OIG Report # 15-01 The Office of Inspector General's Report on the Railroad Retirement Board's Financial
November 17, 2014 Statements begins on page 101 of the RRB's FY 2014 Performance and Accountability Report.

RAILROAD RETIREMENT BOARD

PERFORMANCE AND ACCOUNTABILITY REPORT

FISCAL YEAR 2014

Railroad Retirement Board
Performance and Accountability Report
Fiscal Year 2014

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RRB's fiscal year 2014 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 2014 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 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), the Congress, and our constituents. We are proud of the agency's dedicated employees whose achievements are reflected in this report.

New legislation, the American Taxpayer Relief Act of 2012 (ATRA), was signed into law by President Obama on January 2, 2013. The RRB began making extended unemployment benefit payments under this Act on January 2, 2013, and has paid approximately $7.9 million in these extended benefits through June 3, 2014, using remaining funds previously appropriated under the Worker, Homeownership, and Business Assistance Act of 2009. The latest date that an extended benefit period may begin under ATRA was December 31, 2013.

Under provisions of the Budget Control Act (BCA) of 2011, across-the-board cuts in Federal spending took effect March 1, 2013. While railroad retirement, survivor and disability payments are not affected by this measure, unemployment and sickness insurance benefits payable under the RUIA are impacted. Benefits payable for days March 1 through September 30, 2013, were reduced by 9.2 percent. The reduction was required by the sequestration order issued by the President in accordance with the BCA. Since Congress and the Administration did not eliminate sequestration for fiscal year 2014, a sequestration reduction was again applied on October 1, 2013 at a rate of 7.2 percent based on projected claims and will continue through September 30, 2014. Congress will determine the amount of subsequent reductions for fiscal years 2015 and beyond.

We believe the performance and financial data presented in this report are complete and reliable in accordance with OMB guidance. The adequacy and effectiveness of our management controls and the compliance of our financial management systems with governmentwide requirements are delineated in the Systems and Controls part of the Management's Discussion and Analysis section. That part also provides the status of the actions we are taking and progress we are making to correct a material weakness identified by the Office of Inspector General in the internal control environment for financial reporting.

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

Original signed by:

Michael S. Schwartz, Chairman
Walter A. Barrows, Labor Member
Steven J. Anthony, Management Member

November 7, 2014

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MANAGEMENT'S DISCUSSION AND ANALYSIS

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Management's Discussion and Analysis

Overview of the Railroad Retirement Board

Mission

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

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

Major Program Areas

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

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

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

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

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

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

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

Railroad Retirement Act

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

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

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

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

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

Another major source of income to the railroad retirement and survivor benefit program consists of transfers from the social security trust funds under a financial interchange between the two systems. The financial interchange is intended to place the social security trust funds in the same position in which they would have been had railroad employment been covered by the Social Security Act and Federal Insurance Contributions Act (FICA). In fiscal year 2014, the RRB trust funds realized a net of $4 billion, representing 37 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 Office of Inspector General (OIG). These funds consist of three administrative funds, four trust funds, three general funds, six American Recovery and Reinvestment Act of 2009 (ARRA) funds, and two Worker, Homeownership, and Business Assistance Act of 2009 (WHBAA) funds.

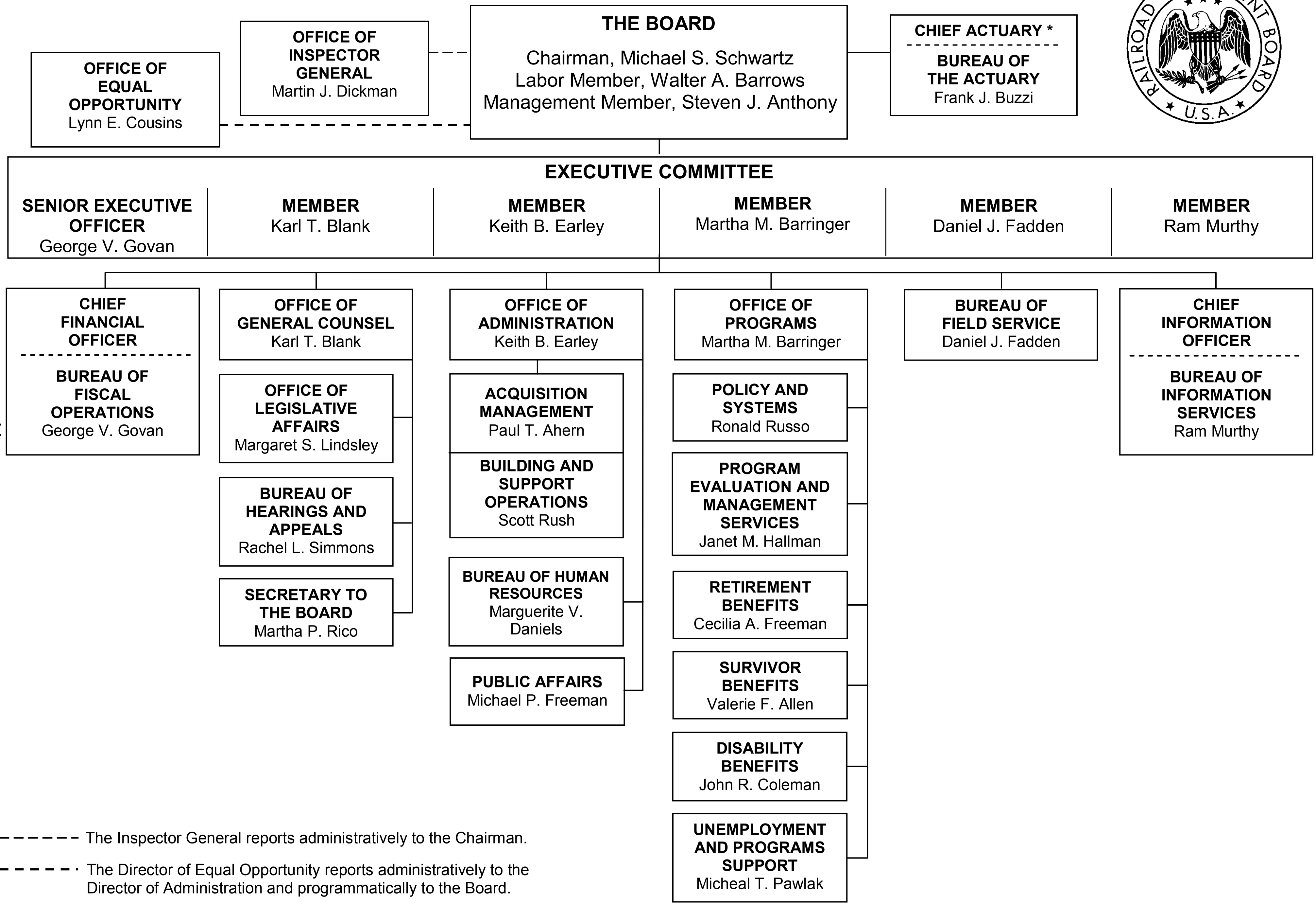
RRB Organizational Structure

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

The primary function of the RRB is the determination and payment of benefits under the railroad retirement and survivor and the unemployment and sickness insurance programs. To this end, the RRB employs field representatives to assist railroad personnel and their families in filing claims for benefits, examiners to adjudicate the claims, and information technology staff, equipment, and programs to 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.

U.S. RAILROAD RETIREMENT BOARD



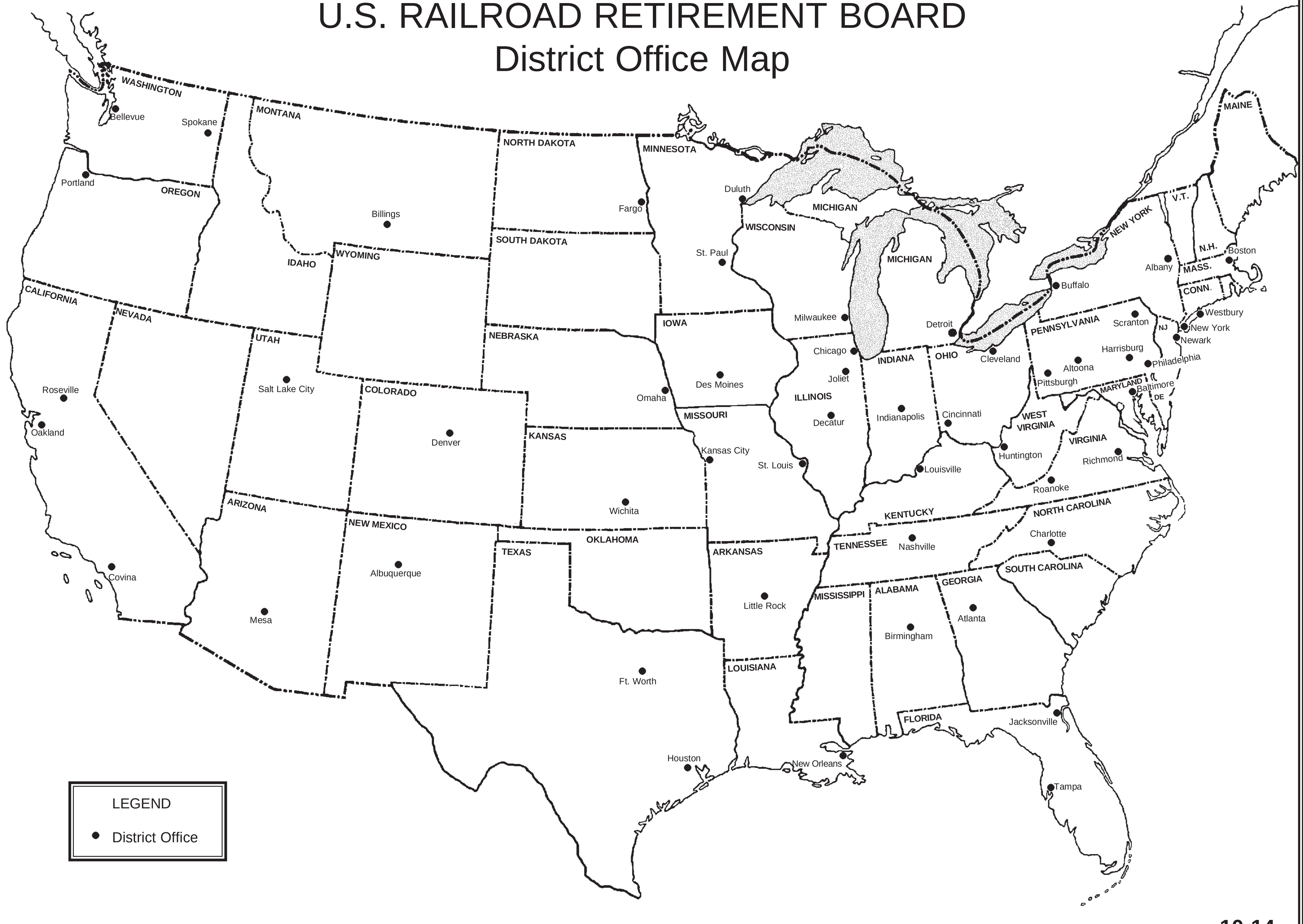
– – – – – – The Inspector General reports administratively to the Chairman.

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

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

October 2014

U.S. RAILROAD RETIREMENT BOARD
District Office Map



Financial Highlights

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

On January 2, 2013, President Obama signed the American Taxpayer Relief Act of 2012 (ATRA). For additional information on ATRA, see page 37.

