasury, and the OMB and all other information related to NRRIT in their possession and control that the OIG requested in support of its audit. Management's comments regarding this issue are also discussed in another section of this report.

We note that the 2002 Memorandum of Understanding was crafted many years prior to AICPA group 600 audit requirements, which is the basis for our request to communicate with the NRRIT's auditor. We continue to see the need for the disclaimer and the material weakness subcomponent that are the result of the lack of communication with the NRRIT's auditor.

- Social Insurance Valuation

RRB's Statement of Social Insurance (SOSI) contains inaccurate amounts in the open group surplus, which is an indicator of the long term financial stability of the program for the 75 year projection period. The RRB OIG contracts for the limited scope audit of the RRB's statements of social insurance and actuarial projection process. The OIG's actuarial contractor identified inaccurate reported amounts, which RRB OIG auditors determined are material differences for the RRB SOSI statements.

  - o During fiscal year 2019, the Bureau of Actuary and Research (BAR) began using the actual rate of return for the first quarter of the fiscal year for the discounting of the income and expenditure cash flows. The actuarial auditor identified this inappropriate adjustment and OIG concluded that the resulting overstatements in the reported present values of income and expenditures were material. These differences resulted in a material $2.3 billion understatement in the open group surplus.

  - o In fiscal year 2020, BAR also began using an estimated rate of return for the first 4 months of 2020 with an assumed rate of return for the remaining 8 months. The actuarial auditor reported that the net effect of discounting the cash flows using the estimated rate of 0 percent for 2020, rather than the assumed rate of 7 percent, understated the unreported open group surplus by $1.7 billion, as of January 1, 2020, and these combined differences understated the SOSI reported open group surplus by $0.7 billion as of October 1, 2019.

  - o In addition, OIG found that BAR's estimated rate of return for the first 4 months of 2020 was materially overstated by 5 percent when compared with the RRB's actual investment return on combined assets. As a result, Note 14 to the financial statements contains inaccurate amounts and the underlying SOSI reported open group surplus was understated by $68 million as of October 1, 2019. BAR did not disclose the investment return difference and monetary impact of its use of estimated versus actual investment rates of return.

FAM Section 941.07 requires obtaining, "sufficient appropriate audit evidence about whether accounting estimates in the financial statements are reasonable and related disclosures in the financial statements are adequate," identifying and assessing, "the risks of material misstatement for accounting estimates," and determining, "how management has assessed the effect of estimation uncertainty."

BAR valued the social insurance open group surplus using an actual rate of return on combined assets for the last 3 months of 2019, an estimated rate of return for the first 4 months of 2020, and an assumed rate of return for the remainder of the 75 year projection period. BAR explained that they used Thrift Savings Plan rates of return as estimates for their calculations because the actual rate of return on combined assets for the four month period was not available at the time of preparation of the Section 502 report.[8] However, we found that the rates of return for the four months were available as of June 4, 2020, approximately one month prior to the July 1, 2020 mandated release of the Section 502 report. Although not part of the financial statements, inaccurate published rates in the Section 502 report impact the accuracy of social insurance and financial statement reporting.

Amounts and investment returns in the Section 502 report are presented using a calendar year basis. As a result, BAR has to adjust amounts from calendar year reporting to fiscal year reporting, for the SOSI. Both reports were previously prepared using the calendar year presentation. However, beginning in 2016, RRB management permitted the SOSI statement presentation to be changed to fiscal year reporting, as requested by the NRRIT.[9] While there was no immediate significant impact of making that change, the SOSI statement was materially impacted last year and similar impact is expected to continue in future years.

The actuarial auditor believes it is inappropriate for BAR to use the actual or the estimated investment return for discounting the present values of income and outflow because plan liabilities are unrelated to and would not be impacted by changes in plan assets and recommended the use of BAR's 7 percent long term assumption.[10] Management in BAR disagreed with the actuarial contractor's findings.

BAR's comingling and use of actual, estimated, and assumed rates of return impact the integrity of its actuarial model and introduce market fluctuations and

[8] While BAR informed us of a 95 percent correlation between RRB's actual investment return and the estimated Thrift Savings Plan C Fund (65 percent) and F fund (35 percent) rates of return, significant variances in this correlation can occur by year. For calendar year 2020, this variance resulted in a Section 502 reported investment return of 0 percent rather than RRB's actual -5 percent investment return on combined assets.

[9] RRB OIG, *Fiscal Year 2016 Financial Statement Audit Letter to Management*, Report No. 17-03 (Chicago, IL: February 16, 2017).

[10] RRB, *Twenty-Seventh Actuarial Valuation of the Assets and Liabilities Under the Railroad Retirement Act as of December 31, 2016*, Pages 8-11 (Chicago, IL: June 5, 2018).

unnecessary volatility, not normally present in BAR's prior social insurance valuations. The resulting unpredictable consequences in each reporting year will impact Section 502 Congressional reporting on the actuarial status of the railroad retirement system and Tier II tax rate projections over the 75 year period. Material differences in the reported present values of social insurance income and expenditures impact the determination of the net open group surplus or deficit and such differences in future years could result in an actual deficit being reported as a surplus or vice versa. Users of the financial statements such as Congress are presumed to rely on the RRB's social insurance statements for budgetary planning, social security research, and other national strategic analysis and such material differences may result in inaccurate policy making decisions. A prior year recommendation was made that BAR implement the recommendation of the actuarial auditor to strengthen the accuracy of the RRB's social insurance valuation and reporting.[11] BAR management did not concur with our prior year recommendation. We continue to see the need for our recommended corrective action and therefore this audit recommendation remains open.

Recommendation

1. We recommend that the Bureau of the Actuary and Research use the Railroad Retirement Board's actual rate of return on combined assets for adjustment period calculations rather than the estimated Thrift Savings Plan rates of return, as the secondary default where the actuarial contractor's recommended assumed rate of return will not be used.

Management's Comments and Our Response

BAR management continues to disagree and reject the social insurance component of the financial reporting material weakness. BAR believes the actuarial consultants' method is technically flawed. BAR stated that the incorrect computations produced by the consultants' method do not provide reliable estimates and should not be relied upon by Congress, rail labor, or rail management. The fundamental difference between BAR's method and the consultants' method lies in the interest rate used to calculate the surplus position.

While BAR believes its method and choice of interest rate is correct, it has not accepted the actuarial contractor's professional logic that is commonly used in actuarial practice. The actuarial contractor has had extensive exposure to common actuarial practices in varying environments and the actuarial auditor has stated that it is inappropriate for BAR to use the actual or the estimated investment return for discounting the present values of income and outflow because plan liabilities are unrelated to and would not be impacted by changes in plan assets.

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[11] RRB OIG, *Report on the RRB's Financial Statements, Fiscal Year 2019*, Report No. 20-02 (Chicago, IL: November 15, 2019).

With regard to the use of TSP rates of return rather than actual rates of return, BAR management partially concurred and stated that known actual return experience for the combined NRRIT, RRA, and Social Security Equivalent Benefit Account should be considered when selecting the return assumption. BAR will continue to consider actual return experience of the combined accounts contingent on availability.

While BAR agreed that actual returns rather than TSP estimated returns should be used, it did not consider using a three month versus a four month timing adjustment to utilize the actual returns rather than placing reliance on the estimated returns based on availability of actual which are potentially subject to significant variances each year as discussed in our report. We continue to recommend the use of actual over estimated returns when making timing adjustments where the actuarial contractor's recommended assumed rate of return will not be used.

Deficient Internal Controls at the Agency Wide 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.[12]

Although the RRB's control environment was assessed at the agency wide 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. In fiscal year 2018, it was included in the overall material weakness for deficient internal controls at the agency wide level. The remaining four components, Risk Assessment, Control Activities, Information and Communication, and Monitoring, had not been assessed by the RRB in conformance with GAO and OMB requirements at the agency wide 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.[13] This material weakness continues to exist.

Management's Comments and Our Response

RRB management indicated that it continues to make strides implementing Enterprise Risk Management (ERM) at the RRB by leveraging the Management Control Review (MCR) infrastructure already in place and disagrees that this contributes to a material weakness affecting the preparation and fair presentation of the financial statements. In fiscal year 2020, RRB incorporated an ERM based reporting structure into the MCR guide aimed at enhancing its ability to identify potential events that may affect the agency and manage the related risks within our risk appetite. In fiscal year 2021, RRB plans to fully implement the new ERM based MCR reporting along with training of responsible officials. RRB stated that they are committed to strong internal controls and will move forward with the next phase of ERM implementation, which will address this OIG concern. While management indicates that some corrective actions have been taken and others are in progress, this area remains an audit concern and our finding remains unchanged.

- 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 2019 and 2018 and that

[12] Government Accountability Office (GAO), *Standards for Internal Control in the Federal Government,* GAO-14-704G, Section OV2.04 (Washington, D.C.: September 2014).
[13] 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).

the RRB was noncompliant with FISMA legislation and OMB guidance.[14] This shortfall in information technology security controls resulted in a total of 50 recommendations. As such, information system control risk must be assessed as "high" in accordance with GAO's FAM guidance.[15] This agency wide 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 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.

Management's Comments and Our Response

RRB management continues to disagree with the OIG's assertion that the Agency's FISMA maturity level directly impacts the financial reporting system and contributes to a material weakness affecting the preparation and fair presentation of the financial statements. RRB management believes its Financial Management Integrated System (FMIS) is separate and distinct and indicated that its review of the recommendations and results associated with the fiscal year 2018 and 2019 FISMA audit reports and consideration of the preliminary FY 2020 FISMA audit results did not find any impactful risk to the FMIS. During FY 2020, the RRB focused its efforts on addressing open findings and related recommendations identified in years prior to the FY 2019 FISMA audit. The RRB realizes there remains much progress to be made in improving the overall security posture of the Agency, but it is committed to continue to make incremental steps to reach its goal.

As stated in our report, 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 designed and operating effectively. We continue to see the need for this portion of the material weakness. We will consider and evaluate the impact of the new information and results provided in RRB management's comments during next year's financial statement audit.

- 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,

[14] RRB OIG, *Performance Audit of RRB's Compliance with the Federal Information Security Modernization Act of 2014 - Fiscal Year 2019,* Report No. 20-04 (Chicago, IL: December 18, 2019). and 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).
[15] GAO and CIGIE, *FAM,* GAO-18-601G, Section 295 J.

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.[16] 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.[17] Prior year recommendations were made that the Executive Committee establish policies and procedures for ensuring agency compliance with indirect laws, regulations, and contracts; and for identifying treaties and international agreements impacting the RRB or its component, the NRRIT.[18] RRB management did not concur with our prior year recommendations. We continue to see the need for our recommended corrective actions and therefore these audit recommendations remain open.

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

RRB management continues to disagree with our recommendation and believes that compliance with laws and regulations is intertwined throughout various agency policy and procedure documents, such as administrative circulars and others, as well as throughout the extensive documentation compiled to comply with the 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.

RRB management also indicated that with regard to FISMA compliance, the results from the fiscal year 2019 FISMA audit, as well as the preliminary fiscal year 2020 FISMA audit results, continue to demonstrate ongoing progress in improving our information security program and practices across the Agency.

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[16] GAO and CIGIE, *FAM,* GAO-18-601G, Section 245.08(a).
[17] 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).
[18] RRB OIG, *Report on the RRB's Financial Statements, Fiscal Year 2019*, Report No. 20-02 (Chicago, IL: November 15, 2019).

RRB management also believes its current policies and procedures are effective with regard to international agreements impacting the RRB or NRRIT. RRB management further believes that 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. 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.

RRB OIG auditors continue to see the need for this portion of the material weakness. If such policies and procedures for ensuring compliance with indirect laws, regulations, and contracts, and for identifying treaties and international agreements are actively in place, they should be specifically identified and documented to address GAO's financial audit requirements and to ensure compliance is maintained. We reiterate that RRB management has not affirmed compliance or provided the policies and procedures that they state are in place.

- Compliance with Railroad Retirement Act Benefit Payment Provisions

Last year, we could not determine whether the RRB was in compliance with the Railroad Retirement Act (RRA) for fiscal year 2019 as RRB's quality assurance reviews supporting agency compliance with RRA benefit payment provisions had not been completed within the required audit timeframe. The quality assurance review process consisted of approximately 26,500 adjudicated cases totaling approximately $662.1 million in benefit payments. For fiscal year 2020, RRB stated that it had completed testing for the first six months of RRA initial cases. However, RRB stated that it could not complete its fiscal year 2020 sampling plan or finalize its universe and sample sizes because its fiscal year 2019 accuracy rate had not been determined within the requested and subsequently extended timeframe for our audit.

RRB management also stated that post adjudication cases for fiscal year 2020 were not reviewed due to pandemic processing limitations. RRB management also cited significant staffing shortages and other mission critical priorities as challenges to completion. In addition, RUIA third quarter quality assurance testing had not been completed that includes the processing of The Coronavirus Aid, Relief, and Economic Security (CARES) Act stimulus payments.[19]

Due to these processing omissions, we could not complete our compliance assessments and therefore could not ensure that the RRB is in full compliance with the RRA for fiscal years 2019 and 2020 or the CARES Act for fiscal year 2020.

[19] Pub. L. No.116-136, 134 Stat. 281 (2020).

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.

Timely quality assurance reviews are needed to address the RRB's strategic goal to serve as responsible stewards for customer trust funds and agency resources. The related objective for this goal is to ensure effectiveness, efficiency, and security of operations, and the objective specifically addresses quality assurance activities that are performed to ensure that benefit payment programs comply with established policies, standards, and procedures.

Recommendation

2. We recommend that the Office of Programs acquire additional staffing and resources for its quality assurance reviews to ensure timely completion of its compliance determinations during each fiscal year, in accordance with financial statement audit requirements.

Management's Comments

RRB management concurred with our recommendation and shares the OIG's concern for more staffing in the quality assurance section of the Program Evaluation and Management Services Division. RRB management is working to fill the losses in this section and indicated that it will continue to work with the OIG to achieve the Agency's mission in an efficient manner.

- Controls Over Railroad Service and Compensation

In fiscal year 2019, 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 was the basis for approximately $6.2 billion of payroll taxes received by the RRB during fiscal year 2019. Since the beginning of fiscal year 2017, only two audits had been completed by ACS, and as of the end of fiscal year 2019, three audits were in progress, out of a universe consisting of 721 railroad employers, and 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. We observed that the limited staffing and funding had resulted in the expiration of the statute of limitations for one railroad and closure of the audit in fiscal year 2018. During fiscal year 2020, two audits have been initiated, but neither is a Class 1 railroad. A prior year recommendation was made that BFO 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 are conducted to maintain a level of control effectiveness.[20] BFO management concurred with our prior year recommendation.

Management's Comments

RRB management shares the OIG's concerns and takes the responsibility for ensuring the accuracy of reported Tier I and Tier II creditable service and taxable compensation very seriously. RRB has made significant strides to add staff resources and increase audit coverage during fiscal years 2019 and 2020. With an increase in staffing levels, RRB has several audits in progress and plans to include a Class 1 railroad in its fiscal year 2021 audit activity.

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.

[20] RRB OIG, *Report on the RRB's Financial Statements, Fiscal Year 2019*, Report No. 20-02 (Chicago, IL: November 15, 2019).

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 2020 disclosed three instances of noncompliance that are reportable under auditing standards generally accepted in the United States of America. The three cited instances of noncompliance involving the RRA, FISMA, and CARES Act 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, RRB management believes the OIG has long been dissatisfied with its lack of authority and consequent inability to audit the activities of the NRRIT and believes the OIG has chosen to evidence dissatisfaction by criticizing RRB’s management for failing to exercise authority which, Congress chose not to grant to the RRB or its OIG. RRB management indicated that the NRRIT and the GAO entered into a Memorandum of Understanding giving GAO access to information necessary to support inclusion of NRRIT’s financial information in the government-wide financial statements. 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’s audit opinion and supporting facts continue to stand. As RRB OIG auditors 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. Our findings and recommendations are professional, and fully supported by accounting standards. RRB management is responsible for oversight of the NRRIT as the legislation that created the NRRIT provided RRB management with the authority to bring forth a civil action where violations occur, obtain other appropriate relief, and enforce provisions of the Act. As a result of this authority, our concerns regarding the NRRIT are addressed to RRB management.