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)

	2014	2013
NET POSITION AT SEPTEMBER 30		
Social Security Equivalent Benefit Account	$113.8	$141.0
Railroad Retirement Account 1/	26,479.1	25,366.0
Railroad Retirement Administration Fund	22.3	16.1
Railroad Unemployment Insurance Trust Fund –		
Benefit Payments	112.2	172.8
Administrative Expenses	9.9	12.3
Limitation on the Office of Inspector General	.5	.8
Dual Benefits Payments Account	9.9	10.7
Federal Payments to the Railroad Retirement Accounts	16.6	16.6
American Recovery and Reinvestment Act of 2009		
Railroad Unemployment Insurance Extended Benefit Payments – Recovery Act (no year dollars)	9.6	9.6
Economic Recovery Payments – Recovery Act	5.0	5.0
Administrative Expenses – Recovery Act (no year dollars)	-	-
Administrative Expenses – Recovery Act	-	-
Limitation on Administration – Recovery Act (no year dollars)	-	-
Limitation on Administration – Recovery Act	.7	.7
Worker, Homeownership, and Business Assistance Act of 2009		
Railroad Unemployment Insurance Extended Benefits Payments (no year dollars)	133.8	134.5
Administrative Expenses, Railroad Unemployment Insurance Extended Benefit Payments	-	-
Total	$26,913.4	$25,886.1
FINANCING SOURCES FOR FISCAL YEAR		
Social Security Equivalent Benefit Account	$7,116.3	$6,318.3
Railroad Retirement Account 2/	5,992.0	6,162.3
Railroad Retirement Administration Fund	119.5	116.4
Railroad Unemployment Insurance Trust Fund –		
Benefit Payments	25.8	95.4
Administrative Expenses	(2.4)	.9
Limitation on the Office of Inspector General	8.9	8.3
Dual Benefits Payments Account	37.2	42.4
Federal Payments to the Railroad Retirement Accounts 3/	-	647.1
American Recovery and Reinvestment Act of 2009		
Railroad Unemployment Insurance Extended Benefit Payments – Recovery Act (no year dollars)	.1	-
Economic Recovery Payments – Recovery Act	-	-
Administrative Expenses – Recovery Act (no year dollars)	-	-
Administrative Expenses – Recovery Act	-	-
Limitation on Administration – Recovery Act (no year dollars)	-	-
Limitation on Administration – Recovery Act	-	-
Worker, Homeownership, and Business Assistance Act of 2009		
Railroad Unemployment Insurance Extended Benefits Payments (no year dollars)	.9	7.0
Administrative Expenses, Railroad Unemployment Insurance Extended Benefit Payments	-	.3
Total	$13,298.3	$13,398.4

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

	2014	2013
BENEFIT PAYMENTS FOR FISCAL YEAR 4/		
Social Security Equivalent Benefit Account	$6,873.1	$6,862.6
Railroad Retirement Account	5,040.3	4,750.6
Railroad Unemployment Insurance Trust Fund –		
Unemployment Insurance	37.6	42.5
Sickness Insurance	48.4	42.0
Dual Benefits Payments Account	37.2	42.6
American Recovery and Reinvestment Act of 2009		
Railroad Unemployment Insurance Extended Benefit Payments – Recovery Act (no year dollars)	-	(.1)
Economic Recovery Payments – Recovery Act	-	-
Worker, Homeownership, and Business Assistance Act of 2009		
Railroad Unemployment Insurance Extended Benefits Payments (no year dollars)	.8	6.9
Total	$12,037.4	$11,747.1

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.

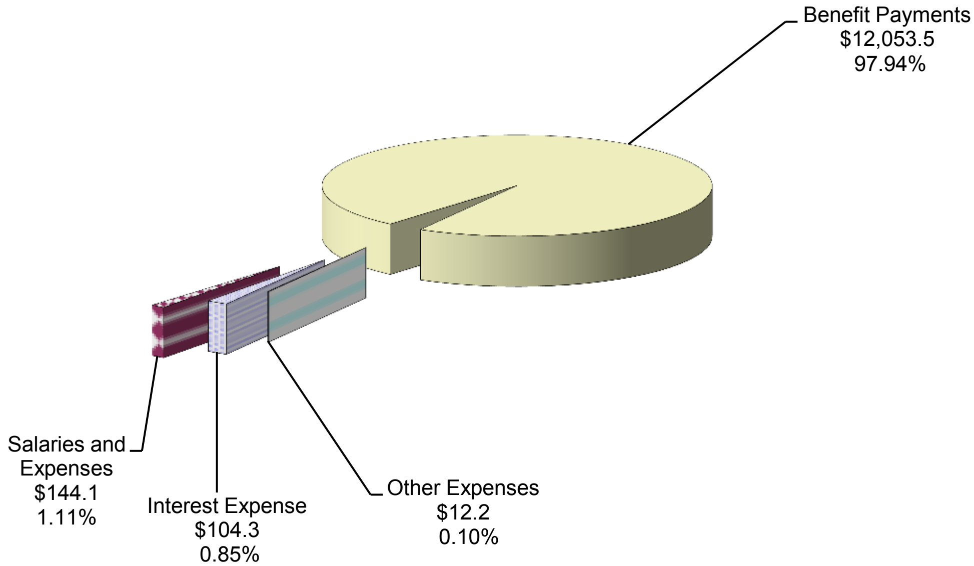
Comparison of Net Cost of Operations and Financing Sources

The net cost of operations for fiscal years 2014 and 2013 was $12,269.0 million and $11,982.5 million, respectively. The details of the net cost of operations by type, amount, increase or decrease, and percentage change from fiscal year 2013 to fiscal year 2014 are shown below. Additional information regarding the net cost of operations and financing sources for fiscal years 2014 and 2013 is shown on the following pages.

NET COST OF OPERATIONS
(In millions)

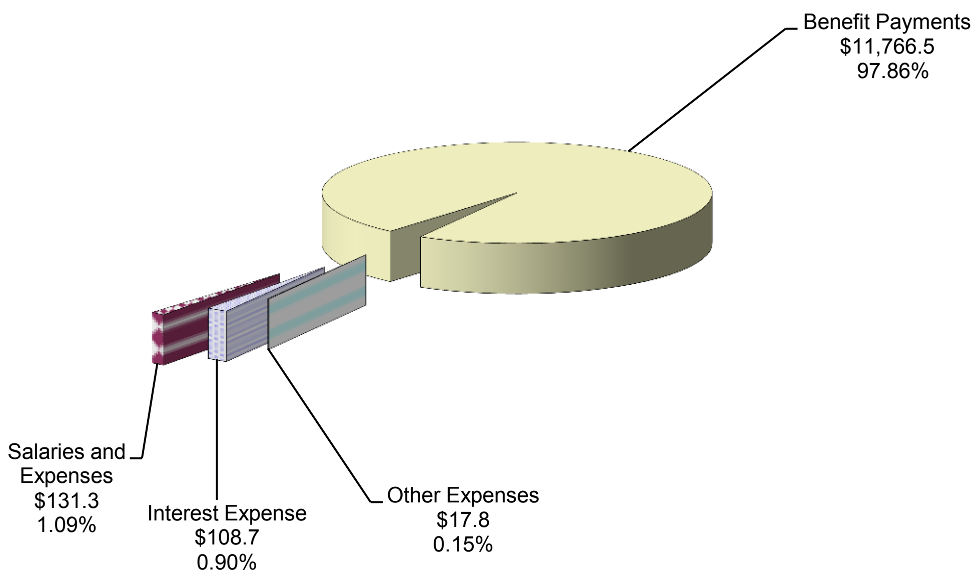
	FY 2014	FY 2013	Amount of Increase (Decrease)	Percent of Increase (Decrease)
Interest expense – Treasury borrowing	$ 104.3	$ 108.7	($4.4)	(4.0%)
Salaries and expenses	144.1	131.3	12.8	9.7%
Benefit payments – RRB	12,053.5	11,766.5	287.0	2.4%
Other expenses	12.2	17.8	(5.6)	(31.5%)
Subtotal	12,314.1	12,024.3	289.8	2.4%
Less: Earned revenues	45.1	41.8	3.3	8.0%
Net cost of operations	$12,269.0	$11,982.5	$286.5	2.4%

FY 2014
NET COST OF OPERATIONS
(In millions)



Totals $12,314.1 million, excluding reimbursements and earned revenues of $45.1 million.

FY 2013
NET COST OF OPERATIONS
(In millions)



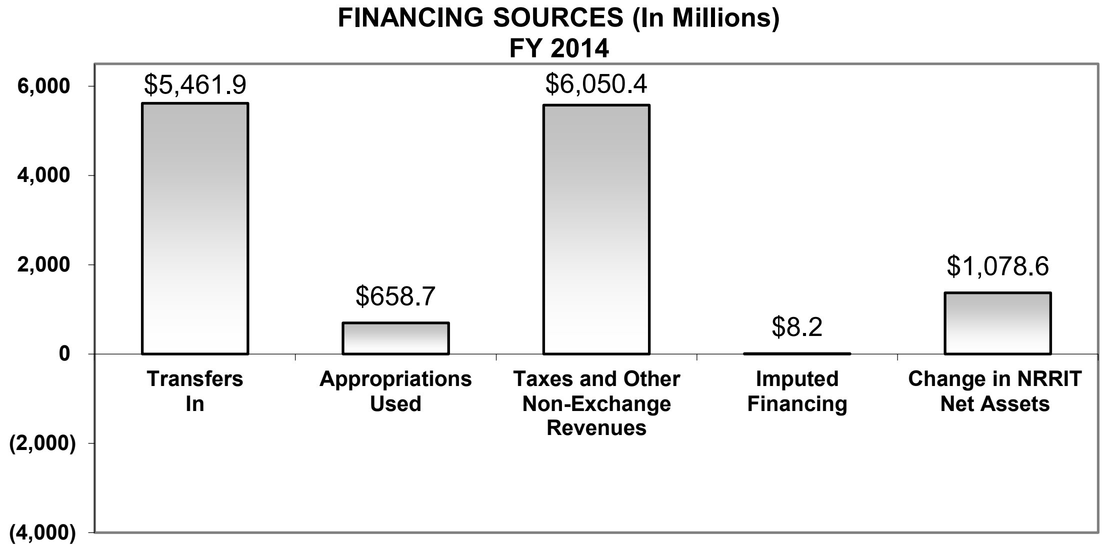
Totals $12,024.3 million, excluding reimbursements and earned revenues of $41.8 million.

The following table shows financing sources (excluding changes in unexpended appropriations) by type, amount, increase or decrease, and percentage change from fiscal year 2013 to fiscal year 2014.

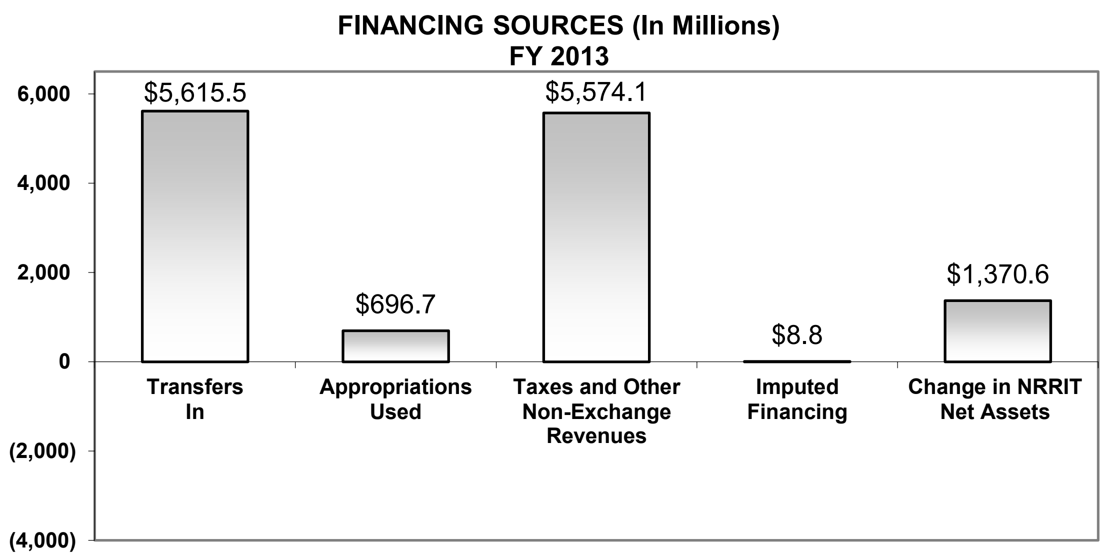
FINANCING SOURCES
(In millions)

	FY 2014	FY 2013	AMOUNT OF INCREASE (DECREASE)	PERCENT OF INCREASE (DECREASE)
Appropriations used	$ 658.7	$ 696.7	($38.0)	(5.5)
Taxes and other non-exchange revenues:				
Payroll taxes	5,988.9	5,475.3	513.6	9.4
Interest revenue and other income	45.9	52.1	(6.2)	(11.9)
Carriers refunds – principal	(19.8)	(64.0)	44.2	69.1
Railroad Unemployment Insurance (RUI) Revenue	35.4	110.7	(75.3)	(68.0)
Subtotal	$ 6,050.4	$ 5,574.1	$476.3	8.5
Imputed financing (amount to be provided by the Office of Personnel Management (OPM) to pay future retirement benefits to RRB employees)	8.2	8.8	(0.6)	(6.8)
Transfers in:				
Financial Interchange, net	4,032.9	4,034.5	(1.6)	(0.0)
NRRIT	1,429.0	1,581.0	(152.0)	(9.6)
Subtotal	$ 5,461.9	$ 5,615.5	($153.6)	(2.7)
Other:				
Change in NRRIT net assets	1,078.6	1,370.6	(292.0)	(21.3)
Subtotal	$13,257.8	$13,265.7	($7.9)	(0.1)
Less: Transfers out to NRRIT	0.0	0.0	0.0	0.0
Add: Gain/(Loss) in Contingency	40.1	(514.6)	554.7	107.8
Subtotal	40.1	(514.6)	554.7	107.8
Total	$13,297.9	$12,751.1	$546.8	4.3

The most significant difference between the RRB's financial statements for fiscal year 2013 and fiscal year 2014 was the change in NRRIT net assets. The increase in NRRIT net assets of $1,078.6 million is due to market fluctuations during the past year. There is a section on page 20 that describes the NRRIT, and the NRRIT net assets balances for 2013 and 2014 are shown in the RRB's Financial Section of this publication.