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

MARTIN DICKMAN Digitally signed by MARTIN DICKMAN Date: 2020.11.16 14:54:56 -06'00'

Martin J. Dickman
Inspector General
Chicago, Illinois

November 16, 2020 except for matters relating to the net assets of the NRRIT as of September 30, 2020 as to which the date is November 13, 2020

UNITED STATES GOVERNMENT
MEMORANDUM

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

November 13, 2020

TO: Debra Stringfellow-Wheat
Assistant Inspector General for Audit

FROM: Shawna R. Weekley
Chief Financial Officer

SHAWNA WEEKLEY Digitally signed by SHAWNA WEEKLEY Date: 2020.11.13 09:59:40 -06'00'

SUBJECT: Fiscal Year 2020 Financial Statement Audit – Draft Auditor's Report

This response serves to address the 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 report, the Inspector General for the Railroad Retirement Board (RRB), expressed a disclaimer of opinion on the RRB's balance sheet as of September 30, 2020 and 2019 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 Office of Inspector General (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 RRB does not have the authority to compel the NRRIT auditors to provide their work papers to, or speak with the OIG. We have provided the OIG access to NRRIT related information in accordance with the 2002 Memorandum of Understanding between the RRB, NRRIT, Department of the Treasury and the Office of Management and Budget[1] and all other information related to NRRIT in our possession and control that the OIG requested in support of its audit. Without addressing the various mischaracterizations contained in the referenced report, the OIG has long been dissatisfied with its lack of authority and consequent inability to audit the activities of the NRRIT. It is unfortunate that they have chosen to evidence dissatisfaction by criticizing RRB's management for failing to exercise authority which, quite simply and clearly, Congress chose not to grant to the RRB or its OIG.

It is important to note that the NRRIT and the United States Government Accountability Office (GAO) entered into a Memorandum of Understanding (MOU) giving GAO access to information necessary to support inclusion of 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.

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[1] MOU for the *Budgetary, Accounting, and Financial Reporting Responsibilities Respecting Assets Held by the National Retirement Investment Trust* entered into by the RRB, NRRIT, Department of the Treasury (Treasury), Office of Management and Budget (OMB), October 2002 (on file at RRB).
[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).

Management Response: Material Weaknesses

1. Financial Reporting:

    a. *Ineffective Internal Controls:* With respect to financial reporting the OIG's major concern related to processing of journal or standard vouchers used to record transactions in the financial system. To address this concern, we significantly strengthened internal controls over voucher processing and expanded our quality assurance activities to cover 100% of journal vouchers and one-third of standard vouchers with individual amounts ranging from $5 million to $5 billion. Since the third quarter of fiscal year 2019, we observed no procedural or substantive errors and maintained an error rate of 0%. In addition, the OIG found no substantive or procedural errors during the fiscal year 2020 audit. As such, the OIG recognized the effectiveness and efficiency of our corrective actions and closed this component of the financial reporting material weakness.

    b. *Communication with the NRRIT auditor:* 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 2020, we incorporated an ERM based reporting structure into the MCR guide aimed at enhancing our ability to identify potential events that may affect the agency and manage the related risks within our risk appetite. In fiscal year 2021, we will fully implement the new ERM based MCR reporting along with training of responsible officials. We are committed to strong internal controls and will move forward with the next phase of ERM implementation, which will address this OIG concern. We will continue to move forward implementing ERM and disagree that this contributes to a material weakness affecting the preparation and fair presentation of the financial statements.

    b. *Controls Over Railroad Service and Compensation*: The OIG has observed that the Audit and Compliance Section (ACS) of the Bureau of Fiscal Operations (BFO) has conducted a limited number of railroad employer audits, none of which included Class 1 railroads, due to less staff and funding being allotted. We share the OIG's concerns and take our responsibility for ensuring the accuracy of reported Tier I and Tier II creditable service and taxable compensation very seriously. To that end, we have made significant strides to add staff resources and increase audit coverage during fiscal years 2019 and 2020. As previously reported, we retrained and transitioned an existing employee into an audit role in fiscal year 2019. Additionally, in fiscal years 2019 and 2020 we were able to hire four seasoned auditors from outside of the Agency. These actions increased the audit staff from one to six. Finally, with increased staffing levels we have several audits in progress and plan to include a Class 1 railroad in our fiscal year 2021 audit activity.

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

FORM G-115f(1-92)

MEMORANDUM

RAILROAD RETIREMENT BOARD

November 13, 2020

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

FROM: Patricia Pruitt
Acting Chief Actuary

PATRICIA PRUITT Digitally signed by PATRICIA PRUITT
Date: 2020.11.13 12:22:28 -06'00'

SUBJECT: Fiscal Year 2020 Financial Statement Audit – Draft Auditor's Report

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

OIG Recommendation

The OIG recommends, "the Bureau of the Actuary and Research use the Railroad Retirement Board's actual rate of return on combined assets for adjustment period calculations rather than the estimated Thrift Savings Plan rates of return, as the secondary default where the actuarial contractor's recommended assumed rate of return will not be used."

Management's Response: Partially-concur

All assumptions, including the investment return, are chosen by actuaries to represent reasonable expectations of future events not yet known. Historical experience, current market data available at the time the assumption is selected, and actuarial judgment form the basis for reasonable assumptions. The OIG recommendation is related to the investment return assumption used in the first projected year of the 2020 Section 502 valuation.

We concur that known actual return experience for the combined National Railroad Retirement Investment Trust (NRRIT), Railroad Retirement Account (RRA), and Social Security Equivalent Benefit Account (SSEBA) should be considered when selecting the return assumption, and we will continue to consider actual return experience of the combined accounts contingent on availability. At the time that the assumptions were determined for the Section 502 projections, the actual return for the 2020 calendar year related to the combined accounts was not known. (It is noted that the 2020 calendar year return is still not known.) Broad stock market indices, however, had realized negative returns. In addition, asset returns for the combined accounts have historically been over 95% correlated with an investment portfolio of the Thrift Savings Plan's C-Fund and F-Fund with a 65%/35% allocation. The published returns for the highly correlated portfolio related to the first quarter of 2020 were considered when developing the 2020 calendar year assumed return for the combined accounts.

The NRRIT constitutes the majority of combined accounts, and the applicable asset values are available on a lagged basis. The Section 502 Report, which forms the basis of the SOSI surplus calculations, is performed prior to June for review and approval by the Actuarial Advisory

Committee (AAC) and then provided to the Board in early June for approval.

The 2020 Section 502 Report used by the actuarial contractor retained by the OIG forms the basis of the SOSI surplus calculations and includes 75-year projections of the present value of future income, the present value of future expenditures, tax rates, assets, and investment returns thereon. There are many steps involved in completing the Section 502 valuation, not limited to setting select economic and employment assumptions, independent development of the projections, independent reviews, and confirmation of results by the RRB actuaries. In addition, these items are performed prior to June for review and approval by the AAC and then provided to the Board in early June for approval. Separately, the select economic assumptions, including the assumed 0% investment return assumption for the 2020 calendar year, were also included in a memorandum to the AAC, dated May 21, 2020, and were approved by the AAC without objection. The 2020 Section 502 Report, including all assumptions, was approved by the AAC and then by the Board. The OIG disagrees with the investment return assumption used for the 2020 calendar year.

An investment return of 0% was assumed for the 2020 calendar year.

- At the time that the projections for the Section 502 Report were calculated, the actual return for the combined accounts (NRRIT, RRA, and SSEBA) was not yet known.
- Broad stock market indices had realized negative returns.
- Historically, actual asset returns for the combined accounts have been over 95% correlated with an investment portfolio of the C-Fund and F-Fund with a 65%/35% allocation.
- An assumed 0% asset return was developed based on a weighting of the published returns for the C-Fund and F-Fund for the first quarter in 2020 and the 7% long term assumption for the combined accounts.

The assumed 0% return for the 2020 calendar year is strictly an assumption, as are all of the investment returns and numerous other assumptions that are needed for the 75-year projections. Assumptions are chosen by actuaries to represent reasonable expectations of future events not yet known. The latest available market data available at the time, a highly correlated portfolio, and actuarial judgment were used to determine an appropriate assumption for the 2020 investment return.

OIG Findings

The OIG contends, “RRB’s Statement of Social Insurance (SOSI) contains inaccurate amounts in the open group surplus, which is an indicator of the long term financial stability of the program for the 75 year projection period” and indicates that “the RRB OIG contracts for the limited scope audit of the RRB’s statements of social insurance and actuarial projection process. The OIG’s actuarial contractor identified inaccurate reported amounts, which RRB OIG auditors determined are material differences for the RRB SOSI statements.”

The OIG contends that “BAR valued the social insurance open group surplus using an actual rate of return on combined assets for the last 3 months of 2019, an estimated rate of return for the first 4 months of 2020, and an assumed rate of return for the remainder of the 75 year projection period” and indicates that “we found that the rates of return for the four months were available as of June 4, 2020, approximately one month prior to the July 1, 2020 mandated release of the Section 502 Report.”

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 the actuarial consultants in their 2019 and 2020 audit reports of the Statement of Social Insurance (SOSI) and our declining to change our assumed investment return for the 2020 calendar year that was used in the 2020 Section 502 Report.

The 2019 actuarial consultants' 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 has been acceptable and used in the past and continues to be acknowledged as acceptable seems inappropriate.
- To base a finding of material weakness on an investment return assumption when assumptions where acknowledged to meet the Actuarial Standards of Practice seems inappropriate.

We reject the finding of material weakness because we believe the actuarial consultants' method to be technically flawed, as explained below. The incorrect computations produced by the consultants' method do not provide reliable estimates and should not be relied upon by Congress, rail labor, or rail management. The fundamental difference between our method and the consultants' method lies in the interest rate used to calculate the surplus position.

Background

From 2004 until 2015, we prepared the SOSI on a calendar-year basis (i.e. 1/1-12/31). Starting in 2016, we began preparing the SOSI on a fiscal-year basis (i.e. 10/1-9/30) in order to save the cost of an additional audit of the NRRIT on a calendar-year basis. Since our actuarial projection model produces results on a calendar-year basis, the fiscal-year measurement date amounts were produced by setting back the calendar-year projections by three months.

Note that the OIG 2020 Report on the Financial Statements states, "During fiscal year 2019, the Bureau of Actuary and Research (BAR) began using the actual rate of return for the first quarter of the fiscal year for the discounting of the income and expenditure cash flows." In fact, BAR has used the actual rate of return for the first quarter of the fiscal year since we began setting back the calendar-year projections by three months in order to produce fiscal-year projections in 2016. In 2016, 2017, and 2018, the actuarial consultants agreed with our method of setting back the results to a fiscal-year basis and first objected to the method in 2019, when the actual rate of return for the first quarter of the fiscal year was negative.

- The OIG has since concluded that the method is a basis for a finding of a material weakness in the financial statements.
- We believe that the OIG's conclusion was not based on an objective actuarial or mathematical principle or precept.

When Congress enacted the Railroad Retirement and Survivors' Improvement Act of 2001, it expanded allowable investments to include investments in equities and other non-governmental assets. This law also established a tax rate adjustment mechanism that automatically adjusts future tier II payroll tax rates in response to changes in asset balances and expenditures (26 U.S. Code § 3241). These adjustments in future tier II payroll tax rates are reflected in the PVFI and are expected, within bounds (e.g., minimum and maximum rates), to fully offset the impact of both favorable and unfavorable experience.

The purpose of the SOSI is to determine the surplus or deficiency of the Railroad Retirement system. The surplus is determined by the following formula:

$$Surplus = Assets + PVFI - PVFE$$

where $PVFI = present\ value\ of\ future\ income,$
and $PVFE = present\ value\ of\ future\ expenditures.$

The actuarial consultants agreed with our calculation of the surplus as of January 1, 2020, and the consultants also agreed with us in the use of actual assets in the surplus calculation on both January 1, 2020 and October 1, 2019. They disagreed, however, with the interest rate used to set back the PVFI and PVFE from January 1, 2020 to October 1, 2019. The consultants believe that these amounts should be set back at a 1.7% rate, which is roughly one-quarter of our 7% ultimate investment return assumption. We, however, consider it better not to use assumptions for known outcomes and thus set back these amounts to October 1, 2019 using the actual 5.3% investment return for the quarter ending December 31, 2019.

Our method continues to use actual return in the quarter ending December 31. The actuarial consultants recommend changing our method to substitute an assumed return for the quarter ending December 31 rather than using what we know to be true. We believe that using the actual known return for the 4th quarter increases the accuracy and reliability of the estimated surplus or deficiency position; however, the use of an actual outcome versus an assumption may be considered to be a difference of opinion.

In choosing to use an assumed investment return for the 4th quarter, however, the actuarial consultants' method does not correctly calculate the surplus position as of October 1, 2019. They use actual assets in computing the surplus on both October 1, 2019 and January 1, 2020. Since actual assets on these dates are related by the actual 5.3% investment return for the quarter, their method effectively sets back the assets using the actual realized return and sets back the PVFI and PVFE using an assumed return.

In addition, the 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. The actuarial consultants base their calculation of the PVFI on the tax rates projected in the 2020 Section 502 Report. The Section 502 Report reflects the known 5.3% return and provides the best estimate of future tax rates. By discounting the PVFI using a 1.7% rate but projecting future taxes with a 5.3% rate, the consultants are not properly recognizing the interaction of asset levels and future tax revenue. They failed to recognize a fundamental feature of the railroad retirement system, despite their years of auditing the SOSI. This fundamental relationship has been described to both the actuarial consultants and the OIG over the past year through numerous communications. By not recognizing this tax rate adjustment mechanism, the consultants are overstating the surplus position (from $1.3 billion to $2.0 billion). This difference of $0.7 billion is a clear technical mistake by the consultants.

cc: The Board
Executive Committee

UNITED STATES GOVERNMENT

MEMORANDUM

FORM G-115f (1-92)

RAILROAD RETIREMENT BOARD

November 13, 2020

TO: Debra Stringfellow-Wheat
Assistant Inspector General for Audit

FROM: Terryne F. Murphy
Chief Information Officer

TERRYNE MURPHY Digitally signed by TERRYNE MURPHY Date: 2020.11.13 07:40:30 -06'00'

Shawna R. Weekley
Chief Financial Officer

SHAWNA WEEKLEY Digitally signed by SHAWNA WEEKLEY Date: 2020.11.13 07:35:05 -06'00'

SUBJECT: Fiscal Year 2020 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 assessment of high risk directly impacts the RRB's controls supporting the agency's financial reporting system. We continue to disagree with the OIG's assertion that the Agency's FISMA maturity level directly impacts the financial reporting system.

As previously communicated to the OIG, 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.

Particularly, after review of the 31 recommendations associated with the fiscal year (FY) 2018 FISMA audit report, the results of the FY 2019 FISMA audit as well as consideration of the preliminary FY 2020 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.

Additionally, during FY 2020, leading up to the execution of the FY 2020 FISMA audit, the RRB focused its efforts primarily on addressing open findings and related recommendations identified in years prior to the FY 2019 FISMA audit. Through these efforts, we sufficiently addressed and closed 63 POAMs and 22 OIG findings during FY 2020. As the RRB continues to develop and implement its IT modernization initiatives, we will proactively address the remaining findings and recommendations in order to improve the Agency's security posture and to sustain at acceptable levels.