Total Financing Sources $13,257.8 million, excluding $40.1 million gain contingency.



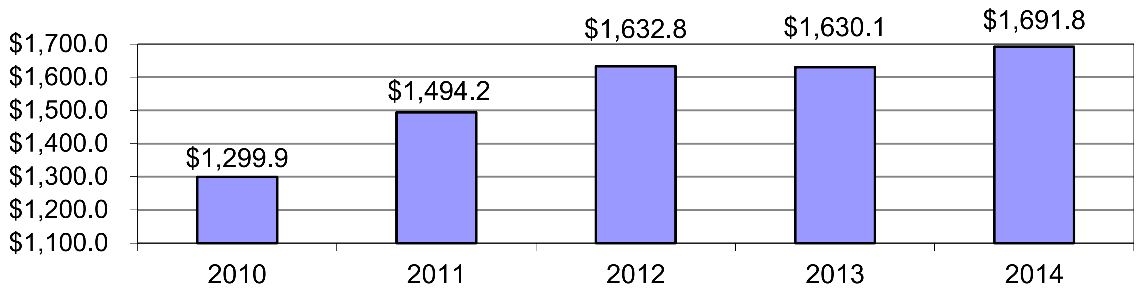
Total Financing Sources $13,265.7 million, excluding $514.6 million loss contingency.

Railroad Retirement Investments at Treasury

The book value of all railroad retirement investments, including accrued interest, increased to $1,691.8 million as of September 30, 2014, from $1,630.1 million on September 30, 2013 (excludes NRRIT net assets). The graph below reflects the book value of the railroad retirement investments from September 30, 2010, through September 30, 2014.

INVESTMENT BALANCES HELD AT TREASURY (AT BOOK VALUE)
AT SEPTEMBER 30, 2010 - 2014

(In millions, excluding NRRIT net assets)

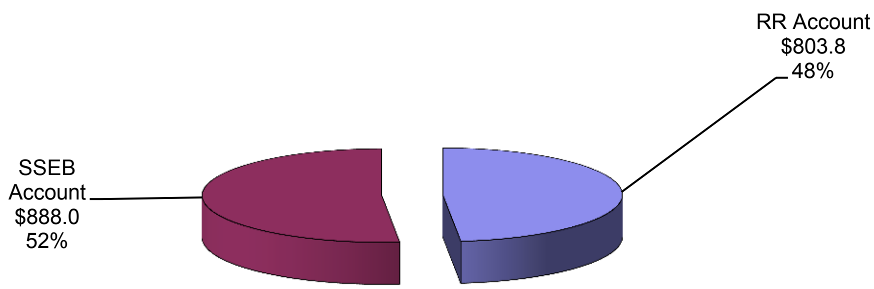


The following chart shows the portfolio of the railroad retirement investments as of September 30, 2014.

RAILROAD RETIREMENT INVESTMENTS HELD AT TREASURY
AS OF SEPTEMBER 30, 2014

AT BOOK VALUE
Total $1,691.8

(In millions, excluding NRRIT net assets)



Railroad Retirement Account

On September 30, 2014 and 2013, the book values of the RR Account investments, excluding NRRIT assets, including accrued interest, totaled $803,810,323 and $789,094,545, respectively. The balance on September 30, 2014, consisted of $802,608,000 in 3.000 percent par value specials (with market value equal to face value) maturing on October 1, 2014, and $1,202,323 in accrued interest. The balance on September 30, 2013, consisted of $787,983,000 in 3.000 percent par value specials (with market value equal to face value) maturing on October 1, 2013, and $1,111,545 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, 2014 and 2013, the book values of the SSEB Account investments, including accrued interest, totaled $887,957,908 and $841,032,832, respectively. The balance on September 30, 2014, consisted of $886,560,000 in 3.000 percent par value specials maturing on October 1, 2014, and $1,397,908 in accrued interest. The balance on September 30, 2013, consisted of $839,635,000 in 3.000 percent par value specials maturing on October 1, 2013, and $1,397,832 in accrued interest.

National Railroad Retirement Investment Trust

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

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

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

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

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

Program, Operations, and Financial Performance and Results

During fiscal year 2014 (ended September 30, 2014), railroad retirement and survivor benefit payments totaled $12.0 billion, net of recoveries and offsetting collections. Railroad unemployment and sickness insurance benefit payments totaled $86.0 million in fiscal year 2014, net of recoveries and offsetting collections. During fiscal year 2014, the RRB also paid benefits on behalf of SSA (for which the RRB is reimbursed) amounting to $1.5 billion to about 111,000 beneficiaries.

In fiscal year 2014, 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 2014 included:

- Providing payments to about 562,000 retirement and survivor beneficiaries.
- Providing payments to about 10,000 unemployment insurance beneficiaries.
- Providing payments to almost 16,000 sickness insurance beneficiaries.
- Processing 27,834 retirement, survivor, and disability applications for benefits (through May 31, 2014).
- Processing 156,926 applications and claims for unemployment and sickness insurance benefits (through May 31, 2014).
- Issuing 261,289 certificates of employee railroad service and compensation (mailed on June 16, 2014.

During fiscal year 2014, the RRB used 18 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 $110,300,000 for ongoing administration of the RRB. (A breakdown of administrative expenses by strategic goal is not available at the time of this report.) Agency performance with respect to the key performance indicators is covered in the following section. For most performance measures, actual full-year performance results for fiscal year 2014 were not available at the time this report was published. For those objectives, we reported part-year performance information for fiscal year 2014, if available. We also reported actual results from prior years, as applicable.

Summary of Achievement by Strategic Goal

Strategic Goal I: Provide Excellent Customer Service. For fiscal year 2014, we expect to meet or exceed most of our timeliness goals and increase Internet services available to employers.

Strategic Goal II: Serve as Responsible Stewards for Our Customers' Trust Funds and Agency Resources. The RRB is committed to fulfilling its fiduciary responsibilities to the rail community. For fiscal year 2014, we expect that benefit payment accuracy rates will exceed 99 percent.

<u>Strategic Goals and Objectives</u>

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

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

<u>Provide excellent customer service</u>

We aim to satisfy our customers' expectations for quality service both in terms of service delivery options and levels and manner of performance. Our Annual Performance Plan for Fiscal Year 2014 reflects two strategic objectives that focus on the specifics of achieving this goal.

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

<u>Serve as responsible stewards for our customers' trust funds and agency resources</u>

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

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

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

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

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

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

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

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

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

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

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

The following begins a discussion of our key performance indicators.

Discussion of Key Performance Indicators

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

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

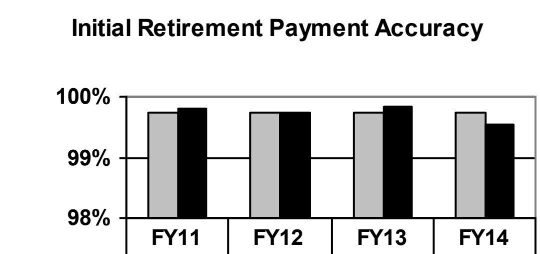
Our overall strategic goal is to achieve a railroad retirement benefit payment recurring accuracy rate of at least 99 percent on our initial processing of applications for retirement (employee, spouse and widow) benefits.

FY 2014 goal: 99.75%
Our FY 2014 performance: 99.55% through the 2nd quarter

Full-year data will be available in fiscal year 2015.

FY 2013 goal: 99.75%
Our FY 2013 performance: 99.84%

We met our goal.



	FY11	FY12	FY13	FY14
Goal	99.75%	99.75%	99.75%	99.75%
Actual	99.79%	99.75%	99.84%	99.55%

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

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

Key performance indicator 2: Unemployment insurance payment accuracy (Objective II-B-2a)

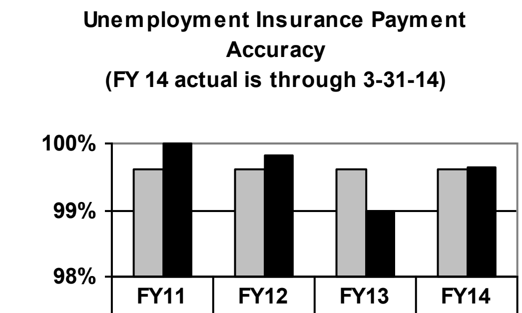
Our overall strategic goal is to achieve a railroad unemployment insurance benefit payment accuracy rate of at least 99 percent.

FY 2014 goal: 99.60%
Our FY 2014 performance: 99.65% through the 2nd quarter

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

FY 2013 goal: 99.60%
Our FY 2013 performance: 98.99%

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.



	FY11	FY12	FY13	FY14
Goal	99.60%	99.60%	99.60%	99.60%
Actual	100.00%	99.83%	98.99%	99.65%

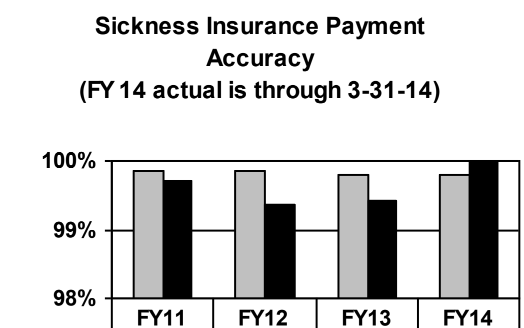
Key performance indicator 3: Sickness insurance payment accuracy (Objective II-B-2b)

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

FY 2014 goal: 99.80%
Our FY 2014 performance: 100% through the 2nd quarter

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

FY 2013 goal: 99.80%
Our FY 2013 performance: 99.42%



	FY11	FY12	FY13	FY14
Goal	99.85%	99.85%	99.80%	99.80%
Actual	99.71%	99.37%	99.42%	100.00%

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

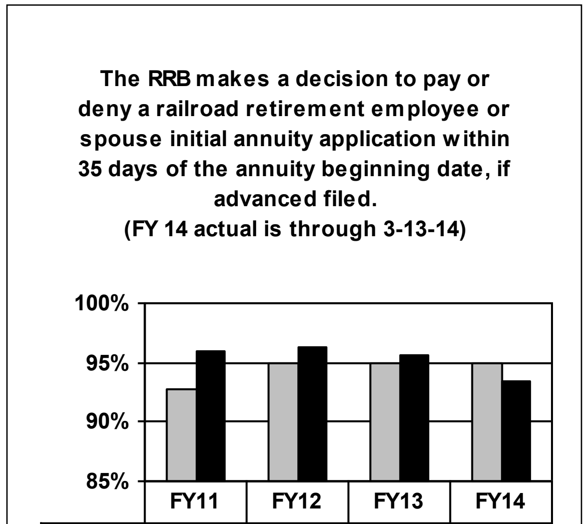
<u>Key performance indicator 4:</u> Timeliness of initial railroad retirement annuity payments, when advanced filed (Objective I-A-1)

FY 2014 goal: 95.0%
Our FY 2014 performance: 93.5% through the 2nd quarter

We are not yet achieving our goal, but we expect to meet the goal by the end of fiscal year 2014. Automation plays a key role in assuring benefit payment timeliness for this performance indicator.