Further, preliminary audit results for the FY 2020 FISMA audit indicate that Kearney & Company will assess our overall maturity at Level 2 – *Defined*, maintaining the rating from 2019. The RRB realized fifteen significant improvements across each of the eight domains, improving several lower level ratings to Consistently Implemented, which is one-step lower than Level 4 – *Managed and Measurable.* Additionally, for the Configuration Management domain, the Agency improved from Level 1 – *Ad-Hoc* to Level 2 – *Defined,* and for the Data Protection and Privacy domain, the Agency improved from Level 2 – *Defined* to Level 3 – *Consistently Implemented*. The preliminary FY 2020 audit results further 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 realizes there remains much progress to be made in improving the overall security posture of the Agency, but it is committed to continue to make incremental steps to reach the overall maturity goal of Level 4 – *Managed and Measurable*.

Finally, 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.

cc: The Board
Executive Committee

UNITED STATES GOVERNMENT

MEMORANDUM

FORM G-115f(1-92)

RAILROAD RETIREMENT BOARD

November 13, 2020

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

FROM: Ana M. Kocur on behalf of Daniel Fadden
Senior Executive Officer

ANA KOCUR Digitally signed by ANA KOCUR Date: 2020.11.13 07:35:29 -06'00'

SUBJECT: Fiscal Year 2020 Financial Statement Audit - Draft Auditor's Report

This response serves to address the OIG's findings first raised during the fiscal year 2019 financial statement audit and carried forward into its fiscal year 2020 financial statement audit report. Specifically, the OIG stated they have determined the RRB has not established effective policies and procedures for 1) preventing agency noncompliance with indirect laws, regulations, and contracts; and 2) identifying treaties and international agreements impacting the RRB or the NRRIT. Our response to these matters is discussed below.

In its findings issued during the fiscal year 2019 financial statement audit, 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 each year. The results from the fiscal year 2019 FISMA audit, as well as the preliminary fiscal year 2020 FISMA audit results, continue to demonstrate ongoing 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.

Additionally, in its findings issued during the fiscal year 2019 financial statement audit, 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 again note 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 and FY 2020 Financial Statement Audit, Laws and Regulations, Cycle Synopsis* documents that were 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

UNITED STATES GOVERNMENT FORM G-115F (01-92)

Memorandum

RAILROAD RETIREMENT BOARD
CHICAGO, IL

NOVEMBER 13, 2020

TO: Debra Stringfellow-Wheat
Assistant Inspector General for Audit

FROM: Crystal Coleman
Director of Programs

CRYSTAL COLEMAN Digitally signed by CRYSTAL COLEMAN Date: 2020.11.13 09:35:36 -06'00'

SUBJECT: Fiscal Year 2020 Financial Statement Audit – Draft Auditor's Report

This response serves to address the "Fiscal Year 2020 Financial Statement Audit – Draft Auditor's Report." Under the section titled "Compliance with Railroad Retirement Act Benefit Payment Provisions," the OIG discusses the 2019 and 2020 RRA and RUIA quality assurance (QA) reviews. The RRB typically completes the Railroad Retirement Act QA review by September 30th of each fiscal year. As reported last year, due to severe staffing shortages, we provided the RRA report for the first six months of 2019 to the OIG one month past their requested date. Understanding the significance of the QA, management took proactive steps, including borrowing trained staff from other sections to complete the report as quickly as possible. The RRB is in the process of finalizing the full year 2019 RRA QA report. With respect to the RUIA, the OIG has been provided with the first and second quarter QA reports. The RRB began processing payments under The Coronavirus Aid, Relief, and Economic Security (CARES) Act in May 2020. The third and fourth quarter RUIA reports are typically completed in the following fiscal year. As noted by the OIG, severe staffing shortages and pandemic related processing delays have contributed to our ability to complete these reviews more quickly. The third quarter RUIA report is expected to be released by the end of November 2020 as opposed to our typical target date of September 30th. This report will include the first CARES Act payments.

Recommendation:

We recommend that the Office of Programs acquire additional staffing and resources for its quality assurance reviews to ensure timely completion of its compliance determinations during each fiscal year, in accordance with financial statement audit requirements.

Response: Concur.

We share the OIG's concern and appreciate the support for more staffing in the quality assurance section of the Program Evaluation and Management Services Division. We are working to fill losses in this section and will continue to work with the OIG to achieve the Agency's mission in an efficient manner.

cc: The Board
The Executive Committee

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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 their 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 2019, the RRB paid retirement-survivor benefits of nearly $13 billion to about 535,000 beneficiaries. The RRB also paid net unemployment-sickness benefits of $88 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 23,000 claimants.

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 been concerned about fraud and abuse in the disability program for many years and RRB management has not been receptive of our recommendations for corrective action. The Government Accountability Office (GAO) has also audited the RRB's disability program and reported that "a nearly 100 percent approval rate in a federal disability program is troubling, and could indicate lax internal controls in RRB's decision-making process, weakness in program design, or both."[1] The RRB's approval rate for occupational disabilities was 97.54 percent during fiscal year 2019.

The RRB adjudicates 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.

During fiscal year 2019, the RRB paid approximately $643 million to 13,900 occupationally disabled annuitants. The average monthly occupational disability annuity was $3,266.

Management has overall responsibility for establishing internal controls to manage the risk of fraud. Fraud can jeopardize an agency's mission by diverting resources from their intended purpose. While the RRB previously had a Fraud Risk Detection Task Force, it was not established as a permanent entity with responsibility for continuously assessing fraud risk, implementing corresponding corrective actions, and monitoring the effectiveness of those actions. As a result, in September 2019, our contracted auditor determined that the actions taken as a result of the RRB's Disability Program Improvement Plan (DPIP), were not fully effective in establishing a risk based approach to prevent future fraud and abuse in the RRB's disability programs. Our contracted auditor issued three recommendations to: establish a dedicated entity within RRB to lead the fraud risk management process, establish a fraud risk assessment process specifically for disability programs to routinely determine and update the RRB's fraud risk profile, and 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 did not have the authority to take the recommended actions and would forward them to the RRB Board. Although OIG has received correspondence indicating that the RRB established a Fraud Risk Assessment Committee (FRAC) in fiscal year 2020, the OIG has not received any requests to close these recommendations to date, and all three remain open.

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[1] Government Accountability Office (GAO), *Railroad Retirement Board: Review of Commuter Railroad Occupational Disability Claims Reveals Potential Program Vulnerabilities*, GAO-09-821R (Washington, D.C.: Sept. 9, 2009).

In addition to the above contracted audit, OIG contracted two other disability program audits. For one of these audits, our contracted auditor determined that the RRB did not effectively consider fraud risk indicators in the disability decision process and provided three recommendations. For the other audit, our contracted auditor 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. However, all five remain open because we continue to see the need for these improvements.

Because these five recommendations, and many others from other reports remain open, the RRB's disability program continues to be at risk of fraud and abuse.

This paragraph, and the other paragraphs that follow, summarize some of the actions RRB management has taken to address its disability program and related performance. In response to our performance and management challenge related to disability program integrity outlined in the Fiscal Year 2019 Performance and Accountability Report (PAR), RRB management's comments acknowledged the importance of identifying and mitigating fraud risk throughout the programs the agency administers. They discussed establishment of the FRAC whose purpose is to assess, and offer solutions to mitigate, fraud risk in the administration of all of the RRB's programs, including the disability program.

In August 2020, the RRB issued a press release announcing the appointment of a Chief Medical Officer (CMO) who is to provide expert medical guidance to the RRB's Office of Programs and train examiners on medical issues. During fiscal year 2020, the FRAC worked with the Board to initiate changes documented in Board Orders 20-23 and 20-37. The main change was to eliminate the mandatory use of specialist medical exams for some medical conditions, with additional specific requirements that included some reviews by RRB staff, contracted medical professionals, and the RRB's CMO. The RRB stated that the policy change to eliminate the mandatory use of specialist medical exams for some medical conditions in initial disability adjudication will save time and money. While we acknowledge that this policy change would save time and money, OIG still remains concerned that the policy change could increase the risk of fraud, if the proposed compensating controls are not fully implemented.

In the fiscal year 2019 PAR, RRB management stated that in 2018, the Disability Benefits Division (DBD) lost experienced disability staff due to promotions and reassignments to other types of work. They further stated that to assist in managing the increased workloads, DBD hired additional staff and a supervisor. However, RRB management also stated that it takes two to three years to acquire the knowledge and skills required for proficient adjudication, therefore, at the end of the fiscal year, more than half of the staff had less than one year of experience. In the Fiscal Year 2021 Budget Justification, RRB management acknowledged that currently only two initial survivor claims examiners have more than three years of experience and only two initial retirement claims examiners have more than five years of experience.

In addition, RRB Management stated that the performance plan for goal II-A-7 is to pay or deny a disability benefit within 100 days of the date the application is filed, but in fiscal year 2019, this goal was met only 12.5 percent of the time. RRB Management also noted that a study was conducted that showed it takes about 245 days to make a disability decision, therefore, RRB is re-baselining the performance goal for this measure.

Although RRB management has taken some actions to address disability program and performance, many more improvements are needed, and the RRB's disability program continues to be at risk for fraud and abuse.

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

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 2021 RRB Budget Justification, RRB acknowledged that they had a total committed/obligated cost of $13,894,709 as of January 21, 2020, towards alignment of the information technology (IT) initiatives to the proposed Phased RRB Transformation. The RRB Transformation Roadmap consists of three phases – Stabilize (fiscal years 2020-2021), Modernize (fiscal years 2021-2023), and Perform (fiscal years 2023- 2024). In its effort to complete the Stabilize phase and begin work in the Modernize phase, the agency is requesting $13,850,000 for fiscal year 2021 and plans to request $21,325,000 for fiscal years 2022 and 2023 to complete the Transformation.

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

In the annual FISMA audits for fiscal years 2019 and 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 (ISP) did not provide reasonable assurance of adequate security.

In fiscal year 2019, the OIG's contractor determined that policies and procedures were not regularly updated and had not been developed for the majority of systems and controls, system owners and IT management failed to communicate with each other resulting in missing security controls and processes, and resource constraints had not been properly addressed through changes in IT strategy. The contractor also reported that the RRB's ISP was not operating effectively, because the program's overall maturity did not reach Level 4: *Managed and Measurable.* A total of 19 detailed recommendations were made to address these identified weaknesses. RRB management concurred with all of the recommendations. RRB management comments stated that the Chief Information Officer and the Chief Information Security Officer recognized that improvement was required to have an effective ISP. OIG has not received any requests to close any of these recommendations, thus all 19 remain open. For the fiscal year 2018 FISMA audit, although findings were consistent with prior FISMA audit results, RRB management disagreed with the conclusion that the RRB's ISP was not providing adequate assurance of adequate security. The report included 31 recommendations for improvement. The RRB has implemented 8 of these recommendations and 23 remain open.

In the Fiscal Year 2019 PAR, RRB management stated that significant investment is essential to update the agency's outdated IT systems, reduce cybersecurity risk, and sustain mission operations. They also stated that RRB's Annual Performance Plan for fiscal year 2019 reflects one strategic objective that focuses on the specifics of achieving this goal of legacy systems modernization. Also in fiscal year 2019, the Chief Information Officer introduced an initiative called "On Track to Tomorrow." The initiative is composed of several IT projects that are designed to help RRB improve efficiency of operations, adhere to governance, and provide increased value to the railroad community. In the fiscal year 2019 PAR, RRB stated that in fiscal year 2020, they will complete the re-platform of legacy mainframe applications currently developed using COBOL/CICS/DB2. In addition, the contract, which was to assess RRB's core current businesses and develop a To-Be Blueprint for modernization, has been completed. However OIG auditors were informed that the contract to complete the re-platform of legacy mainframe applications was terminated in September 2020 and that a replacement contract is not in place.

In the Fiscal Year 2021 Budget Justification Performance Plan, the RRB identified five new performance goals for RRB's Transformation (formerly Legacy Systems Modernization), which are all related to the strategic goal to modernize IT operations that will sustain mission essential services.

In response to our concerns from the fiscal year 2019 PAR regarding improving the RRB's IT security and system modernization, RRB management's comments acknowledged the OIG's concern to establish and maintain a secure and reliable IT environment for its data, applications, and systems. They stated that they intend to comply with FISMA, to ensure adequate security protections for federal information systems and information. RRB management anticipates that the cybersecurity posture of the agency will improve and be sustained at an acceptable level, as they continue with the development and implementation of the IT modernization initiatives. They also stated that the RRB will continue to make incremental steps to reach the overall maturity goal of Level 4 – *Managed and Measurable*.

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.

Under the Social Security Act, (see 42 U.S.C § 1842(g)) the RRB has the authority to administer certain aspects of the Medicare program for qualified railroad beneficiaries. Some of these provisions include eligibility determination, enrollment or removal from enrollment, premium collection, processing state buy-ins, and selection of a contractor to process Medicare Part B claims. The RRB administers the Railroad Medicare (RM) program for railroad workers and, since 2000, has contracted with Palmetto GBA, LLC (Palmetto), to process Medicare Part B claims on behalf of RRB beneficiaries.[2] Within the RRB, the Office of Programs (Programs) is responsible for quality assurance and contract oversight of the RM contract with Palmetto.

At the end of fiscal year 2019, approximately 465,500 qualified railroad retirement beneficiaries were enrolled in RM Part A, and approximately 446,300 were also enrolled in Medicare Part B. During fiscal year 2019, Palmetto processed more than 8.5 million RM claims, and made approximately $832 million in benefit payments for Part B medical services. The Centers for Medicare and Medicaid Services (CMS) transferred/reimbursed RRB for $32 million in RM program costs during fiscal year 2019. Of that amount, approximately $18.3 million was transferred to fund the RRB's Specialty Medicare Administrative Contractor (SMAC), Palmetto, and $13.6 million was reimbursed for RRB expenses incurred for administering the program. In fiscal year 2018, the transfer was recorded as a reimbursement. Beginning fiscal year 2019, the amount transferred to fund the SMAC contract was recorded as a transfer rather than a reimbursement. This change was agreed to by CMS for intragovernmental reporting.

Over the years, the OIG has disagreed with RRB as to which RM related responsibilities belonged to the RRB, Palmetto, or CMS. In response to our recent audits, agency management continued to state that the Medicare program should be treated as one program and that CMS is responsible for the overall program, including RM.

In May 2020, an OIG audit found that the RRB did not publish payment integrity information or improper payment data for RM and determined that RRB's performance in reducing RM improper payments was inadequate. Three of the five recommendations

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

that OIG made were directly related to RM. RRB disagreed with all three recommendations and stated that "…although Section 1842(g) of the Social Security Act provides the RRB with the authority to contract with and to oversee a contractor to perform Medicare Part B functions, including the functions of determining Medicare Part B payment amounts and of making these Medicare Part B payments, CMS and RRB agree that Medicare FFS (Fee-for-Service) is one program for improper payment reporting purposes." OIG disagreed and stated that they determined that the RRB should continue to separately report RM payment integrity information in its PAR due to the unique characteristics of the RRB's SMAC, its extended enterprise relationship with CMS, the lack of transparency for a separate RM program, and the less than optimal sampling of the RRB's SMAC, Palmetto.

Although RRB disagreed with our findings for this report for the reasons stated above, Programs stated that the RRB and CMS were working on an updated Memorandum of Understanding (MOU) between RRB and CMS, which would clarify each agency's responsibilities regarding RM reporting of improper payments. At the time of our report in May 2020, they stated that they expected the agreement (updated MOU) to be finalized by the end of 2020. Programs provided the OIG a recent update which stated that several meetings were held with RRB and CMS stakeholders to discuss updates to the MOU during the first half of fiscal year 2020 and significant progress was made; however, the meetings were postponed due to the shifting of resources to COVID-19 activities. Programs management indicated that the meetings with CMS will resume in the early part of fiscal year 2021 timeframe to finalize the changes.

Our previous audits 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. In response, RRB management stated that it is not responsible for the RM program, they only review Palmetto's contract performance, and they believe that some improper payments related to RM can only be recovered under special limited circumstances. Due to RRB management's stance on this matter, they did not concur with many of our previous recommendations. We continue to disagree with RRB management that the RRB is not responsible for oversight and reporting responsibilities for this program. We stand by the recommendations made in our recent audit reports, many of which remain open. It is the RRB OIG's position that until CMS absorbs the administration of RM, including contract oversight of Palmetto, the RRB should continue to report RM payment integrity data and implement RM related audit recommendations. If not, there is a lack of transparency, as the RRB would not be held accountable for its role in maintaining effective oversight of Palmetto.