FY 2013 goal: 95.0%
Our FY 2013 performance: 95.6%

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



	FY11	FY12	FY13	FY14
Goal	92.75%	95.00%	95.00%	95.00%
Actual	96.00%	96.30%	95.60%	93.50%

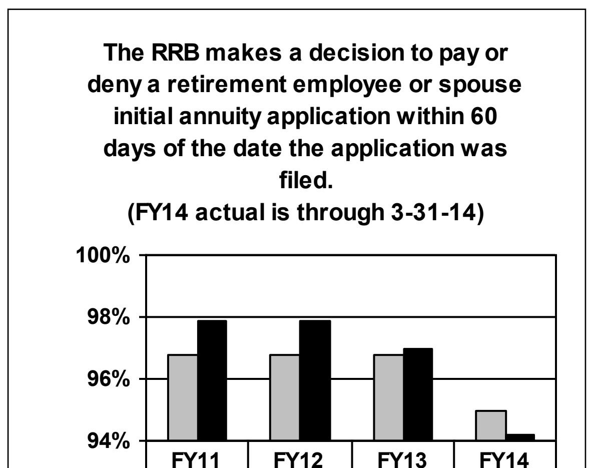
<u>Key performance indicator 5:</u> Timeliness of initial railroad retirement annuity payments, if not advanced filed (Objective I-A-2)

FY 2014 goal: 95.0%
Our FY 2014 performance: 94.2% through the 2nd quarter

We are not yet achieving our goal, but we expect to meet the goal by the end of fiscal year 2014. Automation plays a key role in assuring benefit payment timeliness for this performance indicator.

FY 2013 goal: 96.8%
Our FY 2013 performance: 97.0%

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



	FY11	FY12	FY13	FY14
Goal	96.8%	96.8%	96.8%	95.0%
Actual	97.9%	97.9%	97.0%	94.2%

<u>Key performance indicator 6:</u> Timeliness of new survivor benefit payments (Objective I-A-3)

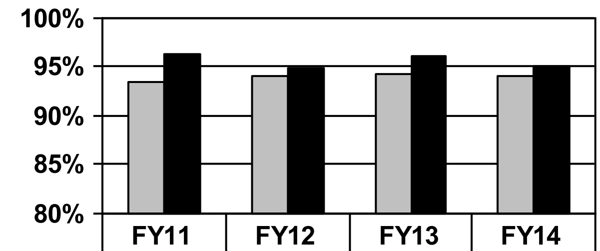
FY 2014 goal: 94.0%
Our FY 2014 performance: 95.2% through the 2nd quarter

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

FY 2013 goal: 94.2%
Our FY 2013 performance: 96.1%

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 14 is through 3/31/14)



	FY11	FY12	FY13	FY14
Goal	93.5%	94.0%	94.2%	94.0%
Actual	96.3%	94.8%	96.1%	95.2%

<u>Key performance indicator 7:</u> Timeliness of spouse to survivor benefit payment conversions (Objective I-A-4)

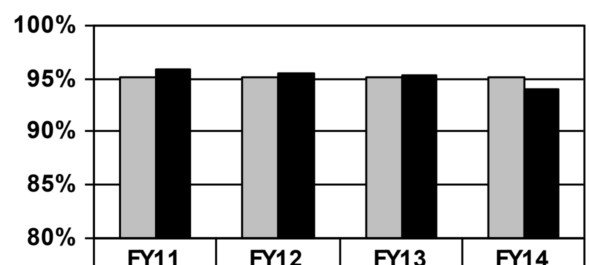
FY 2014 goal: 95.2%
Our FY 2014 performance: 94.0% through the 2nd quarter

We are not yet achieving our goal, but we expect to meet the goal by the end of fiscal year 2014. Automation plays a key role in assuring benefit payment timeliness for this performance indicator.

FY 2013 goal: 95.2%
Our FY 2013 performance: 95.4%

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

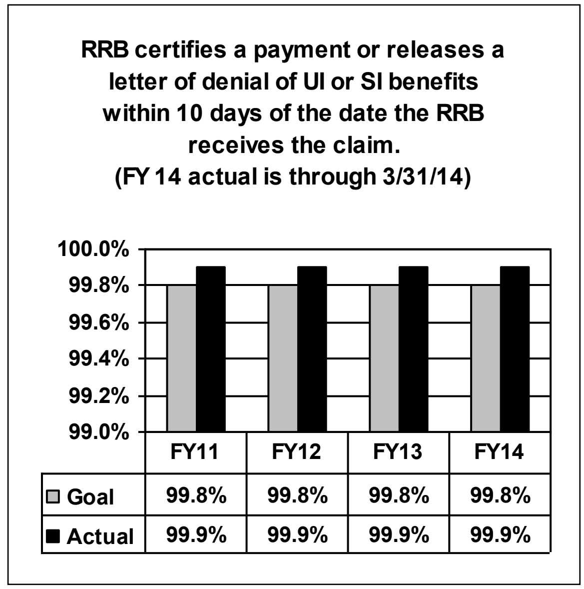
RRB makes a decision to pay, deny or transfer to SSA an initial annuity application for a survivor already receiving benefits as a spouse within 30 days of the RRB's receipt of first notice of the employee's death. (FY 14 actual is through 3/31/14)



	FY11	FY12	FY13	FY14
Goal	95.2%	95.2%	95.2%	95.2%
Actual	95.8%	95.6%	95.4%	94.0%

Key performance indicator 8: **Timeliness of unemployment or sickness insurance payments (Objective I-A-6)**

FY 2014 goal: 99.8%
Our FY 2014 performance: 99.9% through the 2nd quarter



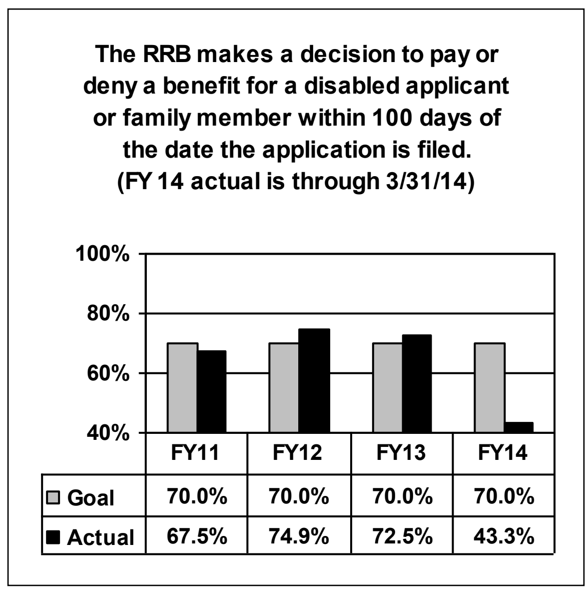
We are meeting our goal. Automation plays a key role in assuring benefit payment timeliness for this performance indicator.

FY 2013 goal: 99.8%
Our FY 2013 performance: 99.9%

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

Key performance indicator 9: **Timeliness of disability decisions (Objective I-A-7)**

FY 2014 goal: 70.0%
Our FY 2014 performance: 43.3% through the 2nd quarter

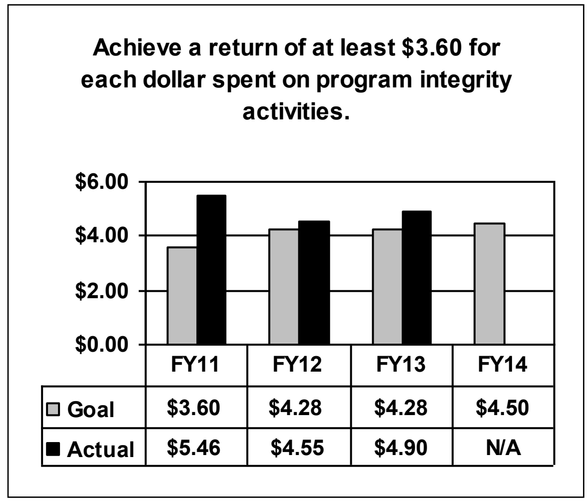


We are not yet achieving our goal.

FY 2013 goal: 70.0%
Our FY 2013 performance: 72.5%

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

<u>Key performance indicator 10:</u> Return on investment in program integrity activities (Objective II-B-4)



FY 2014 goal: $4.50 : $1
Our FY 2014 performance: Not available

FY 2014 data will be available in FY 2015.

FY 2013 goal: $4.28 : $1
Our FY 2013 performance: $4.90 : $1

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

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

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

Future Plans/Objectives and IPIA

Program Improvements

- **Patient Protection and Affordable Care Act –** The Patient Protection and Affordable Care Act of 2010 provides for an Income-Related Monthly Adjustment Amount (IRMAA) to be added to the Medicare prescription drug plan (Part D) premiums paid by high-income beneficiaries beginning in January 2011. This provision allows for the collection of Part D IRMAA through withholding from railroad retirement benefit checks or through direct billing. We implemented Part D IRMAA collection in January 2011 through direct billing, utilizing the existing Program Accounts Receivable system as a temporary approach to effect timely compliance with the law. Work is now proceeding to implement Part D IRMAA premium withholding from railroad retirement benefit checks with the support of contractual staff from Booz, Allen and Hamilton. We anticipate an implementation date in January 2015.

- **Medicare Systems Modernization –** The RRB's Information Resource Management Strategic Plan has identified System Modernization as a major issue. Legacy software systems often resist evolutionary change because of their inability to adapt, and therefore, their strategic value has diminished through factors not exclusively related to the systems' functionality. The RRB has analyzed existing application and determined that the Medicare System poses a risk to the agency and is in need of modernization. We plan to upgrade our Medicare System, replacing the existing flat file processing with a more flexible database processing system that more readily supports future program changes, and develop an application that will allow users to create award activities for refunding Medicare premiums and paying Medicare Part A hospital insurance benefits for services furnished in Canada. Funding for this project is through the Centers for Medicare and Medicaid Services, through the established reimbursable agreement. We are seeking contractor support for the development of the requirements and project plan, which is expected to begin late in FY 2014.

- **Employer Reporting System (ERS) – Internet Site –** In fiscal year 2015, we plan to develop Form BA-9, Report of Separation Allowance or Severance Pay, which is another on-line employer reporting form. We also want to pursue enhancements to the current system through the following processes:

  - Knowledge based authentication for ERSNet system users. This would eliminate the need for users to continually contact the agency to reset their passwords after they are initially screened and approved through the application process.
  - Multi-user account status. We need to complete the development and testing of the process we developed that allows a user with multiple accounts to use one user-ID and password to access all of their companies.
  - Provide file upload capability for Form BA-4 and BA-6 reports. This functionality was installed for the BA-3 and BA-11 to allow employers to upload files instead of using the data entry process.
  - Modify and/or perform maintenance of existing system design to ensure compliance with current infrastructure (i.e. convert FTP process to tables).
  - Provide on-screen instructions for the current forms and services available in ERSNet.

In fiscal year 2016, we plan to continue to use contractor services to assist agency staff in developing additional notifications to employers that provide information about benefit payment and annuitant status. We will develop Form G-73a.1, Notice of Death, Form RL-5a, Notice of Annuity Award and Form RL-13g, Notice of Relinquishment of Rights of Disability Annuitant Who attained Age 65. By making these notices available on-line, employers will have secure access to the information needed to maintain their own benefit payments. This phase will add 3 additional services to the system.

Improper Payments Information Act (IPIA)

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

    - development of an enhanced automated retirement payment system to replace the current legacy system that processes retirement applications, planned for fiscal year 2015,
    - development of an interface between systems to ensure accurate use of military service in the calculation of benefits, tentatively scheduled for completion in fiscal year 2015,
    - expansion of the MIRTEL Online Inquiry (MOLI) database to include Medicare Part B premium collection history. Requirements development work is scheduled to begin in fiscal year 2014,
    - extend the timeliness and accuracy benefits of the new Overpayment Recovery Correspondence System (ORCS) to include RUIA and Medicare overpayment and correspondence operations with development efforts beginning in FY 2014,
    - continued development in fiscal year 2014 of SPEED (System Processing Excess Earnings Data), a multi-phase automation initiative designed to process annuity adjustments resulting from excess earnings and work deductions on a timely basis, and
    - continued development in fiscal year 2014 of enhanced electronic data processing (EDP) policing to monitor earnings information and reduce manual handlings of records.

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

Systems and Controls

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

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

The mission, key performance indicators, workflow, control objectives and techniques, guidance, automated systems support, impact, and vulnerability of each assessable unit are documented. The RRB maintains and annually updates a 5-year plan for review of the assessable units. The official responsible for each assessable unit prepares an annual assessment of key indicators and open or new issues requiring management's attention. High impact and vulnerable assessable units are scheduled for more frequent, in-depth reviews as deemed necessary by the MCRC in consultation with senior management. During fiscal year 2014, responsible officials performed in-depth reviews of 11 assessable units, assessed all 44, and certified 43.