Due to the RRB's indifference to oversight of the RM program and the inefficiency of maintaining it as a separate program, there is no practical reason for its existence, thus elimination should be considered.

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.

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**

The Coronavirus Aid, Relief, and Economic Security Act (CARES Act) provided funding for the RRB that consisted of an appropriation of $425 million to pay for the increase in unemployment benefits, with an additional $50 million provided to cover the cost of eliminating a waiting period for unemployment or sickness benefits. CARES Act funding also included $5 million to prevent, prepare for, and respond to the coronavirus. Issuance of these benefits required modifications to RRB systems, training for RRB staff, and revisions of RRB procedures.

Our oversight of CARES Act funds is ongoing, but we issued an interim report to discuss our current concerns. We determined that CARES Act benefits are being issued without any concurrent checks against state wages and unemployment benefits for the same periods. The RRB's current state wage match program will not begin to compare the RRB's CARES Act payments to state wage and benefit data for at least six months depending on the schedule with each particular state. RRB management indicated that the state wage match runs, that contain payments under the CARES Act, will begin in the spring of 2021 and will be completed by the end of calendar year 2021. The RRB's state wage match program is operating based on previously negotiated agreements that are not providing wage and unemployment data in a timely manner, and because of the timing, it decreases program integrity for CARES Act benefit payments. This extensive lag period severely impedes the timely identification of fraudulent situations under the CARES Act. To address these concerns, we recommended that the RRB obtain state wage match and unemployment data in a timelier manner. Agency management did not concur with this recommendation, stating that the RRB's ability to recover fraudulent benefit payments is not diminished because of the timing of the state wage match program. The OIG's finding remains unchanged and as such, we continue to see the need for our recommendation to be implemented.

- **Transparency**

The transparency issues discussed below represent our most recent concerns for these areas, and note that we previously reported challenges for these same audit topics. Our previously reported concerns continue to exist and are compounded by these newer audit findings.

Agencies are required to report improper payment data for the programs it administers in the payment integrity portion of the agency's PAR. As discussed in Challenge 3, our most recent improper payments report determined that the RRB did not publish payment integrity information or improper payment data for RM in its fiscal year 2019 PAR, as required. The RRB did not publish RM improper payment data, citing that CMS is responsible for the program as a whole, and is, therefore, responsible for improper payment reporting. We disagreed and determined that the RRB is responsible for RM reporting. RM improper payment data is not transparent within the overall Medicare data reported by CMS. By not reporting RM, the RRB was not transparent in publicly reporting several aspects related to RM, the most significant of which was that RM improper payments was approximately $107.1 million for fiscal year 2018, that the RM improper payment rate had increased considerably, and it exceeded the threshold allowable by improper payments legislation. Our audit made four recommendations related to action plans to reduce improper payments, reconciliation of data, and resuming RM reporting. RRB Management did not concur with three of the four recommendations. As stated previously, we disagree with the RRB's position and maintain that the RRB is responsible for RM reporting. We continue to see the need for our recommended corrective actions. These four recommendations and other prior recommendations remain open.

Federal agencies are required by the Digital Accountability and Transparency Act (DATA Act) to publish transparent financial data. Our recent audit determined that improvements are needed in RRB internal controls for the DATA Act. The RRB's Data Quality Plan did not exist when the DATA Act submission was made. As a result, associated risks to data quality in the RRB's spending data might not have been identified or managed. In addition, we found that RRB management's quarterly assurance statement did not contain the required statement of accountability to confirm the RRB's efforts to support data quality and assurance for connectivity/linkages across all data files. This occurred because agency management was unaware of the requirement for an accountability assurance statement. We identified deficiencies in RRB policies and procedures for the DATA Act that could impact the completeness, accuracy, timeliness, and quality of data submitted. For these specific DATA Act findings, we made four recommendations for improvement. RRB management concurred with all four recommendations. Three of these recommendations and prior DATA Act recommendations remain open. Previously, RRB management stated that they continue to make great strides in ensuring that the agency's DATA Act submissions are complete, accurate, and agree to applicable source systems. As such, they disagreed that this matter contributes to a serious management concern or challenge. In order for RRB to provide consistent, reliable, and searchable spending data that are displayed accurately for taxpayers and policymakers, we continue to see the need for our recommendations to be implemented in compliance with the DATA Act.

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 issues continue to be a challenge for RRB management, as is outlined in many of our prior audit reports, as well as our audit concerns discussed in the following paragraphs.

OIG has continued to render 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 $25.4 billion of the RRB's $32.8 billion (77 percent) assets as reported in the RRB's fiscal year 2019 financial statements.

Our audit opinion on the RRB's fiscal year 2019 financial statements also included two material weaknesses that are discussed in this challenge.

<u>Financial Reporting</u>

This overall material weakness for financial reporting has been reported since fiscal year 2014. Within this overall material weakness, we discussed our fiscal year 2019 financial reporting concerns regarding ineffective controls, communication with the NRRIT's auditor, and social insurance valuation. We continued to find the need for internal control improvements for financial reporting.

Our concerns about our inability to communicate with the NRRIT's auditor continued. RRB management stated that they will continue to cooperate and respond to OIG requests by providing NRRIT related information within its possession. They also stated that it is not within their authority to compel NRRIT auditors to speak with OIG or provide them their workpapers. RRB management did not concur with the recommendation we made during our fiscal year 2014 financial statement audit that called for establishment of an independent committee that would identify a functional solution that would enable communication between OIG and NRRIT's auditor.

Our actuarial contractor identified a material understatement of $2.3 billion for the open group surplus amount shown on the RRB's Statement of Social Insurance dated October 1, 2018. RRB management did not concur with our recommended corrective action.

While RRB management has taken some corrective action to address our financial reporting concerns regarding ineffective controls, no corrective actions have been taken to address our recommendations regarding communication with the NRRIT's auditor and social insurance valuation.

Deficient Internal Controls at the Agency-Wide Level

In this section, we discuss the second material weakness, deficient internal controls at the agency-wide level, which relates to our audit concerns in several areas, including compliance concerns, and concerns regarding railroad service and compensation.

- Ineffective Standards for Internal Control

OMB guidance states that an evaluation of internal controls must be performed for the agency as a whole. We determined that 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. If control principles or components have not been fully designed and implemented, they cannot be tested and must be considered ineffective. RRB management acknowledged OIG's concerns and stated that they are committed to strong internal control. In addition, they indicated that improvements were made and training was provided to responsible officials and agency leadership. Corrective actions related to this portion of the material weakness remain unimplemented.

- Information Technology Security and Financial Reporting Controls

Eight FISMA metric domains were assessed not effective by our FISMA contractor for the fiscal year 2018 FISMA audit. As a result, during our fiscal year 2019 financial statement audit, information system control risk was assessed as high in accordance with GAO's Financial Audit Manual guidance. RRB management disagreed with this audit finding. We did not make any recommendations for corrective action due to the 31 recommendations made by our contracted auditor.

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

We determine that the RRB had not established effective policies and procedures for 1) preventing agency noncompliance with indirect laws, regulations, and contracts; and 2) identifying treaties and international agreements impacting the RRB or the NRRIT. These policies and procedures are required by Financial Audit Manual guidance. RRB management did not concur with our recommendations for corrective action. Due to the significance of these audit concerns, these audit recommendations remain open.

- Compliance with RRA Benefit Payment Provisions

RRB management was not able to ensure compliance with RRA benefit payment provisions for fiscal year 2019 within allowable timeframes for our fiscal year 2019 financial statement audit. RRB management cited severe staffing shortages as the cause for delay. These quality assurance reviews that consisted of a sample of benefit payments totaling approximately $662.1 million were not completed until October 31, 2019, which was too late for us to complete our review.

- Controls Over Railroad Service and Compensation

We determined that RRB controls over creditable and taxable compensation were inadequate due to insufficient audit coverage. The RRB received approximately $4.6 billion in payroll taxes as of June 30, 2019. An insufficient number of railroad audits were being conducted and, therefore, railroad employer audits were not effective in ensuring the accuracy of payroll tax amounts. RRB management acknowledged the need for improvement and explained that the limited number of these audits was due to staffing and funding constraints. The audit recommendation remains open.

- RRB's DATA Act Policies and Procedures Need Improvement

OIG conducted an audit of RRB's DATA Act Submission for First Quarter of Fiscal Year 2019, and one of the objectives was to assess the RRB's implementation and use of the governmentwide financial data standards established by OMB and the Department of the Treasury. The audit concluded that the RRB's internal controls over DATA Act reporting were generally effective but need improvement. OIG's concerns are discussed below.

Our audit determined that the RRB's policies and procedures contained minimum standards and information for the RRB to manage and facilitate the reporting of financial and award data in accordance with the requirements of the DATA Act. Even though the procedures included various controls to ensure overall quality of the data, deficiencies were identified and improvements were needed. We also found that there were no procedures established to ensure File A and B totals matched. According to GAO, "[i]nternal control comprises the plans, methods, policies, and procedures used to fulfill the mission, strategic plan, goals, and objectives of the entity." Therefore, management is responsible for designing policies and procedures to fit the agency's situation. We made one recommendation and management concurred with our recommendation. The recommendation remains open.

Due to these audit concerns, the lack of corrective actions for most of these recommendations, and unimplemented corrective actions for prior reports with financial management and reporting concerns, agency action is needed to address this challenge.

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? Recent OIG audits have determined that the RRB has been noncompliant with various guidance. Noncompliance can have a far reaching impact on the protection of federal trust funds, assets, information security, governmentwide improper payments, and the effectiveness of agency operations.

Our recent audits found that the RRB was noncompliant in several areas, as discussed in this challenge.

- **Telework**

Our audit of the RRB's telework program determined that controls over the RRB's telework program were not effective to ensure compliance with applicable telework laws, regulations, and policy. Specifically, we identified that 1) RRB's policy did not contain appropriate telework managing officer information, 2) RRB's privacy administrative circulars that support the telework program were outdated, 3) RRB's controls were not fully effective for ensuring that telework training and written agreements were completed, and 4) RRB had not monitored or evaluated its telework program in accordance with applicable guidance. Further, we determined that the RRB submitted inaccurate and unsupported data to the Office of Personnel Management for fiscal years 2017 and 2018.

Adherence to applicable laws and guidance, in addition to a fully effective internal control system over the telework program, would help ensure the protection of privacy data and agency information used during teleworking. Our audit made five recommendations in these specific areas for improving internal controls and compliance with teleworking laws and regulations. RRB management concurred with two, and did not concur with three. Our recommendations remain as written. All five recommendations remain open.

- **Improper Payment Reporting**

Our mandated improper payments audit determined that the RRB was noncompliant with improper payment legislation for the second consecutive year for its RM program. We cited the RRB with noncompliance because 1) the RM program had an improper payment rate of 12.5 percent according to the improper payment reporting data provided by CMS in fiscal year 2019, which exceeded the 10 percent threshold, for improper payment reporting, 2) the RRB did not publish a corrective action plan for the prior year RM improper payment rate of 10.53 percent, and 3) the RRB did not publish an annual reduction target in its payment integrity report or meet the prior year's published rate of 9.93 percent.[3]

[3] The information provided is according to a CMS's Comprehensive Error Rate Testing (CERT) report titled *November 2018 Final Report For Contractor RRB*. The report included reviewed claims data from the sampling period July 2016 through June 2017.

Although the RRB was required to report RM improper payment data in its payment integrity report, it did not report RM data because RRB management determined that CMS is responsible for reporting all Medicare data as a whole and, if RRB reported this data, it would duplicate the data reported by CMS. However we found that the RRB did not have appropriate documentation to support their claim that RM was included in CMS' overall Medicare improper payment reporting. We continue to disagree that CMS is responsible for the RM program as discussed in Challenge 3. Because RRB management does not agree that they are noncompliant, they did not concur with our recommended actions this year or last year. Our recommendations restated corrective actions required by improper payment legislation. However, RRB management has not taken the corrective actions required by legislation.

- **Information Technology Security**

As discussed in Challenge 2, the RRB has been noncompliant with FISMA legislation and OMB guidance for two consecutive years. Although agency management acknowledged the need for improvement, corrective actions have only been made for 8 of the 50 recommendations issued in the fiscal year 2019 and 2018 FISMA reports.

Compliance with applicable authoritative guidance continues to be a challenge for RRB management as discussed in the audit reports referenced for this challenge, as well as other prior compliance audits conducted by our office, or, for our office, through contracted audits. Many compliance related recommendations from our prior reports remain open, and thus we remain concerned about RRB's efforts to be compliant with authoritative guidance.

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

Through audits, investigations, and other follow-up activities, we will continue our oversight of the challenges discussed in this letter. We encourage RRB to take meaningful action to address these challenges to prevent fraud, waste, and abuse in RRB programs and operations, and to adhere to applicable authoritative guidance.

MARTIN DICKMAN
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Date: 2020.10.16 12:36:53 -05'00'

Martin J. Dickman
Inspector General

October 16, 2020

APPENDIX A-AUDIT REPORTS

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

Improve Agency Disability Program Integrity

- Railroad Retirement Board (RRB) Office of Inspector General (OIG), *Audit of Job Duty Verification Procedures for Long Island Rail Road Occupational Disability Applicants*, Report No. 13-02 (Chicago, IL: January 15, 2013).
- RRB OIG, *Control Weaknesses Diminish the Value of Medical Opinions in the Railroad Retirement Board Disability Determination Process,* Report No. 16-05 (Chicago, IL: March 9, 2016).
- RRB OIG, *The Implementation of the Disability Program Improvement Plan at the Railroad Retirement Board Did Not Result in a Fully Established Fraud Risk Assessment Process,* Report No. 19-15 (Chicago, IL: September 27, 2019).
- RRB OIG, *The Railroad Retirement Board Disability Programs Do Not Effectively Consider Fraud Risk Indicators in the Disability Process,* Report No. 19-16 (Chicago, IL: September 27, 2019).
- RRB OIG, *The Use of Medical Experts During Disability Determinations at the Railroad Retirement Board Can Be Improved,* Report No. 19-17 (Chicago, IL: September 27, 2019).

Improve Information Technology Security and Complete System Modernization

- 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).
- RRB OIG, *Selected General Information System Controls at the Railroad Retirement Board Were Not Always Adequate,* Report No. 19-07 (Chicago, IL: May 14, 2019).
- RRB OIG, *Performance Audit of RRB's Compliance with the Federal Information Security Modernization Act of 2014 Fiscal Year 2019,* Report No. 20-04 (Chicago, IL: December 18, 2019).

Improve Management of Railroad Medicare

- RRB OIG, *Railroad Retirement Board Did Not Calculate Reimbursed Medicare Costs in Accordance with Federal Requirements,* Report No. 16-10 (Chicago, IL: August 22, 2016).
- RRB OIG, *Audit of Railroad Retirement Board's Compliance with Improper Payments Elimination and Recovery Act in Fiscal Year 2018 Performance and Accountability Report,* Report No. 19-09 (Chicago, IL: May 30, 2019).
- RRB OIG, *Railroad Medicare Controls Over Evaluation and Management Services Were Not Fully Adequate,* Report No. 19-10 (Chicago, IL: August 5, 2019).
- RRB OIG, *Audit of Railroad Retirement Board's Compliance with Improper Payments Reporting in the Fiscal Year 2019 Performance and Accountability Report,* Report No. 20-06 (Chicago, IL: May 12, 2020).
- RRB OIG, *Controls over Medicare Premium Penalties and Refunds Can Be Improved,* Report No. 20-07 (Chicago, IL: June 4, 2020).

Improve Payment Accuracy and Transparency

- RRB OIG, *Railroad Retirement Board's Initial DATA Act Submission, While Timely, Was Not Complete or Accurate,* Report No. 18-01 (Chicago, IL: November 8, 2017).
- RRB OIG, *Audit of Railroad Retirement Board's Compliance with Improper Payments Elimination and Recovery Act in Fiscal Year 2018 Performance and Accountability Report,* Report No. 19-09 (Chicago, IL: May 30, 2019).
- RRB OIG, *Audit of Railroad Retirement Board's Digital Accountability and Transparency Acts of 2014 Submission for First Quarter of FY 2019,* Report No. 20-01 (Chicago, IL: November 6, 2019).
- RRB OIG, *Audit of Railroad Retirement Board's Compliance with Improper Payments Reporting in the Fiscal Year 2019 Performance and Accountability Report,* Report No. 20-06 (Chicago, IL: May 12, 2020).
- RRB OIG, *Management Information Report: Interim Report Regarding CARES Act Expenditures and Controls,* Report No. 20-08 (Chicago, IL: September 28, 2020).

Financial Management and Reporting Issues

- RRB OIG, *Fiscal Year 2014 Financial Statement Audit Letter to Management,* Report No. 15-05 (Chicago, IL: March 31, 2015).
- RRB OIG, *Enterprise Risk Management Process At The Railroad Retirement Board Was Not Fully Effective,* Report No. 18-07 (Chicago, IL: July 9, 2018).
- RRB OIG, *Report on the Railroad Retirement Board's Financial Statements Fiscal Year 2018,* Report No. 19-01 (Chicago, IL: November 15, 2018).
- 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).
- RRB OIG, *Audit of Railroad Retirement Board's Digital Accountability and Transparency Acts of 2014 Submission for First Quarter of FY 2019,* Report No. 20-01 (Chicago, IL: November 6, 2019).
- RRB OIG, *Report on the Railroad Retirement Board's Financial Statements Fiscal Year 2019,* Report No. 20-02 (Chicago, IL: November 15, 2019).
- RRB OIG, *Management and Performance Challenges Facing the Railroad Retirement Board,* Report No. 20-03 (Chicago, IL: November 21, 2019).

Compliance Concerns Identified

- RRB OIG, *Performance Audit of RRB's Compliance with the Federal Information Security Modernization Act of 2014 Fiscal Year 2019,* Report No. 20-04 (Chicago, IL: December 18, 2019).
- RRB OIG, *Railroad Retirement Board's Telework Program Needs Improvement,* Report No. 20-05 (Chicago, IL: April 24, 2020).
- RRB OIG, *Audit of Railroad Retirement Board's Compliance with Improper Payments Reporting in the Fiscal Year 2019 Performance and Accountability Report,* Report No. 20-06 (Chicago, IL: May 12, 2020).

Management's Comments

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

CHALLENGE 1 – IMPROVE AGENCY DISABILITY PROGRAM INTEGRITY

The OIG asserts that RRB management has not been receptive to its recommendation to improve program integrity, and claims that because some recommendations made by the OIG or its contractors remain open, the RRB's disability program is at risk of fraud and abuse. The fact that only some of the recommendations remain open is evidence that the RRB has been receptive to recommendations to improve program integrity. A decision not to implement a recommendation as suggested, after a detailed analysis of that recommendation, does not reflect a reticence to implement changes. Rather, such action represents a fulfillment of management's responsibility to implement those changes that are cost effective and will, if adopted, actually improve program integrity. The integrity of all of the programs administered by the RRB are of the utmost concern to RRB management.

The OIG's discussion of the challenges facing the RRB in 2020 begins by again referencing a 2009 audit performed by the Government Accounting Office (GAO). In that report, now over a decade old, an observation was made regarding the approval rate and the possibility that such a rate *could be* indicative of a program problem. However, the OIG fails to note that the GAO did not conclude in that report that the rate did, indeed, reflect a program integrity problem, and subsequent reports have not raised the approval rate as an indicator of a lack of program integrity. As the OIG notes, the RRB administers a disability program for railroad employees who are either totally or occupationally disabled and those who are occupationally disabled are awarded annuities even though the employee may be able to perform other types of work. Most annuities are awarded under the occupational program and the approval rate, which has remained steady since the inception of the program in the 1940's, is more a reflection of the statutory requirements for approval than a measure of program integrity. In its 2009 report, the GAO provided the following example to highlight this fact:

> *"To be occupationally disabled, a worker must have a permanent physical or mental condition that prevents him or her from performing his or her railroad job. For example, a railroad engineer who cannot frequently climb, bend, and reach, as required by the job, may be found occupationally disabled.*[2]

The OIG notes the average occupational disability annuity rate, presumably to draw attention to the amount and the fact that the monthly annuity rate is not inconsequential. It is not the statutory role of Management to make judgments about how generous the benefit programs are, or to attempt to ascertain the motives of applicants, except to the limited extent it may affect the merits of their applications. However, management notes that for most, applying for a disability annuity results in a loss of income as a result of leaving railroad employment as well as a loss of income over time, particularly if the employee applies before acquiring 30 years of service. Little to no significance seems to be given to the fact that the occupational disability program is available only to career railroad workers, whose average age at application is over 55. In addition, railroad employees who retire on disability face a loss of healthcare coverage until they are eligible for Medicare. Finally, if the employee is capable of performing other work, the

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[2] Government Accountability Office (GAO), *Railroad Retirement Board: Review of Commuter Railroad Occupational Disability Claims Reveals Potential Program Vulnerabilities*, GAO-09-821R, Page 7 (Washington, D.C.: Sept. 9, 2009).

earnings restrictions for disabled annuitants are considerably stricter than those who retire based on age.

The RRB addressed the concerns identified in the 2009 GAO report and subsequent OIG reports. The Disability Tracking of Physicians and Patterns "DTOPP" system was developed to identify the issue that occurred in the Long Island Railroad cases where three physicians were providing medical evidence in the majority of the cases. The agency is also tracking patterns of disability or sickness claims being reported out of a single railroad.

In addition, the RRB has implemented a number of program integrity changes based on our own analysis as well as recommendations made by the OIG. This includes making updates to the disability application form and the hiring of a Chief Medical Officer (CMO). The RRB has added a second level reviewer for all disability decisions and updated and improved fraud training for staff throughout the agency.

As discussed by the OIG, the RRB eliminated the mandatory use of specialist medical exams. This step was taken after Management carefully reviewed the cost and benefit of those exams. This review looked at whether the exams were helpful to the claims review process, whether they had impacted the approval rate, their cost, and whether they significantly impacted the time required for review of applications. Eliminating these exams will result in a significant saving of both time and money. Equally important, our review demonstrated this change will not adversely impact program integrity.

In an effort to monitor the impact of this change, Management has instructed the CMO to review a sampling of cases each month for which a) the primary impairment is orthopedic or psychological; b) no consultative examination was ordered; and c) the CMO did not review the medical information prior to adjudication. The CMO will prepare an annual report for the Board at the end of February, which will contain the CMO's findings and any corrective action she took related to her findings. Also, our Program Evaluation and Management Services (PEMS) division is working with the outside contracted medical professionals to conduct an annual review of a sample of orthopedic and psychological disability cases that are adjudicated without an Independent Medical Exam or a Specialist Consultative Exam to ensure that the appropriate medical evidence was in the file at the time of adjudication. This will help the Director of Programs and our CMO determine whether the policy changes require further revisions or further staff training.

The RRB addressed the issue raised by the OIG's outside contractor concerning the establishment of an entity that would assess fraud risk indicators within the Agency's benefit paying programs. To that effect, the RRB created the standing Fraud Risk Assessment Committee (FRAC). The purpose of the Committee is not only to assess fraud risk, but to also offer solutions to mitigate fraud risk in the administration of the Agency's programs. While the Committee has made some recommendations for improvements in processes, a recommendation for closing has not been made to the OIG to date. Experience has shown a reluctance on the part of the OIG to close out recommendations without extensive, detailed documentation, which some might view as beyond the norm. Nevertheless, given the difficulty in successfully closing out other OIG recommendations, before submitting a request for closing, the Committee is working to make sure that it compiles the level of detailed documentation desired so that the request will be approved.

In discussing the RRB performance plan, the OIG combines two customer service goals in their analysis of the disability program. Customer Service goal II-A-7 states that the RRB will make a decision to pay or deny a benefit or a disabled applicant or family member within 100 days of the date of application. Currently, the RRB is making a decision within 100 days 12.5 percent of the time. This is different from goal II-A-8 which states that the RRB will make a payment to a disabled applicant within 25 days of the date of a decision or earliest payment date, whichever is first 94 percent of the time. Our actual performance was 84.1 percent, due to a loss of experienced staff in that unit.

Ultimately, the RRB remains steadfast in its commitment to administering the disability program in a manner that will maintain or improve program integrity and protect the National Railroad Retirement Investment Trust. Many of the recommendations and suggestions made by the OIG for program improvements have been incorporated into the way cases are processed and adjudicated. The RRB will continue to perform its due diligence in this area.

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.

Additionally, during fiscal year (FY) 2020, leading up to the execution of the FY 2020 FISMA audit, the RRB focused its efforts primarily on addressing open findings and related recommendations identified in years prior to the FY 2019 FISMA audit. Through these efforts, we addressed and closed 63 POAMs and 22 OIG findings during FY 2020. As the RRB continues to develop and implement its IT modernization initiatives, we will proactively address the remaining findings and recommendations in order to improve the Agency's security posture and to sustain at acceptable levels.

Preliminary audit results for the FY 2020 FISMA audit indicate that Kearney & Company will assess our overall maturity at Level 2 – *Defined*, maintaining the rating from 2019. The RRB realized fifteen significant improvements across each of the eight domains, improving several lower level ratings to Level 3 – *Consistently Implemented*, which is one-step lower than Level 4 – *Managed and Measurable.* Additionally, for the Configuration Management domain, the Agency improved from Level 1 – *Ad-Hoc* to Level 2 – *Defined,* and for the Data Protection and Privacy domain, the Agency improved from Level 2 to Level 3. The preliminary FY 2020 audit results further 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 needs to make more progress in improving the overall security posture of the Agency and it is committed to continue to make incremental steps to reach the overall maturity goal of Level 4.

The RRB acknowledges that it was not able to relocate its mainframe to a cloud environment during FY 2020. During FY 2020, the Agency faced some challenges with the approach it took to re-platform its mainframe into a cloud environment. Numerous challenges with our approach caused the RRB to issue a stop work order and ultimately terminate its contract with its selected vendor. The RRB performed an alternatives analysis, based on industry standards and best practices, to identify a more cost-effective and executable plan to modernize its mainframe and ultimately its business applications that reside on its mainframe. At this writing, the RRB has identified an alternative and efforts are underway to acquire appropriate resources via contract to complete the modernization of the mainframe towards a cloud environment.

The RRB acknowledges that the initiative, “On Track to Tomorrow,” introduced by a previous CIO in 2019, has transitioned to a three-phased approach to IT modernization. The transition to a three-phased approach was necessary to account for the numerous activities and projects required to modernize nearly every component of the RRB enterprise. The three phases, ***Stabilize – Modernize – Perform***, represent the overall phases the RRB will traverse towards a comprehensive modernization of its enterprise architecture, infrastructure, legacy systems, legacy applications and security architecture. The approach identified by the previous CIO focused solely on seven distinct efforts and did not capture fully the extensive modernization required. FY 2020 proved a complex period of transition from that previous approach to our current comprehensive strategy. The transition through the phased approach continues into FY 2021 as the RRB seeks to emerge from the ***Stabilize*** phase and enter the ***Modernize*** phase.

CHALLENGE 3 – IMPROVE MANAGEMENT OF RAILROAD MEDICARE

The RRB acknowledges its responsibilities under the Social Security Act to administer certain provisions of the Medicare program for the railroad, including the administration of the Specialty Medicare Administrative Contractor (SMAC) contract with Palmetto GBA, LLC. 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)[3] 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 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).

The OIG’s audit recommendations asserted that the RRB should report Medicare improper payment information associated with the SMAC’s results under CMS’ Comprehensive Error Rate Testing (CERT) program. CMS informed RRB that if the RRB reported the SMAC’s CERT results, that reporting would be duplicative of reporting already being done by CMS and would result in an overstatement of the Medicare improper payment reporting by the Federal Government as a whole. Specifically, CMS reports a combined overall error rate that includes all Medicare Administrative Contractors (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 not an attempt to mask any significant improper payment rates, but rather an effort to ensure correct improper payment reporting consistent with CMS’ administration of its Medicare program. Adopting the OIG’s suggestion would lead to incorrect and misleading government reporting.

As part of our continuing contract administration, the RRB is responsible for utilizing improper payment information provided by CMS and following their procedures and regulations to help

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[3] *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).

reduce FFS program payments. The actions taken by the RRB will continue to include but are not limited to:

- Work with CMS on a regular basis to ensure that the Memorandum of Understanding (MOU) is current and accurately reflects each agencies responsibilities,
- Preparing annual risk assessment to determine SMAC vulnerability,
- Utilizing the CERT improper payment rate information to prepare annual medical review strategies,
- Require the SMAC to submit an Improper Payment Activities Report (IPAR) after the final improper payment rate data is received, and
- Ensure that the SMAC submits regular updates to the RRB if the improper payment rate is not equal to accepted tolerance levels.

CMS and RRB continue their efforts to finalize an MOU by the end of fiscal year 2021.

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 CARES Act:** We disagree with the OIG statements and believe that RRB's established process for obtaining wage information from the States is the most effective and efficient manner currently available.

   In accordance with our established State Wage Match Program we perform State Wage matches two times per year with each State and the District of Columbia. We perform a wage match with New York four times per year. No State or the District of Columbia is under any obligation to renegotiate the existing contracts we have with them. Additionally, renegotiating any of these contracts to perform more frequent wage matches is unlikely to result in any additional protection against improper payments. Though States may receive wage information from employers on a quarterly basis, it takes time for States to then upload this information into their respective systems. Performing more frequent wage matches may result in the RRB wasting resources without any benefit, because the additional matches may be performed before a State has uploaded any additional data. Unemployment payments are issued daily by the RRB, based on the date of filing. Implementing the OIG's recommendation to conduct matches concurrently with payment would require daily matching with a State system, which is not currently possible and may yield no relevant data. Further, attempting to implement a daily matching protocol with each State specifically for CARES Act implementation would have deviated from our normal business process and delayed payment of CARES Act benefits in contrast to the purpose of the law.

2. **Transparency**: The OIG states that agencies are required to report improper payment data for the programs it administers in the payment integrity portion of the agency's PAR. As such, the RRB's payment integrity reporting includes information related to benefit programs provided under the Railroad Retirement and the Railroad Unemployment Insurance Acts. OIG once again cites the RRB's decision not to publish improper payment data related to the Medicare program. To reiterate and as discussed in Challenge 3, 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 AFR.

3. **DATA Act**: We continue to make great strides in ensuring that the Agency's DATA Act submissions are complete, accurate and agree with applicable source systems. We will continue to work with the OIG to close open audit recommendations; however, it is worth noting that in OIG Audit Report No. 20-01, the IG's audit results demonstrated that the RRB achieved the "higher" data quality level validated by an extremely low error rate of 0.43%. Further, the GAO recognized RRB's DATA Act audit results in their report GAO-20-540, where they cited that RRB's data quality is at the highest level. As such, we disagree that this matter contributes to a serious management concern or challenge.