During the fiscal year 2011, evaluation of the agency's information security pursuant to the provisions of the Federal Information Security Management Act (FISMA), the OIG identified a new significant deficiency regarding Information Technology Security – Configuration Management. FISMA significant deficiencies are reported as material weaknesses for the financial statement audit. During FY 2014, the OIG evaluated the RRB's information security program pursuant to the provisions of FISMA and determined that the RRB has strengthened controls in their risk management and continuous monitoring program to mitigate the material weakness regarding the review of contractor deliverables. The RRB's program now includes sufficient review of the deliverables obtained from their independent contractor, and coordination among the various system owners to ensure adequate coverage and consideration of inherited controls. The previous material weakness has been resolved.

In fiscal year 2013, the OIG evaluated the RRB's information security program pursuant to the provisions of FISMA. OIG auditors found that weaknesses regarding the review of contractor deliverables associated with the risk management continue to be found. During FY 2014, the OIG evaluated the RRB's information security program pursuant to the provisions of FISMA and determined that the RRB has taken appropriate configuration management actions to remove unsupported Windows 2000 servers and migrate away from the unsupported operating system. The completion of the project to upgrade impacted applications and the decommissioning of all of the Windows 2000 servers allows the OIG to consider this weakness in configuration management remediated. The previous material weakness has been resolved.

During fiscal year 2014, the OIG identified a material weakness in Financial Reporting, which includes the Budgetary Reporting significant deficiency reported in fiscal year 2013. OIG auditors found weaknesses regarding the effectiveness of FMIS process controls. Although agency managers are working to strengthen controls, management action had either not been completed as of the end of the current reporting period, or had not been in place long enough to permit evaluation.

The agency is committed to resolving this reported weakness and will closely monitor progress during the fiscal year 2015.

Management Assurances

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

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

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

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

4. The RRB's Inspector General, in his auditor's report, identified Financial Reporting as a material weakness.

Description of OIG-Identified Material Weakness

During fiscal year 2014, the OIG identified a material weakness in Financial Reporting. Financial Reporting is classified as a material weakness due to ineffective controls, the discovery of material errors, and deficiency resulting from differing interpretations of NRRIT oversight legislation.

Original signed by:

Michael S. Schwartz, Chairman
Walter A. Barrows, Labor Member
Steven J. Anthony, Management Member

Financial Management Systems Strategy

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

RRB upgraded its financial system structure by implementing a cloud hosting service on October 1, 2013, following migration from its previous financial management system, FFS (Federal Financial System). The service is hosted by CGI, a commercial shared service provider (SSP) for financial system services. Its cloud system has achieved compliance with GSA's FedRAMP security requirements and is an authorized cloud service provider (CSP).

The new cloud service supports the RRB's budget formulation and execution, general ledger and trust fund accounting, procurement, fixed assets and administrative accounts payable and receivable requirements. The RRB continues to use a separate Program Accounts Receivable (PAR) system originally developed using the accounts receivable component of its legacy financial system which supports management of receivables arising from benefit payment programs and complies with debt collection legislation. RRB plans to migrate this component to the cloud hosting service beginning in fiscal year 2015 following the drafting of a statement of work based on a third party evaluation of a migration concept.

RRB currently utilizes shared service providers for several other E-Government functions. RRB uses the travel management services of the Bureau of the Public Debt for change-of-station, and contracted with Carlson Wagonlit Government Travel (CWGT) in fiscal year 2005 to host its electronic travel authorization and vouchering functions under the guidance of the General Services Administration (GSA) Program Management Office (PMO) which provides oversight for E-Government travel. RRB implemented an E-Government travel system with CWGT on September 30, 2006, in compliance with PMO's prescribed.

Summary of Actuarial Forecast

The Statement of Social Insurance presents an actuarial analysis of the financial position of the railroad retirement system as of January 1, 2014, under our intermediate employment assumption. The Required Supplementary Information presents sensitivity analyses showing the impact of changes in employment and investment return assumptions. Although under our intermediate assumption no cash flow problems arise over the period 2014-2088, the sensitivity analyses show that, under the current financing structure, actual levels of railroad employment and investment return over the coming years will determine whether additional corrective action is necessary.

Section 7105 of the Technical and Miscellaneous Revenue Act of 1988 requires the RRB to submit an annual report to Congress on the financial status of the railroad unemployment insurance system. Projections were made for the various components of income and outgo under each of 3 employment assumptions for the 11 fiscal years 2014-2024. The results indicate that the Railroad Unemployment Insurance (RUI) Account will be solvent during the 11-year projection period.

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 2014 are $32.6 billion, a 3.2% increase over last year. Of the total assets, $26.1 billion relates to funds held by the National Railroad Retirement Investment Trust (NRRIT). The net asset value of funds held by the NRRIT increased from fiscal year 2013 by 4.3%. Our investments total $1.7 billion and we invest those funds not needed to pay current expenses or benefits in interest bearing Treasury securities. A chart of investment balances held at Treasury can be found on page 19. Total liabilities for fiscal year 2014 are $5.7 billion. Liabilities decreased by $22.4 million or 0.4% in fiscal year 2014. Also, benefits due increased by $30.5 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: railroad retirement and railroad unemployment insurance. In fiscal year 2014, our net cost of operations was $12.3 billion, an increase over last year of $286 million, or 2.4%. A table for the net cost of operations for fiscal years 2014 and 2013 can be found on page 15.

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 2014 is $26.9 billion. The statement shows an increase in the net position of the agency of $1.03 billion attributable to the change in cumulative results of operations. Total financing sources for 2014 are $13.3 billion. A table for financing sources for fiscal years 2014 and 2013 can be found on page 17.

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

The open group 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 future expenditures less future revenue (net expenditures) for all participants over the next 75 years (open group) increased from $23.9 billion as of December 31, 2012 to $26.0 billion as of December 31, 2013, a net change in the open group measure of $2.1 billion.

As can be seen on the Statement of Changes in Social Insurance Amounts, the largest change in the open group measure, $2.3 billion, is due to changes in economic data and assumptions. Select assumptions for COLA and investment return were updated in 2014, as described in the footnotes to the Statement of Changes. The change in the valuation period (from 2013-2087 to 2014-2088) had a lesser effect, resulting in a change of about $0.2 billion in the open group measure. There were no changes in demographic assumptions, but there were updates to demographic data. These had a relatively small effect, resulting in a change of less than $0.1 billion. This year there were no changes in law, policy, or methodology and programmatic data.

TABLE OF KEY MEASURES

Dollars in ***MILLIONS***	FY 2014	FY 2013	Increase / (Decrease) $	Increase / (Decrease) %
COSTS[1]				
Total Financing Sources	$13,297.8	$12,751.1	546.7	4.3
Less: Net Cost	$12,269.0	$11,982.5	286.5	2.4
Net Change of Cumulative Results of Operations	$1,028.8	$768.6	260.2	33.9
NET POSITION[2]				
Assets	$32,630.3	$31,625.4	1,004.9	3.2
Liabilities	$5,716.9	$5,739.3	(22.4)	(0.4)
Net Position (Assets minus Liabilities)	$26,913.4	$25,886.1	1,027.3	4.0

Dollars in ***BILLIONS***	1/1/2014	1/1/2013	Increase / (Decrease)[3] $	Increase / (Decrease)[3] %
SOCIAL INSURANCE[4]				
Social Insurance Net Expenditures (Open Group)	$26.0	$23.9	2.1	8.8

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

2 Source: Consolidated Balance Sheet.

3 Based on unrounded figures.

4 Source: Statement of Social Insurance (SOSI). Social insurance amounts cover calendar year timeframes January 1 through December 31. Amounts equal estimated present value of projected revenues and expenditures for scheduled benefits over the next 75 years. The Statement of Social Insurance 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.

American Taxpayer Relief Act of 2012

The American Taxpayer Relief Act of 2012 (ATRA), was signed into law by President Obama on January 2, 2013.

ATRA included a 1-year extension of previous legislative provisions, offering extended unemployment benefits to anyone who claims regular unemployment benefits through June 30, 2013, and who exhausted rights to regular benefits. Under the previous extensions, including the American Recovery and Reinvestment Act (ARRA) of 2009, the Worker, Homeownership, and Business Assistance Act (WHBAA) of 2009, and the Middle Class Tax Relief and Job Creation Act of 2012, railroad workers with less than 10 years of service were eligible for up to 65 days of extended unemployment benefits, while workers with 10 or more years of service could receive up to 130 days of extended benefits. To qualify for ATRA benefits, the employee had to claim regular unemployment benefits between July 1, 2008, and June 30, 2013.

The RRB began making payments under this Act on January 2, 2013, and has paid approximately $7.9 million of these extended benefits through June 3, 2014, using remaining funds previously appropriated under the WHBAA. The latest date that an extended benefit period may begin under the ATRA was December 31, 2013.

Limitations of the Financial Statements

The limitations of the principal financial statements are as follows:

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

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

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

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PERFORMANCE SECTION –

GOVERNMENT PERFORMANCE AND RESULTS ACT (GPRA) REPORT

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

The following performance report is based on the major goals and objectives for fiscal year 2014 from the RRB's Annual Performance Plan. The indicators we developed support our mission and communicate our intentions to meet challenges and seek opportunities for greater efficiency, effectiveness and economy.

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

Automation, e-Government and Customer Service Initiatives

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

In fiscal year 2014, we initiated the next phase of the ERSNet project to develop Form G-88p which is required for the payment of supplemental annuities. We also plan to develop an automated referral process to notify employers of the agency's right to reimbursement of benefits paid under sections 12(o) and 2(f) of the RUIA. These processes will automate the Forms ID-30 series for (12o) Lien Notices; the ID-3U, (2f) Lien Notices; the ID-3S, Request for Lien Information Report of Settlement; and the SI-5f, Tracer Notice.

Work continued on SPEED (System Processing Excess Earnings Data), an automation initiative designed to process post-entitlement annuity adjustments in both retirement and survivor cases that result from excess earnings and work deductions. SPEED allows the RRB to adjust annuity payments for earnings on a timely basis, which minimizes any underpayments or overpayments that may result from changes in earnings. SPEED is being built in multi-phase approach. The first five phases of this initiative automated the handling of several survivor year-end actions; annuity adjustments when Last Person Earnings (LPE) work deductions are removed; and adjustments for cases that involve both retirement regular and LPE cease work reports. During fiscal year 2013 we automated the download of current survivor earnings estimates from the Survivor Payments System to perform the necessary survivor annuity adjustments and notifications and permanent work deductions. During FY 2014 we began development of a process to initiate LPE and regular temporary work deductions in response to earnings estimates from retirement beneficiaries to support our long range plan to automate permanent work deductions for both retirement and survivor beneficiaries. During FY 2014 we also plan to award a contract to support automation of LPE and regular permanent work deductions, the most complex phase of the SPEED project to-date.

Work continued during fiscal years 2013 and 2014 on an enhanced automated retirement payment system which will replace the current legacy system that processes retirement applications (commonly referred to as, Retirement Adjudication System Initial to Application Express [RASI to APPLE] Conversion). The enhanced process will improve the accuracy and efficiency of retirement initial claims. The new system will also allow for the payment of such application types as divorced spouse annuitants, which previously could not be processed automatically. As of June 2014, the target for completion of the enhanced system is fiscal year 2015. Future enhancements include the development of a system interface to ensure the accurate use of military service in the calculation of benefits.

During fiscal year 2013 we implemented the first phase of a multi-phase initiative to redesign the Overpayment Recovery and Correspondence System (ORCS) to automatically interface with other on-line and mainframe applications. The redesigned system completely automated the retrieval of overpayment recovery data for benefits under the Railroad Retirement Act (RRA). The system includes a letter writing and calculation summary process. During FY 2014 we launched the next phase of the project which will allow ORCS to support RUIA overpayments and anticipate a third phase that will extend the system's support to Medicare program billing.

The Patient Protection and Affordable Care Act of 2010 provides for an Income-Related Monthly Adjustment Amount (IRMAA) to be added to the Medicare Part D premiums paid by high-income beneficiaries beginning in January 2011. This provision allows for the collection of Part D IRMAA through withholding from railroad retirement benefit checks or through direct billing. We implemented Part D IRMAA collection in January 2011 through direct billing, utilizing the existing Program Accounts Receivable system. Work is now proceeding to implement Part D IRMAA premium withholding from railroad retirement benefit checks. We anticipate an implementation date in January 2015.