CHALLENGE 5 – FINANCIAL MANAGEMENT AND REPORTING ISSUES

Through this management challenge, the OIG discusses its continued issuance of a disclaimer of opinion on the RRB financial statements as well as asserts the need for improvements related to two material weaknesses identified in the financial statement audit particularly related to 1) financial reporting and 2) deficient internal controls at the agency-wide level. 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 that gives GAO access to information regarding NRRIT's annual financial statements and related financial statement audits in support of the U.S. Government's consolidated financial statements.[4] 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 upon fiscal year 2019 financial statement audit results and included three components: 1) ineffective internal controls, 2) communication with the NRRIT's auditor, and 3) social insurance valuation.

      i. *Ineffective Controls*: The RRB has taken significant corrective actions to strengthen our voucher processing internal controls, which the OIG recognized during the fiscal year 2020 financial statement audit, where the OIG closed this component of the financial reporting material weakness. Therefore, we disagree that this matter rises to the level of material weakness or serious management concern.

      ii. *Communication with NRRIT*: As stated above, the RRB does not have the authority to compel the NRRIT auditors to provide their work papers to, or speak

[4] 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).

with the OIG. Further, the GAO, through an MOU with the NRRIT, has gained access to information regarding NRRIT's annual financial statements and related financial statement audit in support of the U.S. Government's consolidated financial statements.

iii. *Social Insurance Valuation:* The OIG has stated that their actuarial contractor identified a material understatement of $2.3 billion for the open group surplus amount shown on the RRB's Statement of Social Insurance dated October 1, 2018. RRB management did not concur with their recommended corrective action, which was to adopt the calculation method of the contractor, the reasons were detailed in RRB's response dated November 15, 2019 to the fiscal year 2019 financial statement audit report.[5]

The contractor's 2019 report itself stated that the RRB's "[a]ctuarial 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."

The contractor's report further stated, "[t]o 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."

The RRB acknowledges that the OIG's contractor offered a professional opinion for the RRB to consider, but finds it inappropriate and unjustified for the OIG to use this as the basis for a material weakness in light of the fact that the contractor found that the RRB's methodology was still within accepted actuarial practice, and remained consistent with RRB's experience.

The RRB further rejects the finding of material weakness because the Bureau of Actuary and Research believes that the contractor's recommended method was flawed. In determining the surplus, the contractor based its calculation of the present value of future income on the tax rates projected in the 2019 Section 502 report. The Section 502 report reflected the known 7.1% loss for the period 10/1/2018-12/31/2018 and thus provided the best estimate of future tier II tax rates. By discounting the present value of future income using a 1.7% rate for the quarter (which equates to a 7% annual rate) but projecting future taxes using actual return, the contractor significantly overstated the surplus position (from $1.4 billion to $3.7 billion). The contractor's recommended method will overstate the surplus when actual return is less than their assumption and understate the surplus when actual return exceeds their assumption. The methodology chosen by the Bureau of Actuary and Research provides a more accurate position of a surplus than would result from adopting the OIG contractor's methodology.

b. **Deficient internal controls at the agency-wide level:** Again, the OIG bases this discussion upon fiscal year 2019 financial statement audit results and included five components: 1) implementation of GAO and OMB standards for internal of control; 2) information technology security and financial reporting controls; 3) compliance with indirect laws, regulations, contracts, treaties, and international agreements; 4)

[5] Memorandum from Frank Buzzi, Chief Actuary, RRB, to Debra Stringfellow-Wheat, Deputy Assistant Inspector General for Audit, OIG, November 15, 2019 (published on page 124 of RRB's FY 2019 Performance and Accountability Report, available on RRB's website at: https://www.rrb.gov/sites/default/files/2019-11/par2019.pdf).

compliance with Railroad Retirement Act benefit payments provisions; 5) controls over railroad service compensation; and 6) RRB's DATA Act Policies and Procedures Need Improvement.

i. *Ineffective Standards for Internal Control:* We acknowledge the OIG's concern and have continued making strides in implementing Enterprise Risk Management (ERM) at the RRB by leveraging the Management Control Review (MCR) infrastructure already in place. In fiscal year 2020, we incorporated an ERM based reporting structure into the MCR guide aimed at enhancing our ability to identify potential events that may affect the agency and manage the related risks within our risk appetite. In fiscal year 2021, we will fully implement the new ERM based MCR reporting along with training of responsible officials. We are committed to strong internal controls and will move forward with the next phase of ERM implementation.

ii. *Information Technology Security and Financial Reporting Controls*: We continue to disagree with the OIG's assertion that the RRB's FISMA maturity level directly impacts the financial reporting system. Specifically, 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 FY 2018 FISMA audit report, the results of the FY 2019 FISMA audit as well as consideration of the preliminary FY 2020 FISMA audit results, we could not find any impactful risk to the FMIS. Finally and as discussed in our response to Challenge 2, the preliminary FY 2020 audit results further 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.

iii. *Compliance with Indirect Laws, Regulations, Contracts, Treaties, and International Agreements:* In its findings issued during the fiscal year 2019 financial statement audit, the OIG states that "RRB management has not established effective policies and procedures for preventing agency noncompliance with indirect laws, regulations and contracts…" We continue to 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.

In this regard, 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 each year. The results from the fiscal year 2019 FISMA audit, as well as the preliminary fiscal year 2020 FISMA audit results, continue to demonstrate ongoing 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.

Additionally, 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 again note 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 and FY 2020 Financial Statement Audit, Laws and Regulations, Cycle Synopsis documents that were 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.

iv. *Compliance with RRA Benefit Payment Provisions*: As cited by the OIG, the first half of the 2019 Quality Assurance report was not accomplished on time (9/30/19) due to significant staffing shortages in the unit. The report was completed and provided to the OIG on October 31, 2019. The RRB is working to address the staffing shortages that were caused by retirements and unexpected departures early in the year. We will continue to work with the OIG to provide accurate and complete information at the earliest possible date.

v. *Controls Over Railroad Service and Compensation:* We take our responsibility for ensuring that employers accurately report Tier I and Tier II creditable service and taxable compensation very seriously. As communicated to the OIG in response to fiscal year 2019 financial statement audit report, and in an effort to increase audit coverage, we retrained and transitioned an existing employee into an audit role as well as hired two seasoned auditors from outside of the Agency. Further, in fiscal 2020 we were able to hire two additional external auditors. These actions have increased the audit staff from one to six. Finally, the RRB has three audits in progress and anticipates finalizing these audits during fiscal year 2021.

vi. *RRB's Data Act Policies and Procedures Need Improvement*: As discussed in our response to Challenge 4, we continue to make great strides in ensuring that the Agency's DATA Act submissions are complete, accurate and agree to applicable source systems. We will continue to work with the OIG to close open audit recommendations; however, recent OIG and GAO audit results demonstrated that the RRB achieved the "higher" data quality level. We disagree that this matter contributes to a serious management concern or challenge.

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. **Telework:** The RRB addressed the OIG's concern regarding compliance with telework laws, regulations, and policy through modified training for both employees and managers/supervisors as well as through revisions to its telework policy. The RRB released revised employee training in March 2020. Additionally, the RRB developed and published a managerial/supervisory telework training and required RRB managers and supervisors to complete the mandatory training by August 31, 2020. The employee and managerial/supervisory automated trainings comply with both the Telework Enhancement Act of 2010 and RRB Policy. An updated version of the RRB's telework policy that is consistent with the Telework Enhancement Act of 2010 and applicable portions of OPM guidance is currently in our internal review and approval process.

   The RRB disagrees with the OIG's statement that RRB submitted inaccurate and unsupported data to the Office of Personnel Management (OPM) because the RRB reports generalized/summarized information to the OPM. The RRB retains the supporting documentation for its records, but did not provide said data to OPM and was not required to do so. During FY 2018, the RRB changed automated personnel processing systems, which unfortunately, led to manual compilation of data from two HR time and attendance systems in order to complete OPM's telework report for FY 2018. The RRB acknowledges that a minor error occurred related to the summary data provided to OPM, where we inadvertently included some OIG employees in the consolidated numbers, due to the former time and attendance system's inability to distinguish between OIG and RRB employees. The error represented less than 10 employees in the OPM summary data for each fiscal year 2017 and 2018, which equated to a negligible error percentage (i.e. less than 5%) for each fiscal year. As communicated to the OIG, this error will not occur in future telework information reported to OPM for fiscal years 2019 or beyond, given that the new automated personnel system reports have the capability of excluding OIG employees and the RRB has streamlined its telework reporting methodology.

   The RRB does not fully agree with three OIG recommendations because they were based on the evaluation of dated systems and practices in place in FY 2017 and FY 2018. Specifically, the OIG's observations related to their audit scope covering FY 2017 through FY 2018 had already been resolved through revised internal policy, updated automated training and implementation of a new personnel processing system in May 2018; affecting our telework program in FY 2019 and beyond. We reiterate that the revised automated trainings and draft RRB Telework policy comply with the Telework Enhancement Act of 2010 and OPM guidance (where applicable). RRB's updated telework policy, data collection tools present during and after FY 2019, and evaluation mechanisms are compliant with current telework statutes and applicable OPM guidance. Overall, the OIG found our Telework program reasonably implemented evidenced by lack of significant findings and recommendations.

2. **Improper Payment Reporting:** The OIG asserts that RRB was noncompliant with improper payment reporting due to exclusion of Medicare improper payment information associated with the SMAC's results under CMS' CERT program. As discussed in our response to Challenge 3 above CMS is responsible for the Medicare program as a whole and they have confirmed for us that the reporting responsibility thereunder is theirs alone. As stated in our response to Challenge 3, both the CMS and RRB have separate and distinct responsibilities for administering the Medicare FFS program. The RRB is responsible for utilizing improper payment information provided by the CMS and following their procedures and regulations to help reduce the FFS. CMS and RRB agree that Medicare FFS is one program for improper payment purposes.

3. **Information Technology Security:** As discussed above in our response to Challenges 2 and 5, preliminary audit results for the FY 2020 FISMA audit indicate that Kearney & Company will assess our overall maturity at Level 2 – *Defined*, maintaining the rating from 2019. The RRB realized fifteen significant improvements across each of the eight domains, improving several lower level ratings to Consistently Implemented, which is one-step lower than Level 4 – *Managed and Measurable.* Additionally, for the Configuration Management domain, the Agency improved from Level 1 – *Ad-Hoc* to Level 2 – *Defined,* and for the Data Protection and Privacy domain, the Agency improved from Level 2 – *Defined* to Level 3 – *Consistently Implemented*. The preliminary FY 2020 audit results further 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.

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. Per OMB guidance, the RRB conducted risk assessments for the RRA and RUIA programs in this year's Payment Integrity report. The results of these risk assessments are located in section VIII, "Risk Assessment."

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 $68,547,350 under the RRA's program with an overpayment balance of $58,199,750 at the end of fiscal year 2019. For the period of fiscal years 2010 through 2019, the RRB recovered $545,781,407 in RRA overpayments.

The RRB collected $26,120,811 under the RUIA program with an overpayment balance of $17,698,101 at the end of fiscal year 2019. For the period of fiscal years 2010 through 2019, the RRB recovered $261,291,434 in RUIA overpayments.

During fiscal year 2019, the RRB waived or determined uncollectable $1,942,682 ($1,571,270 RRA and 371,412 RUIA) of benefit overpayments based on criteria established in the Code of Federal Regulations. 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 2020 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 2020 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 19	Amount Recaptured FY 19	Amount Identified FY 18	Amount Recaptured FY 18	Cumulative Amount Identified FY 10 - FY 19	Cumulative Amount Recaptured FY 10-19
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	$56.84*	$82.73**	$50.35*	$72.00**	$498.11	$545.78
	RUIA	$26.71*	$26.12**	$24.55*	$25.49**	$274.04	$261.29

* 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 2019.

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.

IPERIA Background

The Improper Payment Elimination and Recovery Improvement Act of 2012 (IPERIA) requires agencies to follow steps to determine whether the risk of improper payments is significant and provide valid annual estimates of improper payments for its programs. Beginning in FY14, "significant improper payments" are defined as gross annual improper payments in the program exceeding both 1.5 percent of program outlays and $10,000,000 of all program or activity payments made during the fiscal year reported or $100,000,000, regardless of the improper payment percentage of total program outlays. (For fiscal years prior to FY14, the cut off was 2.5 percent.) For all programs and activities susceptible to significant improper payments, agencies shall determine an annual estimated amount of improper payments made in those programs and activities.

Federal agencies are required to conduct a program specific risk assessment for each program or activity that conforms to Section 3321 of Title 31 U.S.C.

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 Assessments for the RRA and RUIA benefit paying programs follow below.

Railroad Retirement Act (RRA)

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

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

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

Below are the risk factors assessed in accordance with OMB memorandum M-18-20, *Transmittal of Appendix C to OMB Circular A-123, Requirements for Payment Integrity Improvement,* which are likely to contribute to improper payments, followed by RRA specific responses.

1. Whether the program or activity is new to the agency
The Railroad Retirement Insurance Act was passed in 1935. It is not a new program.

2. The complexity of the program or activity reviewed, particularly with respect to determining correct payment amounts.
The RRB has been following an established methodology for identifying improper payments *in the RRA benefit payment program. In August 2016, OMB granted the RRB approval to continue conducting our RRA Improper Payment analysis according to our established methodology. To estimate our RRA improper payments, we identify:*

- *Known overpayments from the Accounts Receivable system and underpayments from the Payment, Rate and Entitlement History database*
- *Estimated overpayments and underpayments - cases we are not currently handling that may not be paid correctly*
- *Unquantified overpayments and underpayments – from our quality assurance studies which provide projections for dollars paid incorrectly, without distinguishing between overpayments and underpayments, but are reported in absolute dollars*

The chart below shows RRA dollar amounts of the specific categories included in our analysis. The following sections provide a narrative explanation of items in the chart.

In FY2019, the agency paid approximately $13.0 billion in RRA benefits. The total improper payment percentage of 0.57 is below the first OMB threshold of 1.5 percent.
The estimate of total improper overpayments and underpayments is about $73.60 million, which is below the second OMB threshold of $100 million.

Total Payments (in millions)	$ 12,972.32
Total Known and Estimated Overpayments	$57.17
Total Known and Estimated Underpayments	$11.77
Underpayments and Overpayments Estimated from Unquantified Payments	$4.66
Total Improper Payments	$73.60
Total Improper Payment Rate	0.57%

Known RRA Improper Payments - Resolved Overpayments

We used all debts from the FMIS Accounts Receivable RRA Debt Report less SSA recovery from the LAF-E accruals (Social Security benefits certified to the RRB for payment). This reflects the amount of overpayments established during the year. The debts included are, but not limited to, debts resulting from:

- *The check reclamation process*
- *Entitlement to other government benefits*
- *Customer-driven events, such as working after retirement, change in eligibility (death, marriage, divorce, child or student status, felon or alien provision, etc.) and duplicate annuity payments*
- *Railroad employer adjustments*
- *RRB system or examiner error*

Known RRA Improper Payments - Resolved Underpayments

We have no system tracking underpayments like the one that records overpayments. Therefore, we use the following approach for identifying them.
The RRA underpayment amount is the accrual payments minus certain categories of proper payment accruals (e.g. mass adjustment payments, initial award accruals and survivor lump sum benefits). This dollar amount still includes some accruals which are proper, or not erroneous, but since our totals are under the threshold anyway, devoting additional resources and effort to further refine our review would not be productive. Examples of those payments included that would be considered improper are over-withheld temporary work deductions, erroneous report of death reinstatements and mass adjustment rejects.

In 2005, we discussed a new approach to determining the amount of improper payments in this category with the Office of the General Counsel (OGC). For the 2005 FY's report we refined our estimates in this category by profiling the accruals reviewed in the quality assurance post adjudication study to develop a percentage that we applied to the total out-of-period payments made and provided a more precise dollar estimate of improper underpayments.

In the Audit of the FY 2013 IPERA Report, the Office of the Inspector General (OIG) recommended that we include the accruals reviewed in the quality assurance initial adjudication study. Beginning with the 2014 preparation of the Improper Payments Report, we include the initial quality assurance cases. All material errors are considered improper payments.

In the Audit of the FY 2014 IPERA Report, the OIG stated that we were not properly adhering to the definition of improper payments as established by IPERA. As a result, we submitted our position to the Office of the General Counsel. Per the OGC's legal opinion, we changed the proper/improper determination in two categories of cases.

Estimated RRA Improper Payments - Unresolved Overpayments and Underpayments

This category includes Office of Inspector General audits and other special studies made by both the Program Evaluation Section and others throughout the Railroad Retirement Board. This category is adjusted each year to include any new reviews, updated information from on-going reviews, and any studies in which the recommendations have now been implemented.

Estimated RRA Improper Payments - RESCUE

These are estimates for a workload that we have not yet worked.

Recalculate for Service and Compensation Updated to EDM (RESCUE) – In FY 2009, a program was established to recalculate and update records for reported service and compensation on a timelier basis. Previously, a mass adjustment was run once a year, creating thousands of cases with potential thousands of dollars of underpayments. Processing is now accomplished three times per year and is included as an extension of regular, daily payment processing, instead of a special program that needed to be updated each year.

At the time the first regular run was made, not all cases could be processed by the computer program. Two backlog categories were created: one for current annuitants and one for deceased annuitants. The total of these backlogs was originally established at more than 14,000 cases. We track the remaining cases each year to determine the number worked and the number still outstanding to evaluate the existing potential improper payments.

With each of the three regular processing runs, there are cases that cannot be processed by the computer program. These cases are identified and referrals are issued and stored on USTAR. The workload of these cases is such that the examiners have not been able to process them timely. Therefore, a backlog exists here as well, constituting a third backlog of RESCUE cases.

For each of the 3 categories, we calculate a percentage of overpayment and underpayment cases from the cases that were processed during the fiscal year. We apply that percentage against each of the corresponding backlogs to estimate the number of cases in each backlog that are improper payments. We then multiply those estimated numbers by $495, the average amount of each payment in the initial RESCUE run. These are the estimated amounts that we use in our Improper Payment Report for the RESCUE backlogs.

Estimated RRA Improper Payments - EDP Policing

In the 2013 Audit, the OIG recommended that we consider whether or not there were backlogs in addition to the RESCUE backlogs that should be included in the Improper Payments analysis.

Due to the shortage of adjudication examiners, an EDP Policing backlog exists. We calculate the amounts processed from the two past years and apply those averages to the cases that remain to be processed. We have included an estimate of these backlog cases in the RRA Improper Payment analysis of FY 2019 data.

Estimated RRA Improper Payments - Unquantified Underpayments and Overpayments

The initial and post adjudication quality assurance reports include a section on recurring payment accuracy which is a projection of incorrect payments to the universe based on the sample recurring payment accuracy experience. It includes both underpayments and overpayments and the dollar amounts are not netted.

We have recently completed the quality case reviews of RRA FY 2019 initial and post payments. However, in order to provide the final quality assurance data for use in the FY 2019 RRA Improper Payment analysis, all pending errors must be resolved and solutions determined which is dependent on staff availability in other organizations and their focus on other mission critical priorities. In addition, we are experiencing significant process limitations during this extended WAH period due to Covid-19 and significant staff shortages in the Quality Assurance Unit. Therefore, we have used a three-year average of RRA Quality Assurance review results data (FY2016 – FY2018).

There are circumstances in which the agency does not know if an improper payment has occurred and cannot be detected by backend controls or program integrity efforts. Examples include:

- *Child entitlement termination: Child leaves spouse or young mother's care*
- *Change in marital status but the RRB is not notified: separated spouse divorces; widow remarries; child included in annuity computation marries*
- *Fraud such as Disability annuitants reporting their self-employment earnings under their spouse's SSN, or unreported deaths*

3. The volume of payments made annually.
In fiscal year 2019, $12,972,318,034 was paid to approximately 634,000 annuitants.

4. Whether payments or payment eligibility decisions are made outside of the agency, for example, by a State or local government, or a regional Federal office
No, all claims paid under the RRA are adjudicated within the agency.

5. Recent major changes in program funding, authorities, practices, or procedures
The RRA has not experienced any major changes in program funding, authorities, practices, or procedures.

6. The level, experience, and quality of training for personnel responsible for making program eligibility determinations or certifying that payments are accurate.
Periodically, new training classes are conducted to replace retiring and promoted examiners. The training is extensive, lasting nine months.

Current claims examiners are provided with procedures and guidance for making correct determinations in processing railroad retirement applications. Guidance is available in the various manuals housed on the internal electronic library – PRISM. Reviews of the accessibility of reference manuals and adjudicative guidance given to claims examiners are conducted periodically. Ongoing refresher training is provided to claims examiners to ensure they are up to date with the procedures and the work process. Refresher training also helps to reduce payment errors and improve improper payment rates.

7. Significant deficiencies in the audit reports of the agency including, but not limited to, the agency of the Inspector General or the Government Accountability Office (GAO) audit report findings, or other relevant management findings that might hinder accurate payment certification.
There are currently no reported issues or problems regarding the RRA program.

The results of the FY 2020 RRA Risk Assessment demonstrate the program is under the threshold of "Significant Improper Payments" as defined by law. According to OMB guidance, unless there are major changes to the program that would require an earlier assessment, the RRB is now in a three year Risk Assessment cycle and we will not need to report IP data in the FY 2021, FY 2022 or FY 2023 P&AR, or ask for reporting relief again. The next RRA Risk Assessment will be conducted in FY 2023.

Railroad Unemployment Insurance Act (RUIA)

Under the Railroad Unemployment Insurance Act (RUIA), unemployment insurance benefits are paid to railroad workers who are unemployed but ready, willing, and able to work; and sickness benefits are paid to railroad workers who are unable to work because of illness or injury.

The RUIA improper payment analysis is conducted at Headquarters. The RUIA Improper Payment report goes through a rigorous validation process with well documented procedures of that process.

Below are the risk factors assessed in accordance with OMB memorandum M-18-20, *Transmittal of Appendix C to OMB Circular A-123, Requirements for Payment Integrity Improvement,* which are likely to contribute to improper payments, followed by RUIA specific responses.

1. Whether the program or activity is new to the agency.
The Railroad Unemployment Insurance Act was approved in 1938. It is not a new program.

2. The complexity of the program or activity reviewed, particularly with respect to determining correct payment amounts.
The RRB has been following an established methodology for identifying improper payments in the RUIA benefit payment program. In February 2014, OMB granted the RRB approval to continue conducting our RUIA Improper Payment analysis according to our established methodology. To estimate our RUIA improper payments, we identify:

- ***Known Total Overpayments***
  Known total overpayments are located within the Annual RUIA Fiscal Year Debt Report. This report includes all debts for the fiscal year from the Program Accounts Receivable (PAR) system. Overpayments found in categories 2 and 4 are considered improper. These are customer driven debts and debts created by the RRB.

  ***Category 2** - Customer driven debts include:*
    - *State Wage Matches*
    - *Prepayment Claim Verification*
    - *Annual Wage Record Audit*
    - *RR Payroll Match*
    - *Employer Wage Check*
    - *RR Payroll Check Field Office Initiated*
    - *RUIA Employer Protest*

- *Claimant Information*
- *Previously Uncollectible Debt*

Category 4 *- Debts created by the RRB include:*

- *Internal Adjustment*
- *Returned Check*
- *Over recovery Adjustment*
- *Information from Anonymous Source/Other*

Category 1 [RRA Annuity-RASI] and 3 [12(o) and 2(f)] debts are considered proper.

- ***Known and Estimated Total Underpayments***
  We perform an OLQ to extract all claims processed in the fiscal year that have been redetermined to pay additional money. We conduct a statistically valid sample review of these claims and determine whether the cause for each underpayment is proper or improper.

  Using the definition of an "Improper Payment" provided by OMB in the Improper Payment Act of 2002, we have determined that a Proper Payment is a payment made in the correct amount in accordance with statutory, contractual, administrative or other legally applicable requirement (i.e. The Railroad Unemployment Insurance Act). Examples of proper underpayments include redetermined claims and reconsidered applications or claims, which resulted in additional money paid out when the initial payment was correct based on original information.

  Examples of improper underpayments include redetermined claims and reconsidered applications or claims, which resulted in additional money paid out due to computer error and/or the adjudicating Claims Examiner mishandling the record.

  The dollar amount of improper payments found in the review is then projected to the universe of all UI and SI claims redetermined during the fiscal year.

- ***Estimated Overpayments***
  All payment errors found in the UI/SI Claim Quality Assurance Review are used to determine the estimated overpayments for RUIA. The dollar amount of errors found in the review is then projected to the universe of all UI and SI claims paid in the fiscal year.

3. The volume of payments made annually.
In fiscal year 2019, the combined amount of unemployment and sickness benefits paid was $116,111,146 ($42,305,080 in unemployment benefits paid and $73,806,066 in sickness benefits paid).

4. Whether payments or payment eligibility decisions are made outside of the agency, for example, by a State or local government, or a regional Federal office.
No, all sickness and unemployment claims paid under the RUIA are adjudicated within the RRB.

5. Recent major changes in program funding, authorities, practices, or procedures.
The Coronavirus Aid, Relief, and Economic Security Act, (CARES Act) signed into law on March 27, 2020, contains three main provisions to enhance unemployment and sickness benefits for railroad workers impacted by the pandemic.

- *Increase the amount of the unemployment benefits by $1,200 per 2-week period. This amount is in addition to the current biweekly maximum of $733.98 received by most claimants. This increased amount applies to any 2-week registration period beginning on or after April 1, 2020, through July 31, 2020.*
- *Eliminate the 1-week waiting period required before unemployment or sickness benefits begin. This provision starts with an employee's first 2-week registration period for a period of continuing sickness or unemployment beginning after the effective date of the Law and ends on or before December 31, 2020.*
- *Extend unemployment benefits to rail workers who received regular unemployment benefits from July 1, 2019, to June 30, 2020. Provide up to 65 days of additional unemployment benefits to railroad workers with less than 10 years of service. Railroad workers with 10 or more years of railroad service may now receive extended unemployment benefits for up to 130 days. The extended unemployment benefits apply to any 2-week registration period beginning on or before December 31, 2020.*

6. The level, experience, and quality of training for personnel responsible for making program eligibility determinations or certifying that payments are accurate.
Trainees in the Sickness and Unemployment Benefits Section undergo an extensive nine-month training program. The most recent training class (completed during FY 2020) resulted with 100% of the trainees successfully finishing the program. Going forward, there are additional training classes tentatively scheduled to take place in FY 2021 and FY 2022.
Current claims examiners are provided with procedures and guidance for making correct determinations in processing sickness and unemployment applications and benefit claim payments. Guidance is available in the Adjudication Instruction Manual (AIM), Division of Program Operations Manual (DPOM), and Field Operating Manual (FOM). These three manuals and all other procedures are available on PRISM. Reviews of the accessibility of reference manuals and adjudicative guidance given to claims examiners are conducted periodically. Ongoing refresher training is provided to claims examiners to ensure they are up to date with the procedures and the work process. Refresher training also helps to reduce payment errors and improve improper payment rates.

7. Significant deficiencies in the audit reports of the agency including, but not limited to, the agency of the Inspector General or the Government Accountability Office (GAO) audit report findings, or other relevant management findings that might hinder accurate payment certification.
Through FY 2019, there were no reported issues or problems regarding the RUIA program. In FY 2020, Congress enacted the CARES ACT legislation, which directly affects the payment of unemployment and sickness benefits. The RRB's Office of Inspector General is currently conducting an audit regarding the agency's implementation of the CARES ACT legislation.

Based on the enactment of the CARES ACT legislation in FY 2020, the RRB will report the results of the RUIA improper payment analysis in the Payment Integrity section of the FY 2021 Performance and Accountability Report.

Risk Assessments for non-benefit paying programs (vendor and employee payments) are included below, in accordance with OMB guidance. We have determined that the RRB's non-benefit paying programs are not susceptible to significant improper payments based on these risk assessments.

Non-Benefit Payment Programs and Risk Assessments

In addition to benefit payment programs, the RRB is responsible for paying its vendors and employees. As such, RRB's reviews payable documents and, when properly authorized, processes payment documents through the Financial Management Integrated System (FMIS) and Secure Payment System (SPS) to liquidate the RRB's administrative obligations. These payables include vendor payments, travel payments, purchase card usage and other employee payments. Employee compensation is handled through the shared service provider vendor.

The goal of the agency is to perform as responsible stewards for our customers' trust funds and agency resources by paying vendors and employees accurately and timely. The IPERA guidance requires that agencies, in performing their risk assessments, take into account those risk factors that are likely to contribute to significant improper payments. In accordance with the OMB Memorandum, M-18-20, *Transmittal of Appendix C to OMB Circular A-123, Requirements for Payment Integrity Improvement*, we address the individual risk factors qualitatively below. For these factors, we have incorporated risk values of High (5), Moderate (3) and Low (1) to correlate with the risk values used in the Management Control Review (MCR) risk assessment. Additionally, we considered the results from management control reviews and quality assurance reviews to further support our IPERA risk assessment.

IPERA Risk Assessment: Vendor Payments

1. Whether the program or activity is new to the agency.
The vendor payment activity has existed at the RRB since its inception. The activity has been an automated function since 1985 as part of a larger integrated financial system supported by software which meets all FSIO – 2009 core financial requirements and is in wide use at many other Executive branch agencies. *Risk level – Low (1)*

2. **The complexity of the program or activity is reviewed, particularly with respect to determining correct payment amounts**.
The activity is a standard and well-defined administrative business function not only across the Federal government but all business entities. The RRB's proprietary financial software supports the various regulations including the provisions of the Prompt Pay Act and incorporates all FSIO payment management requirements. *Risk level – Low (1)*

3. The volume of payments made annually.
As of September 20, 2019, the RRB processed approximately 3700 individual vendor transactions totaling $38.1 million. In FY 2018, the RRB processed 3460 transactions totaling $38.5 million. Give the volume of payments and amounts expended, the risk level is moderate.
Risk level – Moderate (3)

4. Whether payments or payment eligibility decisions are made outside of the agency (for example by a State or Local government or regional Federal Office).
All vendor payments are processed by the agency. Vendor payment eligibility determinations are made by the staff of the RRB's contracting officer in accordance with the Federal Acquisition Regulation (FAR). All vendors must be registered in GSA's System for Award Management.
Risk level – Low (1)

5. Recent major changes in program funding, authorities, practices, or procedures.
There have been no recent major changes in the agency's administrative funding or authority. Practices and procedures have remained relatively constant since the advent of an automated accounts payable system in 1985 and are subject to periodic management control review assessments. *Risk level – Low (1)*

6. **The level, experience, and quality of training for personnel responsible for making program eligibility determinations or certifying that payments are accurate.**

The Finance Officer, located in the RRB's Bureau of Fiscal Operations (BFO), oversees the accuracy of vendor payment processing and is assisted by three Financial Management Analysts. The Finance Officer has several years of experience as an Auditor, Debt specialist and System Accountant and one analyst has over fifteen years of experience with accounts payable procedures and another analyst having over five years. All have had training in use of the RRB's automated accounts payable system. The Finance Officer also maintains written internal procedures for payable processing. The RRB's Chief of Acquisition Management supervises a staff of contracting professionals that make payment eligibility determinations. The RRB's Acquisition Career Manager (ACM), in coordination with the Human Resources Division staff, provides the resources, guidance and manages the process for agency Acquisition Workforce (AWF) staff to obtain and maintain their appropriate Federal Acquisition Certification (FAC), for their position, in accordance with the Office of Federal Procurement Policy (OFPP) guidance as administered on the Federal Acquisition Institute's (FAI) portal. The ACM ensures the contracting staff in the Division of Acquisition Management attain and maintain their appropriate level of FAC-C (Contracting) certification. The ACM, working with the HR staff as well as with managers and seniors leaders in the agency organizations, monitors and supports the other appointed agency AWF members to achieve and maintain their respective appropriate level FAC certifications as Contracting Officer's Representatives (FAC-COR) or Program or Project Managers (FAC-P/PM) per the OFPP policy as administered on FAI portal. All agency AWF staff maintain their achieved FAC certification through biannual completion of an AWF position/level-specific number of "continuous learning points" formal training course hours and continued demonstration of their AWF position competencies. <u>Risk level – Low (1)</u>

7. **Inherent risks of improper payments due to the nature of agency programs or operations.**

The Agency's vendor payment transactions are not complex and do not require a high degree of judgment as they are based on valid invoices that contain the information required for proper payment. The invoices are approved by the receiving organizations and the payment vouchers also require approval. The RRB's contracting officer in accordance with the requirements of the FAR 52.216-7, Allowable Cost and Payment, makes cost allowability decisions. <u>Risk level – Low (1)</u>

8. **Significant deficiencies in the audit reports of the agency including, (but not limited to) agency IG or GAO audit report findings, or other relevant management findings that might hinder accurate payment certification.**

There have been various audits related to vendor payments performed by the agency's IG but none of the findings have been identified as a significant deficiency that might hinder accurate payment certification. <u>Risk level – Low (1)</u>

9. **Results from management control reviews and related risk assessments over vendor payments.**

Consistent with the requirements of the Federal Managers' Financial Integrity Act (FMFIA) and the agency's Management Control Review (MCR) program, the BFO finalized the full MCR for the accounts payment assessable unit, responsible for vendor payments, in November 2019. The results of the review disclosed no material weaknesses and affirmed that the accounts payment assessable unit was compliant with the requirements of FMFIA. No subsequent audits, reviews, or events have disclosed information necessitating reconsideration of that affirmation.