Treasury regulations require recipients of Federal nontax payments to receive payment by electronic funds transfer (EFT). In 2011, RRB rolled out the Direct Express® program to beneficiaries who do not have a bank account or who do not choose direct deposit of their payments to an account at a financial institution. The Direct Express® Debit Master Card® program is a prepaid card program established pursuant to terms and conditions approved by Treasury. As of May 21, 2014, there were 1,358 beneficiaries enrolled in the program. RRB also began offering International Direct Deposit (IDD) in April 2011, to our RRA beneficiaries who reside in foreign countries. As of May 21, 2014, there were 1,853 beneficiaries enrolled in the IDD program. Additionally, RRB worked with Treasury to complete program changes that will allow child support payments that are withheld from monthly Railroad Retirement Act (RRB) benefits and paid to State agencies to be made by EFT. Work to convert the RRA and Railroad Unemployment Insurance Act (RUIA) daily payments is underway and expected to be completed in FY 2015.

In fiscal year 2012, work began on a project to enhance our Electronic Data Processing (EDP) policing program, which will address the internal handling and automated matching of earnings information received from our data match with the Social Security Administration. The first phase of the project, which involved the automation and capture of earnings information stored in the Retirement On-Line Calculations (ROC) system (an on-line system for calculating and paying retirement annuities), has been completed. Work continues on updating the LPE process to capture the latest monthly earnings and average monthly earnings amounts. The information will be used in the EDP process to monitor earnings information, eliminate redundant information, and reduce the number of records referred to the claims adjudication units.

Sequestration of Railroad Unemployment Insurance Act (RUIA) Benefits

Under provisions of the Budget Control Act (BCA) of 2011, across-the-board cuts in Federal spending took effect March 1, 2013. While railroad retirement, survivor and disability payments are not affected by this measure, unemployment and sickness insurance benefits payable under the RUIA are impacted. Benefits payable for days March 1 through September 30, 2013 were reduced by 9.2 percent. The reduction is required by the sequestration order issued by the President in accordance with the BCA. Benefits payable for days October 1, 2013 through September 30, 2014 are subject to a reduction of 7.2%. In the event that Congress and the Administration do not eliminate sequestration for fiscal year 2014, a sequestration reduction will be applied starting on October 1, 2014, and beyond.

Succession Planning and Training

Like many agencies, the RRB has an aging workforce. About 63 percent of our employees have 20 or more years of service and nearly 33 percent of the current workforce will be eligible for retirement by fiscal year 2015. To prepare for the expected turnover, the agency is placing increased emphasis on strategic management of human capital. Each organization has completed workforce planning documents that identify the current staffing levels, projected attrition and planned hiring in fiscal year 2015, subject to available funding. Each executive also completed a gap analysis for his/her organization that identified potential areas of skills and knowledge gaps that will need to be addressed, identified areas where additional training may be necessary or where mentoring may be desirable to prepare employees for more senior positions, and identified areas of new skills that may need to be addressed through outside hires.

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

The RRB continues to devote resources to training employees while maintaining fiscal responsibility. We have opened general skills-based classroom training courses (e.g. Business Writing and Grammar Skills, Dealing with Difficult People, Delivering Effective and Persuasive Presentations, etc.) to our employees in Headquarters to enhance training opportunities and ensure the maximization of training dollars spent. We will also continue to utilize on-line and low/no cost webinar trainings to bolster current employee skills in such areas as technology, leadership, human resources and communications. Our Human Resources office continues to provide internal training/retraining in the areas of performance management, recruitment, orientation, post-orientation and supervisory training. We continue to provide employees the option to attend pre-retirement planning training. We will also continue to enhance leadership career opportunities through our Senior Executive Candidate Development Program. To ensure we continue to effectively train our mission-based claims representatives in our various field offices throughout the nation, we utilize a Learning Management System in conjunction with our virtual classroom capabilities through RRBVision. In addition, field offices now have real-time access to the latest webinar technology to facilitate the remote training of new employees, as well as the ongoing training of experienced field staff. We continue to develop our enterprise-wide, cloud-hosted Learning Management System (LMS) which effectively supports the administration and management of our agency-wide learning programs, virtual classrooms and multimodal e-learning delivery formats.

Systems Security

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

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

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

RRB began its basic security awareness training in March of 2012 using a web-based basic awareness program offered by SANS (an industry leader in security training) called "Securing the Human." Employees and contractors were required to complete 9 assigned training topics such as how to identify social engineering, how to perform safe browsing, and more. Additionally, employees with increased security responsibilities in performing the security authorization and continuous monitoring of their respective information systems were required to complete (ISC)2™ Certified Authorization Professional (CAP)® Certification Prep Course available on the virtual training environment provided at www.fedvte-fsi.gov. This training will enhance their understanding in systems security analysis, computer network defense, and vulnerability assessment and management. Other staff with increased security responsibilities will also be required to complete specific training for their respective roles and responsibilities later in the year.

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

The Security Authorization process is integral to the information security programs of Federal agencies. Performing the security authorization process helps provide an understanding of the risks and other factors that could adversely affect the agency's mission for all of the agency information systems. The RRB developed a Security Authorization strategy for fiscal year 2013 that is in line with the National Institute for Standards and Technology (NIST) Risk Management Framework (RMF) strategy. The agency will employ a continuous monitoring strategy that will increase the effectiveness of our current information security program, performing annual risk assessments, as well as testing all security controls applicable to the information system.

Integrating security into the System Development Life Cycle (SDLC) in the RRB Information System program is essential. To ensure that all RRB applications are developed securely standards need to be identified using industry standards identified by security professionals. The RRB plans on drafting a secure RRB SDLC procedure, implementing standards from guidelines such as:

- Microsoft Security Development Lifecycle,
- Open Web Application Security Project (OWASP) Guide to Building Secure Web Applications, and
- The OWASP secure coding practices.

Program Evaluations

Program Evaluation	Results in Fiscal Year 2014
Federal Managers' Financial Integrity Act Reports	See "Systems and Controls" in the "Management's Discussion and Analysis" section.
Twenty-Fifth Actuarial Valuation of the Assets and Liabilities Under the Railroad Retirement Act as of December 31, 2010	The Chief Actuary's report describes the results of three valuations, each valuation differing from the others as to the employment assumption on which it is based. Cash flow problems arise only under the most pessimistic employment assumption. Even under that assumption, the cash flow problems do not occur until the year 2035.
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 2012, addresses the 11 fiscal year period 2012 through 2022. The report indicated that even as maximum benefits are expected to increase 44 percent from 2011 to 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 chart on the following pages, and published on our website at www.rrb.gov.
Program integrity report	The RRB's program integrity report for fiscal year 2013, released in January 2014, showed that program integrity activities resulted in the establishment of about $12 million in recoverables, recovery of $12.7 million, benefit savings of $857,000, and referral of 32 cases to the Office of Inspector General.
Quality assurance reviews and special studies	RRA adjudicative and payment accuracy is measured in regular diagnostic reviews conducted by quality assurance staff within the RRB's Program Evaluation and Management Services (PEMS) component. PEMS also evaluates policies and processes through special studies, as needed. PEMS reports to the Director of Programs.
Occupational disability reviews	Advisory doctors, representing the rail industry (labor and management), are authorized by law to review agency medical decisions. An audit was done in 2000; another audit was completed in 2008. In addition, consulting physicians from Consultative Examinations, Ltd. perform a quarterly quality review of disability documentation to ensure it is adequate to support medical decisions.

Program Evaluation	Results in Fiscal Year 2014
RRB Office of Inspector General audits	See "Inspector General's Statement on Management and Performance Challenges" and "Management's Comments" in the "Other Accompanying Information" section.
Performance budget monitoring	Results of performance budget monitoring are shown in the chart of performance objectives on the following pages. Actual performance data are reviewed, validated and certified prior to inclusion in this report. Validation and certification processes are documented as part of the RRB's management control review process.
Computer security and privacy assessment	All of the RRB's general support systems and all major applications are fully certified and accredited in compliance with the Federal Information Security Management Act, Office of Management and Budget directives and National Institute of Standards and Technology guidance.
Electronic government (e-Gov) activities	See pages 41 and 42 of this section.
Improper payment evaluation	See "Improper Payments Information Act (IPIA)" in the "Other Accompanying Information" section.

The next page begins a consolidated presentation of our actual performance in fiscal year 2011 through March 31, 2014 (except as noted), followed by a discussion of our unmet performance goals and objectives for fiscal year 2014. At the time this report was prepared, we had incomplete information on our fiscal year 2014 performance. The discussion of any unmet fiscal year 2014 performance goals and indicators will be presented in next year's report. This performance report was prepared by RRB employees.

Railroad Retirement Board FY 2014 Performance Plan	2011 Actual (At $108.9m)	2012 Actual (At $108.6m)	2013 Actual (At $108.7m)	2014 Planned [1/] (At $110.3m)	2014 Actual [1/] (At $110.3m)
STRATEGIC GOAL I: Provide Excellent Customer Service					
Strategic Objective: Pay benefits timely. Goal leader for objectives I-A-1 through I-A-5; I-A-7 and I-A-8: Martha M. Barringer, Director of Program Goal leader for objective I-A-6: Dan Fadden, Director of Field Service Goal leader for objective I-A-9: Rachel L. Simmons, Director of Hearings and Appeals					
I-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)	96.0%	96.3%	95.6%	95.0%	93.5%
1-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)	97.9%	97.9%	97.0%	95.0% [2/]	94.2%
I-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)	96.3%	94.8%	96.1%	94.0%	95.2%

Railroad Retirement Board FY 2014 Performance Plan	**2011 Actual (At $108.9m)**	**2012 Actual (At $108.6m)**	**2013 Actual (At $108.7m)**	**2014 Planned [1/] (At $110.3m)**	**2014 Actual [1/] (At $110.3m)**
I-A-4. RRB makes a decision to pay, deny or transfer to SSA an initial annuity application for a railroad retirement survivor already receiving the benefits as a spouse within 30 days of the RRB's receipt of first notice of the employee's death. (Measure: % ≤ 30 days)	95.8%	95.6%	95.4%	95.2%	94.0%
I-A-5. RRB makes a decision to pay or deny a lump sum death benefit within 60 days of the date the application was filed. (Measure: % ≤ 60 days)	98.3%	98.4%	98.8%	98.0%	98.9%
I-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%	99.8%	99.9%
I-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)	67.5%	74.9%	72.5%	70.0%	43.3%
I-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)	96.0%	96.8%	95.1%	94.0% [2/]	92.8%
I-A-9. Reduce the number of days elapsed between the date the appeal is filed and a decision is rendered. (Measure: average elapsed days)	300	336	316	320	267

Railroad Retirement Board FY 2014 Performance Plan	2011 Actual (At $108.9m)	2012 Actual (At $108.6m)	2013 Actual (At $108.7m)	2014 Planned [1/] (At $110.3m)	2014 Actual [1/] (At $110.3m)
Strategic Objective: Provide a range of choices in service delivery methods. Goal leader: Martha M. Barringer, Director of Programs					
I-B-1. Offer electronic options to our customers, allowing them alternative ways to perform primary services via the Internet or interactive voice response systems. (Measure: Number of services available through electronic media)	19 services available	19 services available	19 services available	19 services available	19 services available
I-B-2. Enable employers to use the Internet to conduct business with the RRB, in support of the Government Paperwork Elimination Act. (Measures: percentage of employers who use the on-line Employer Reporting System (ERS); number of services available through electronic media) a) Employers using ERS:	84.0%	85.0%	87.0%	85.0%	99.0%
b) Internet services:	17 Internet services available	19 Internet services available	21 Internet services available	26 Internet services available	21 Internet services available
STRATEGIC GOAL II: 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: George V. Govan, Chief Financial Officer					
II-A-1. Debts will be collected through billing, offset, reclamation, referral to outside collection programs, and a variety of other collection efforts. (Measure for fiscal year 2011: funds collected vs. total debts outstanding. Measure for fiscal years 2012 and following: total overpayments recovered in the fiscal year / total overpayments established in the fiscal year.)	54.0%	97.7%	97.7%	85.0%	95.14%