In addition to the MCR review referenced above, BFO's Financial Compliance Section (FCS) conducts numerous Quality Assurance (QA) reviews focused on detecting improper payments in the vendor payments program. Specifically, the FCS utilizes statistical sampling to conduct 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. In particular, the FCS sampled five percent of payment vouchers (i.e. invoices) issued during the 3rd and 4th quarter of FY 2019 and found no exceptions. All sampled payment vouchers (1) had valid proof of billing (2) was paid to the proper payee, and (3) in the proper amount.

MCR Risk Assessment Overview: Vendor Payments

In accordance with the agency's MCR program, the RRB performs a risk assessment as a component of the full MCR. Consistent the MCR review program schedule, the most recent accounts payable MCR risk assessment was completed in November 2019. The most recent MCR risk assessment for government purchase cards was completed in July 2020. See MCR risk assessment results below for Accounts Payable and Government Purchase Cards. Risk level – Low (2)

The MCR risk assessment represents a determination of an assessable unit's vulnerability to inherent risks associated with accomplishment of its mission and integrity risks associated with occurrences of waste loss, unauthorized use, or misappropriation. The MCR risk assessment quantifies factors that help to define the potential effect of the assessable unit's inherent and integrity risks. The risk assessments include a compilation and observation of key data to determine the vulnerability of transactions to error, which may cause a loss to the Federal government or its vendors.

RRB RISK ASSESSMENT Date: 11/11/19

ORGANIZATION: BFO ASSESSABLE UNIT: Accounts Payable RO: Dave Miller

FACTOR	NUMBER	RATING
Activity level		
Number of Transactions per Year	3,460	1
Total Dollar Amount of Transactions	$38,500,000	4
Client Population *(approximate vendors and employees)*	650	2
Administrative		
Budget Dollars	$213,000	3
Staff	1.77	1
Record Keeping Responsibility *(based on payments issued)*	3,460	1
Effect on Other Activities		2
Comment: Applicable to all bureaus and offices of the RRB and OIG as Accounts Payable is responsible for payment of all administrative expenses.		
Special Concerns		2
Comment: Waste of agency financial resources if administrative expenses are not paid timely.		
Overall Impact		2
Comment:		

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RRB RISK ASSESSMENT		DATE: **July 2020**	
ORGANIZATION: **Office of Administration**	ASSESSABLE UNIT: **Government Purchase Cards**	RO: **David Jackson**	
FACTOR		NUMBER	RATING
Activity level			
Number of Transactions per Year		1,085	1
Total Dollar Amount of Transactions		$733,371	3
Client Population		806	2
Administrative			
Budget Dollars		$10,000	2
Staff		0.05	1
Record Keeping Responsibility		0	0
Effect on Other Activities			5
Comment: *Impacts all RRB organizations.*			
Special Concerns			0
Comment: *None. OIG reviews all programs. They have not identified any instances of misuse, waste or fraud.*			
Overall Impact			2
Comment: *Program is essential for support; not mission critical. This risk assessment is based on activities for FY 2019.*			

IPERA Risk Assessment: Employee Payments

1. Whether the program or activity is new to the agency.

The personnel actions and compensation processing activity has existed at the RRB since its inception. The activity has been an automated function since 1986, and has been provided by GSA served, as RRB's payroll shared service provider since 2004. GSA has been a cross-service provider of payroll services for over 35 years. GSA has provided a full range of payroll services for over 18,600 employees to include GSA and more than 30 independent agencies or presidential commissions. RRB transitioned to IBM's HRLinks in June 2018, as did GSA and its other former customer entities. *Risk level – Low (1)*

The travel reimbursement activity is not a new activity to the RRB and has been an automated function since 2005. Utilizing a GSA master contract, RRB's travel processing is provided by a shared service vendor, CWTSatoTravel (i.e. CW Government Travel, Inc.'s E2 Solutions). *Risk level – Low (1)*

2. The complexity of the program or activity is reviewed, particularly with respect to determining correct payment amounts.

The salary and benefits compensation activity is a standard and well-defined administrative business function in the Federal government. GSA is one of four e-Payroll providers for the Federal Government, which is the compensation management component of the Human Resources Line of Business (HR LOB) initiative. GSA participates in the Shared Services governance, which focuses on ensuring human resource and payroll policy and procedures are standardized and easy to understand and administer. *Risk level – Low (1)*

Travel reimbursement is also a standard and well-defined administrative business function in the Federal government. CW Government Travel, Inc.'s E2 Solutions is a web-based, end-to-end travel management service designed by CW Government Travel for use by federal *government agencies. The service is vendor-owned, vendor-hosted, and vendor-operated. E2 Solutions provides self-service and non-self-service travel planning, reservation, cost estimating capabilities. The RRB utilizes the E2 Solutions system for travel processing, which incorporates the Federal Travel Regulations (FTR). E2 interfaces with the agency's financial management system, FMIS.* *<u>Risk level – Low (1)</u>*

3. The volume of payments made annually.

The volume of compensation payments vary depending upon the number of employees. The MCR risk assessment assumes a higher volume and dollar value from a conservative perspective, considering salary and benefits is a significant portion of the agency's administrative budget. Overall, considering the number of transactions (which are repetitive) and the dollar impact, we assess the risk level as moderate. *<u>Risk level – Moderate (3.5)</u>*

In FY 2019, the RRB processed 1116 travel vouchers totaling $672K. Given the low volume and impact to the agency's budget, we assess the risk level as low. *<u>Risk level – Low (1)</u>*

4. Whether payments or payment eligibility decisions are made outside of the agency (for example by a State or Local government or regional Federal Office).

Federal agencies, including the RRB, are responsible for complying with the law and regulations developed and maintained by OPM and following OPM's policies and guidance to administer pay policies and programs for its own employees. Payment eligibility begins when an applicant is hired by the agency's human resources office using its prescribed appointment authority as defined by employment laws and regulations provided by OPM. *<u>Risk level – Low (1)</u>*

Travel payment determinations or approvals are made within the RRB, by the respective employee's supervisor. Unless, there is an extenuating circumstance, all travel authorizations and vouchers are processed through RRB's the CW Government Travel, Inc.'s E2 Solutions system, which reflects the FTR. Travel reimbursements must contain valid receipts in accordance with Internal Revenue Service regulations. *<u>Risk level – Low (1)</u>*

5. Recent major changes in program funding, authorities, practices, or procedures.

In 2018, GSA migrated its payroll time and attendance function to HRLinks, operated by International Business Management (IBM), a private Human Resources Line of Business (HRLOB) Shared Service Provider vendor. Transition to HRLinks, did not result in major changes to payroll practices or procedures. There have been no recent major changes in the agency's administrative funding for either salary and benefits compensation or travel. There have been no major changes in guidance provided by either OPM or GSA for authority to pay salary and benefits or travel reimbursement. Practices and procedures have remained relatively constant since the migration of payroll services to GSA in 2004 and the migration of electronic travel services to CW Government Travel in 2005. *<u>Risk level – Low (1)</u>*

6. The level, experience, and quality of training for personnel responsible for making program eligibility determinations or certifying that payments are accurate.

The Workforce/Organizational Management Section of the RRB's Bureau of Human Resources is staffed by trained human resources specialists with hiring authority as prescribed by OPM. Information pertaining to the employee's job classification is entered into an automated human resources system (HRLinks) which is interfaced with the shared payroll service. The GSA, as an approved HR line-of-business shared service provider is responsible for the level, experience, and quality of training for personnel responsible for certifying that payments are accurate. Authorized RRB staff are responsible for certifying time and attendance through HRLinks and GSA is responsible for certifying that the resulting payments to employees are accurate. *<u>Risk level – Low (1)</u>*

Travel authorization and reimbursement approvals are applied by managers and supervisors in the various business organizations of the RRB using the CW Government Travel, Inc.'s E2 Solutions system whose controls reflect the FTR. Prior to payment, trained staff RRB's Treasury staff reviews to ensure proper documentation and receipts are attached in accordance with Internal Revenue Service regulations. The E2 system interfaces with the agency's automated financial management system to generate the payment. <u>Risk level – Low (1)</u>

7. Inherent risks of improper payments due to the nature of agency programs or operations.

The payment of salary and benefits compensation to employees is defined by the rules and regulations provided by the OPM and are reflected by automated controls built into GSA's shared payroll system which undergoes an annual Statement on Standards for Attestation Engagements (SSAE) No. 16, Reporting on Controls at a Service Organization audit, which minimizes the level of inherent risk of improper payment. <u>Risk level – Low (1)</u>

Travel reimbursement is defined by the GSA's FTR and are reflected in the controls built into CW Government travels shared E2 electronic travel system, which is authorized for use under GSA's master contract with CW Government Travel. <u>Risk level – Low (1)</u>

8. Significant deficiencies in the audit reports of the agency including, (but not limited to) agency IG or GAO audit report findings, or other relevant management findings that might hinder accurate payment certification.

There has been one OIG audit since 2004 related to time and attendance and another audit in 2017 related to RRB compliance with the Federal Travel Regulation. No significant deficiencies in either audit were identified. Each year, GSA provides RRB with a copy of an Independent Service Provider's Report performed in accordance with Standards for Attestation Engagements (SSAE) 16, Reporting on Controls at a Service Organization. The latest report provided (prepared by KPMG LLC) is for the period of July 1, 2018 to June 30, 2019, and certified that the controls tested provided reasonable assurance that the controls were operating effectively.

GSA, as the master contract manager with CW Government travel, has not notified us of any significant deficiencies in the travel system used by RRB. <u>Risk level – Low (1)</u>

9. Results from management control reviews and related risk assessments over employee payments.

Consistent with the requirements of the Federal Managers' Financial Integrity Act (FMFIA) and the agency's Management Control Review (MCR) program, the BFO finalized the full MCR for the payroll assessable unit, covering approximately 97% of employee payment in November 2019. The results of the review disclosed no material weaknesses and affirmed that the accounts payment assessable unit was compliant with the requirements of FMFIA. No subsequent audits, reviews, or events have disclosed information necessitating reconsideration of that affirmation.

In addition to the MCR review referenced above, BFO's Financial Compliance Section (FCS) conducted a Quality Assurance (QA) review focused on detecting potential improper employee payments and quantifying the impact of those payments. The most recent employee payment QA review was finalized in July 2019 concluded that there were no improper employee payments. See Employee Payment MCR risk assessment results below. <u>Risk level – Low (2)</u>

<u>MCR Risk Assessment Overview: Employee Payments (i.e. Payroll)</u>
In accordance with the agency's MCR program, the RRB performs a risk assessment as a component of the full MCR. Consistent the MCR review program schedule, the most recent payroll assessable unit (i.e. employee payments) full review was finalized in November 2019. The MCR risk assessment was updated in July 2020 based upon FY 2019 payroll costs data. See MCR risk assessment results below for employee payments (i.e. payroll). <u>Risk level – Low (2)</u>

The MCR risk assessment represents a determination of an assessable unit's vulnerability to inherent risks associated with accomplishment of its mission and integrity risks associated with occurrences of waste loss, unauthorized use, or misappropriation. The MCR risk assessment quantifies factors that help to define the potential effect of the assessable unit's inherent and integrity risks. The risk assessments include a compilation and observation of key data to determine the vulnerability of transactions to error, which may cause a loss to the Federal government or its vendors.

RRB RISK ASSESSMENT		Date: July 2020
ORGANIZATION: **BFO** ASSESSABLE UNIT: **Payroll**		RO: **T. Manning**
FACTOR	NUMBER	RATING
Activity level		
Number of Transactions per Year *(26 pay periods x 806 employees)*	20,956	2
Total Dollar Amount of Transactions: *(includes salary, benefits, awards, & overtime paid in FY 2019)*	$98,200,000	5
Client Population	806	
Administrative		
Budget Dollars	$43,700	2
Staff	.30	1
Record Keeping Responsibility *(records maintained be GSA on PAR System)* *(Offices and Bureaus maintain Forms G-58 and G58F)*	172	1
Effect on Other Activities		3
Comment: Relevant to all employees of the agency		
Special Concerns		2
Comment: GSA's PAR system is robust and its operations are reviewed by an outside auditor and reported to the RRB in the GSA Payroll Accounting and Reporting system SOC 1 Type 2 (SSAE 16)		
Overall Impact		2
Comment:		

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 2020 civil monetary penalty inflation adjustment on January 13, 2020 (85 Fed. Reg. 1832). The maximum civil penalty under the Program Fraud Civil Remedies Act was increased to $11,665, and the penalty range under the False Claims Act was increased to a minimum penalty of $11,665 and a maximum penalty of $23,331.

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

CARES	Coronavirus Aid, Relief, and Economic Security
CDM	Continuous Diagnostics and Mitigation
CERT	Comprehensive Error Rate Testing
CMS	Centers for Medicare & Medicaid Services
COLA	Cost-of-Living Adjustment
COR	Contracting Officer's Representative

D

DBD	Disability Benefits Division (RRB)
DHS	Department of Homeland Security
DNP	Do Not Pay

E

EDMA	Employment Data Maintenance
EFT	Electronic Fund Transfer
ERS	Employer Reporting System

F

FAR	Federal Acquisition Regulations
FBWT	Fund Balance With Treasury
FECA	Federal Employees' Compensation Act
FFS	Fee-for-Service (Medicare)
FMFIA	Federal Managers' Financial Integrity Act
FI	Financial Interchange
FMIS	Financial Management Integrated System
FSIO	Financial Systems Integration Office
FTR	Federal Travel Regulations
FY	Fiscal Year

G

GAO	Government Accountability Office

GSA	General Services Administration
HCME	Human Capital Management Evaluation

I

IT	Information Technology
IPERA	Improper Payments Elimination and Recovery Act
IPERIA	Improper Payments Elimination and Recovery Improvement Act of 2012
IPIA	Improper Payments Information Act
IRS	Internal Revenue Service

L

LIRR	Long Island Rail Road
LMS	Learning Management System

M

MCOS	Medicare Contract Operations Specialist
MCR	Management Control Review
MCRC	Management Control Review Committee
MIRTEL	Medicare Information Recorded, Transmitted, Edited and Logged

N

NRRIT	National Railroad Retirement Investment Trust

O

OGC	Office of General Counsel (RRB)
OIG	Office of Inspector General
OMB	Office of Management and Budget
OPM	Office of Personnel Management

R

RBD	Retirement Benefits Division (RRB)
RESCUE	Recalculate for Service and Compensation Updated to EDM
ROC	Retirement On-Line Calculations
RR	Railroad Retirement
RRA	Railroad Retirement Act
RR Account	Railroad Retirement Account
RRB	Railroad Retirement Board
RRSIA	Railroad Retirement and Survivors' Improvement Act of 2001
RUI	Railroad Unemployment Insurance
RUIA	Railroad Unemployment Insurance Act
RUI Account	Railroad Unemployment Insurance Account

S

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

T

Treasury	Department of the Treasury

U

UI	Unemployment Insurance
USC	United States Code

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

Board Members

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	Vacant
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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