Railroad Retirement Board FY 2014 Performance Plan		2011 Actual (At $108.9m)	2012 Actual (At $108.6m)	2013 Actual (At $108.7m)	2014 Planned [1/] (At $110.3m)	2014 Actual [1/] (At $110.3m)
Strategic Objective: Ensure the accuracy and integrity of benefit programs. Goal leader II-B-1(a)(b) and II-B-3 and 4: Martha M. Barringer, Director of Programs Goal leader II-B-2(a)(b): Dan Fadden, Director of Field Service						
II-B-1. Achieve a railroad retirement benefit payment recurring accuracy rate[3/] of at least 99%. (Measure: percent accuracy rate)	a) Initial payments:	99.79%	99.75%	99.84%	99.75%	FY 14 data not available
	b) Sample post recurring payments:	Deferred [4/]	99.97%	99.70%	99.75%	FY 14 data not available
II-B-2. Achieve a railroad unemployment/sickness insurance benefit payment accuracy rate[/] of at least 99%. (Measure: percent accuracy rate)	a) Unemployment:	100%	99.83%	98.99%	99.60%	99.65%
	b) Sickness:	99.71%	99.37%	99.42%	99.80%	100%
II-B-3. Maintain the level of Railroad Retirement Act (RRA) improper payments below 2.5% of RRA outlays. (Measure: percent of improper RRA payments as reported for the Improper Payments Information Act)		New indicator for fiscal year 2012	0.59%	0.54%	0.59%	0.70%
II-B-4. 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.)		$5.46: $1.00	$4.55: $1.00	4.90: $1.00	$4.50: $1.00	FY 14 data not available

Railroad Retirement Board **FY 2014 Performance Plan**	**2011 Actual (At $108.9m)**	**2012 Actual (At $108.6m)**	**2013 Actual (At $108.7m)**	**2014 Planned [1/] (At $110.3m)**	**2014 Actual [1/] (At $110.3m)**
Strategic Objective: Ensure effectiveness, efficiency, and security of operations. Goal leader: Ram Murthy, Chief Information Officer					
II-C-1. Complete modernization of RRB processing systems in accordance with long-range planning goals. (Measure: Meet target dates for the project. Yes/No)	Yes. We finished the RUIA database conversion.	Yes. The RUIA conversion was completed in October 2012. We began conversion work on the Employment Data Maintenance (EDM) database.	Yes. The conversion of the EDM database was completed January 2013. The design phase of the Payment Rate and Entitlement History (PREH) database was completed in December 2013.	Yes. The target date for the conversion of the PREH database is December 2014.	FY 14 data not available
Strategic Objective: Effectively carry out responsibilities with respect to the National Railroad Retirement Investment Trust. Goal leader: Karl T. Blank, General Counsel					
II-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)	New indicator for fiscal year 2012	Yes	Yes	Yes	FY 14 data not available

Footnotes are on the following page.

1/ Planned amounts reflect the fiscal year 2014 performance targets shown in the RRB's Congressional Justification of Budget Estimates, released on March 15, 2014. Actual results represent status as of March 31, 2014, unless otherwise noted.

2/ Targets were adjusted for goals 1-A-2 and 1-A-8 due to the impact of the October 2013 agency shutdown and the increased workloads associated with Long Island Rail Road annuitants under Board Orders 13-33 and 13-55.

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

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

Discussion of Unmet Performance Goals and Indicators for Fiscal Year 2013

INDICATOR	DISCUSSION OF VARIANCE
Performance indicator I-B-2(b). Enable employers to use the Internet to conduct business with the RRB, in support of the Government Paperwork Elimination Act. (Measure: number of services available through electronic media) Our fiscal year 2013 goal was 25 services, and the actual was 21 services.	We could not fully implement all of our projected forms in FY 2012 so we revised our projections beginning in FY 2013. In FY 2013 we initially planned to implement three new services in the ERSNet system but due to limited resources and dependencies on other mainframe system development (APPLE) we added two new services to ERSNet in FY 2013. We also completed contractor assisted enhancements to the system that improved the functionality of the forms already in use. We will work closely with the contractors and BIS staff to develop comprehensive project plans in order to improve future performance.
Performance indicator II-B-1(b). Achieve a railroad retirement benefit payment recurring accuracy rate of at least 99%. (Measure: percent accuracy rate) Our fiscal year 2013 goal was 99.75%, and the actual was 99.70%.	Our post recurring payments accuracy rate is determined by a sample review. The performance goal was set at an approximate target level, and the deviation of 0.05% was not statistically significant related to our projected accuracy range. There was no effect on overall program or activity performance.
Performance indicator II-B-2(a). Achieve a railroad unemployment insurance benefit payment accuracy rate of at least 99%. (Measure: percent accuracy rate) Our fiscal year 2013 goal was 99.60%, and the actual was 98.99%.	Our railroad unemployment insurance benefit payment accuracy rate is determined by a sample review. The performance goal was set at an approximate target level, and the deviation of 0.61% was not statistically significant related to our projected accuracy range. There was no effect on overall program or activity performance.
Performance indicator II-B-2(b). Achieve a railroad sickness insurance benefit payment accuracy rate of at least 99%. (Measure: percent accuracy rate) Our fiscal year 2013 goal was 99.80%, and the actual was 99.42%	Our railroad sickness insurance benefit payment accuracy rate is determined by a sample review. The performance goal was set at an approximate target level, and the deviation of 0.38% was not statistically significant related to our projected accuracy range. There was no effect on overall program or activity performance.

FINANCIAL SECTION

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Financial Section

Message from the Chief Financial Officer

I am pleased to present the RRB's Performance and Accountability Report for fiscal year 2014. This report incorporates the annual performance report under the Government Performance and Results Act of 1993, the internal control report under the Federal Managers' Financial Integrity Act, and audited consolidated financial statements under OMB guidance.

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

The RRB continued to provide high quality financial management and financial reporting during fiscal year 2014.

- We received a disclaimer audit opinion on our consolidated financial statements for fiscal year 2014. In accordance with OMB schedule for releasing quarterly financial statements, we prepared unaudited 3rd quarter financial statements.

- We implemented audit recommendations as follows:

  At the beginning of fiscal year 2014, the agency's audit follow-up tracking system reported 205 audit recommendations as being open. During the fiscal year, audit reports containing another 81 recommendations were issued. As a result, the total number of open recommendations during the year was 286. At the same time, final action was completed on 58 audit recommendations and 10 audit recommendations were rejected, resulting in a balance at the end of the fiscal year of 218 open recommendations. Additionally, the status of the OIG-identified material weaknesses and planned corrective action are presented in the Management's Discussion and Analysis' Management Assurances section.

The RRB upgraded its financial system structure by implementing a cloud hosting service on October 1, 2013, following migration from its previous financial management system, FFS (Federal Financial System). The service is hosted by CGI, a commercial shared service provider (SSP) for financial system services. Its cloud system has achieved compliance with GSA's FedRAMP security requirements and is an authorized cloud service provider (CSP).

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

Original signed by:

George V. Govan
Chief Financial Officer

RAILROAD RETIREMENT BOARD
CONSOLIDATED BALANCE SHEET
AS OF SEPTEMBER 30, 2014 AND 2013
(in dollars)

	FY 2014	FY 2013
ASSETS		
Intragovernmental:		
Fund Balance with Treasury (Note 3)	$186,911,873	$247,567,952
Investments (Note 4)	1,691,768,230	1,630,127,377
Accounts Receivable (Note 6)	4,615,469,780	4,692,789,232
Total Intragovernmental	**6,494,149,883**	**6,570,484,561**
NRRIT Net Assets (Note 5)	26,090,536,029	25,011,942,697
Accounts Receivable, Net (Note 6)	41,781,822	38,019,007
Inventory and Related Property, Net (Note 7)	-	0
General Property, Plant and Equipment, Net (Note 8)	3,258,257	4,439,124
Other	534,622	521,029
TOTAL ASSETS	**32,630,260,613**	**$31,625,406,418**
LIABILITIES (Note 9)		
Intragovernmental:		
Accounts Payable	$612,801,275	$571,088,990
Debt	3,573,457,216	3,629,533,607
Other	1,082,085	1,025,794
Total Intragovernmental	**4,187,340,576**	**4,201,648,391**
Accounts Payable	360,473	61,441
Benefits Due and Payable	1,033,537,665	1,003,032,809
Other	495,646,393	534,581,328
TOTAL LIABILITIES	**5,716,885,107**	**$5,739,323,969**
COMMITMENTS AND CONTINGENCIES (Note 10)		
NET POSITION		
Unexpended Appropriations - Funds from Dedicated Collections (Note 17)	16,634,135	16,609,802
Unexpended Appropriations - All Other Funds	158,322,189	159,884,958
Cumulative Results of Operations - Funds from Dedicated Collections (Note 17)	26,737,762,105	25,708,930,611
Cumulative Results of Operations - All Other Funds	657,077	657,078
Total Net Position - Funds from Dedicated Collections	26,754,396,240	25,725,540,413
Total Net Position - All Other Funds	158,979,266	160,542,036
TOTAL NET POSITION	**26,913,375,506**	**25,886,082,449**
TOTAL LIABILITIES AND NET POSITION	**32,630,260,613**	**$31,625,406,418**

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

CONSOLIDATED STATEMENT OF NET COST
FOR THE YEARS ENDED SEPTEMBER 30, 2014 AND 2013
(in dollars)

	FY 2014	FY 2013
Gross Program Costs:		
Railroad Retirement Program		
Gross Costs (Note 11)	$12,191,363,275	$11,895,638,573
Less: Earned Revenue	29,751,063	23,486,121
Net Program Costs	12,161,612,212	11,872,152,452
Railroad Unemployment and Sickness Insurance Program		
Gross Costs (Note 11)	122,739,387	128,668,333
Less: Earned Revenue	15,328,919	18,268,983
Net Program Costs	107,410,468	110,399,350
Costs Not Assigned to Programs	0	0
Less: Earned Revenues Not Attributed to Programs	46,610	24,879
NET COST OF OPERATIONS	**$12,268,976,070**	**$11,982,526,923**

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

RAILROAD RETIREMENT BOARD
CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION
FOR THE YEAR ENDED SEPTEMBER 30, 2014
(in dollars)

	FY 2014			
	Funds from Dedicated Collections	**All Other Funds**	**Eliminations**	**Consolidated Total**
Cumulative Results of Operations:				
Beginning Balances	$25,708,930,613	$657,077		$25,709,587,690
Budgetary Financing Sources:				
Appropriations used	620,649,847	38,035,115		658,684,962
Non-exchange revenue	6,050,780,424	109,321	(475,683)	6,050,414,062
Transfers in from NRRIT (Note 12)	1,429,000,000			1,429,000,000
Transfers in/out without reimbursement	4,032,866,000			4,032,866,000
Other Financing Sources (Non-Exchange):				
Imputed financing	8,175,216			8,175,216
Change in NRRIT assets	1,078,593,332			1,078,593,332
Other gains	40,073,990			40,073,990
Total Financing Sources	13,260,138,809	38,144,436	(475,683)	13,297,807,562
Net Cost Of Operations	12,231,307,317	38,144,436	(475,683)	12,268,976,070
Net Change	**1,028,831,492**			**1,028,831,492**
Cumulative Results of Operations	**26,737,762,105**	**657,077**		**26,738,419,182**
Unexpended Appropriations:				
Beginning Balance	16,609,802	159,884,959		176,494,761
Budgetary Financing Sources:				
Appropriations received	620,770,468	39,010,000		659,780,468
Other adjustments	(96,288)	(2,537,655)		(2,633,943)
Appropriations used	(620,649,847)	(38,035,115)		(658,684,962)
Total Budgetary Financing Sources	24,333	(1,562,770)		(1,538,437)
Total Unexpended Appropriations	**16,634,135**	**158,322,189**		**174,956,324**
Net Position	**$26,754,396,240**	**$158,979,266**		**$26,913,375,506**

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

RAILROAD RETIREMENT BOARD
CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION
FOR THE YEAR ENDED SEPTEMBER 30, 2013
(in dollars)

FY 2013

	Funds from Dedicated Collections	All Other Funds	Eliminations	Consolidated Total
Cumulative Results of Operations:				
Beginning Balances	$24,940,353,973	$657,078		$24,941,011,051
Budgetary Financing Sources:				
Appropriations Used	647,088,939	49,655,315		696,744,254
Non-Exchange Revenue	6,221,075,209	127,091	(647,088,939)	5,574,113,361
Transfers in from NRRIT (Note 12)	1,581,000,000			1,581,000,000
Transfers in/out Without Reimbursement	4,034,737,999		(250,000)	4,034,487,999
Other Financing Sources (Non-Exchange):				
Imputed Financing	8,750,053			8,750,053
Change in NRRIT Assets	1,370,581,884			1,370,581,884
Loss Contingency	(514,573,990)			(514,573,990)
Total Financing Sources	13,348,660,094	49,782,406	(647,338,939)	12,751,103,561
Net Cost Of Operations	12,580,083,456	49,782,406	(647,338,939)	11,982,526,923
Net Change	**768,576,638**			**768,576,638**
Cumulative Results of Operations	**25,708,930,611**	**657,078**		**25,709,587,689**
Unexpended Appropriations:				
Beginning Balances	24,889,493	165,734,487		190,623,980
Budgetary Financing Sources:				
Appropriations Received	638,886,050	45,250,000		684,136,050
Other Adjustments	(76,802)	(1,444,214)		(1,521,016)
Appropriations Used	(647,088,939)	(49,655,315)		(696,744,254)
Total Budgetary Financing Sources	(8,279,691)	(5,849,529)		(14,129,220)
Total Unexpended Appropriations	**16,609,802**	**159,884,958**		**176,494,760**
Net Position	**$25,725,540,413**	**$160,542,036**		**$25,886,082,449**

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

RAILROAD RETIREMENT BOARD
COMBINED STATEMENT OF BUDGETARY RESOURCES
FOR THE YEARS ENDED SEPTEMBER 30, 2014 AND 2013
(in dollars)

	FY 2014	FY 2013
Budgetary Resources		
Unobligated balance brought forward, October 1	$179,037,167	$193,106,537
Adjustment to unobligated balance brought forward, October 1 (+ or -) (Note 23)	0	205,736
Unobligated balance brought forward, October 1, as adjusted	179,037,167	193,312,273
Recoveries of prior year unpaid obligations	2,455,322	1,722,115
Other changes in unobligated balance (+ or -)	(2,633,943)	(364,317)
Unobligated balance from prior year budget authority, net	178,858,546	194,670,071
Appropriations (discretionary and mandatory)	8,998,154,950	8,702,401,636
Borrowing authority (discretionary and mandatory) (Note 19 and Note 20)	3,881,500,000	3,913,121,381
Spending authority from offsetting collections (discretionary and mandatory)	167,645,784	160,348,852
Total budgetary resources	**$13,226,159,280**	**$12,970,541,940**
Status of Budgetary Resources		
Obligations incurred (Note 18)	$13,047,441,208	$12,791,504,773
Unobligated balance, end of year:		
Apportioned	146,139,663	160,554,582
Unapportioned	32,578,409	18,482,585
Total unobligated balance, end of year	178,718,072	179,037,167
Total budgetary resources	**$13,226,159,280**	**$12,970,541,940**
Change in Obligated Balance		
Unpaid obligations:		
Unpaid obligations, brought forward, October 1	$903,593,484	$975,391,901
Adjustment to unpaid obligations, start of year (+ or -) (Note 23)	0	(29,920,140)
Obligations incurred	13,047,441,208	12,791,504,773
Outlays (gross) (-)	(12,985,755,020)	(12,831,660,935)
Recoveries of prior year unpaid obligations (-)	(2,455,322)	(1,722,115)
Unpaid obligations, end of year	962,824,350	903,593,484
Uncollected payments:		
Uncollected pymts, Fed sources, brought forward, Oct 1 (-)	22,144	(221,330)
Adjustment to uncollected pymts, Fed Sources, start of year (+ or -)	0	23,472
Change in uncollected pymts, Fed Sources (+ or -)	(67,342)	220,002
Uncollected pymts, Fed sources, end of year (-)	(45,198)	22,144
Memorandum (non-add) entries		
Obligated balance, start of year (+ or -)	$903,615,628	$945,273,903
Obligated balance, end of year (+ or -)	$962,779,150	$903,615,628
Budget Authority and Outlays, Net (Note 14)		
Budget authority, gross (discretionary and mandatory)	$13,047,300,734	$12,775,871,868
Actual offsetting collections (discretionary and mandatory) (-)	(167,507,396)	(161,588,854)
Change in uncollected customer pymts from Fed sources (discretionary and mandatory) (+ or -)	(67,342)	220,002
Budget authority, net (total) (discretionary and mandatory)	**$12,879,725,996**	**$12,614,503,016**
Outlays, gross (discretionary and mandatory)	$12,985,755,020	$12,831,660,935
Actual offsetting collections (discretionary and mandatory) (-)	(167,578,442)	(161,588,854)
Outlays, net (total) (discretionary and mandatory)	12,818,176,578	12,670,072,081
Distributed offsetting receipts (-)	(4,648,895,280)	(4,681,535,209)
Agency outlays, net (discretionary and mandatory)	**$8,169,281,298**	**$7,988,536,872**

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

Railroad Retirement Board

Statement of Social Insurance (Note 15, Note 16)

Actuarial Surplus or (Deficiency)

75-year Projection as of January 1, 2014

(Present values in billions of dollars)

	1/1/2014	1/1/2013	1/1/2012	1/1/2011	1/1/2010
Current participants who have attained retirement age:					
Contributions and earmarked taxes	$82.8	$81.1	$79.0	$73.1	$70.3
Expenditures for scheduled future benefits	125.8	122.6	118.8	109.3	104.8
Present Value of future revenue less future expenditures	(43.0)	(41.5)	(39.8)	(36.2)	(34.6)
Current participants not yet having attained retirement age:					
Contributions and earmarked taxes	85.5	84.2	81.3	71.7	72.9
Expenditures for scheduled future benefits	96.8	96.2	94.7	86.2	88.0
Present Value of future revenue less future expenditures	(11.3)	(12.0)	(13.4)	(14.6)	(15.0)
Net present value of future revenue less future expenditures for current participants (closed group measure)	(54.4)	(53.5)	(53.1)	(50.8)	(49.6)
Plus: Treasury securities and assets held by the program	27.6	25.5	24.2	26.3	24.9
Closed group surplus/(unfunded obligation)	($26.7)	($28.1)	($29.0)	($24.6)	($24.7)
Future participants:					
Contributions and earmarked taxes	$62.8	$64.0	$64.0	$53.2	$53.2
Expenditures for scheduled future benefits	34.5	34.3	33.5	27.6	27.4
Present Value of future revenue less future expenditures	28.3	29.7	30.5	25.6	25.8
Net present value of future revenue less future expenditures for current and future participants (open group measure)	(26.0)	(23.9)	(22.7)	(25.2)	(23.8)
Plus: Treasury securities and assets held by the program	27.6	25.5	24.2	26.3	24.9
Open group surplus/(unfunded obligation)	$1.6	$1.6	$1.5	$1.0	$1.0

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 December 31, 2013

(in billions of dollars)

Net Present Value beginning of year 2012	$ (22.7)
Reasons for changes in the NPV during the year:	
Changes in valuation period	0.3
Changes in demographic data and assumptions[1]	0.1
Changes in economic data and assumptions[2]	(1.5)
Changes in law or policy[3]	NA
Changes in methodology and programmatic data[4]	NA
Changes in Medicare healthcare and other healthcare assumptions[5]	NA
Other changes	NA
Net change during 2012	(1.2)
Net Present Value end of year 2012/beginning of year 2013	$ (23.9)
Reasons for changes in the NPV during the year:	
Changes in valuation period	0.2
Changes in demographic data and assumptions[1]	-
Changes in economic data and assumptions[2]	(2.3)
Changes in law or policy[3]	NA
Changes in methodology and programmatic data[4]	NA
Changes in Medicare healthcare and other healthcare assumptions[5]	NA
Other changes	NA
Net change during 2013	(2.1)
Net Present Value end of year 2013	$ (26.0)

Detail may not add to totals due to rounding.

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

NOTES:

1. Changes in demographic data and assumptions -

   Between 1/1/2012 and 1/1/2013:
   Demographic assumptions were not changed between the Statement of Social Insurance as of 1/1/2012 and the Statement of Social insurance as of 1/1/2013. Changes in demographic data had a minimal effect (less than 0.1 billion) on the open group measure between 1/1/2012 and 1/1/2013.

   Between 1/1/2013 and 1/1/2014:
   Demographic assumptions were not changed between the Statement of Social Insurance as of 1/1/2013 and the Statement of Social Insurance as of 1/1/2014. Changes in demographic data had a minimal effect (less than 0.1 billion) on the open group measure between 1/1/2013 and 1/1/2014.

2. Changes in economic data and assumptions –

   Between 1/1/2012 and 1/1/2013:
   Ultimate economic assumptions were not changed between the Statement of Social Insurance as of 1/1/2012 and the Statement of Social Insurance as of 1/1/2013, but select economic assumptions were. The actual COLA of 1.7% was used for 2013 in place of the 2.0% COLA assumed for 2013 in the prior year's report. A 1.8% COLA was assumed for 2014 instead of a 2.4% COLA, and a 2.3% COLA was assumed for 2015 instead of a 2.8% COLA. Also, the actual 2012 investment return of 13.9% was higher than the assumed 7.0% investment rate used for 2012 in the prior year's report. Economic data and assumptions had the greatest effect on the open group measure, resulting in a change of about ($1.5) billion from 1/1/2012 to 1/1/2013.

   Between 1/1/2013 and 1/1/2014:
   Ultimate economic assumptions were not changed between the Statement of Social Insurance as of 1/1/2013 and the Statement of Social Insurance as of 1/1/2014, but select economic assumptions were. The actual COLA of 1.5% was used for 2014 in place of the 1.8% COLA assumed for 2014 in the prior year's report. A 1.7% COLA was assumed for 2015 instead of a 2.3% COLA, and a 2.2% COLA was assumed for 2016 instead of a 2.8% COLA. Also, the actual 2013 investment return of 16.0% was higher than the assumed 7.0% investment return used for 2013 in the prior year's report. Economic data and assumptions had the greatest effect on the open group measure, resulting in a change of about ($2.3) billion from 1/1/2013 to 1/1/2014.

3. There were no changes in law or policy.

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

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

Notes to the Financial Statements: **Fiscal Years Ended September 30, 2014 and 2013**

1. Summary of Significant Accounting Policies

A. Basis of Presentation
Public Law 107-289, the Accountability of Tax Dollars Act of 2002, added the Railroad Retirement Board (RRB) as an agency required to prepare audited financial statements for fiscal year 2003, and subsequent years. Office of Management and Budget (OMB) guidance requires that Performance and Accountability Reports (P&AR) for fiscal year 2014 are to be submitted to the President, the Congress, and the Director of OMB by November 17, 2014. As required by law, OMB has also prescribed the form and content of financial statements under OMB Circular A-136. The RRB's financial statements were prepared in accordance with the form and content prescribed by OMB and with generally accepted accounting principles and standards prescribed by the Federal Accounting Standards Advisory Board (FASAB).

The principal statements (prepared on a consolidated basis, except for the Statement of Budgetary Resources which was prepared on a combined basis, and eliminating all significant interfund balances and transactions) are comprised of the Balance Sheet and Statements of Net Cost, Changes in Net Position, Budgetary Resources, 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 RRB changed its accounting policy on three items. First, the capitalization of acquisitions increased from $5,000 or more to $50,000 or more, where the service life is 2 years or greater. In addition, the RRB changed its accounting policy with regard to the accrual of Medicare insurance premiums paid by annuitants. This change affected the Balance Sheet, Statement of Net Cost, Changes in Net Position, and Statement of Budgetary Resources. Finally, after implementation of the Governmentwide Treasury Account Symbol Adjusted Trial Balance System, income tax transfers between funds are now recorded as transfers in and transfers out. Previously, they were recorded as revenue and expenses which were eliminated upon consolidation. This change affected the Statement of Changes in Net Position and Note 17.

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

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

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

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

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

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

- Limitation on Administration Account, 60X8237, Public Law 107-217, Sec. 121(d)(3), authorizes Federal agencies to retain indefinitely as "no-year money" any unexpended portion of the fiscal year appropriated funds, up to the estimated cost of the operation and maintenance (O&M) of the delegated properties. Funds carried over may only be expended for O&M and repair of the facility. In addition, this fund contains the Limitation on Administration funds for extended unemployment benefits provided under Public Laws 111-92, 112-96, and 112-240. Account 60X8237 is considered a fund from dedicated collections.

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

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

- Limitation on the Office of Inspector General, 60 8018, was established to fund the administration of the Inspector General's Office. Account 60 8018 is considered a fund from dedicated collections. Our authority to use these collections is Public Law 113-76.

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

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

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

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

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

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

- Railroad Unemployment Insurance Extended Benefit Payments, for Limitation Account – 60X0118: Funds provided under Public Law 111-92, Worker, Homeownership, and Business Assistance Act of 2009, and Public Law 112-96, Middle Class Tax Relief and Job Creation Act of 2012, and Public Law 112-240, American Taxpayer Relief Act of 2012.

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

C. Budgets and Budgetary Accounting

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

D. Basis of Accounting

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

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

E. Concepts

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

F. Funds from Dedicated Collections

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

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

Refer to Note 17, Funds from Dedicated Collections.

G. Application of Critical Accounting Estimates

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

2. Related Parties

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

- Treasury collects payroll taxes from the railroads on behalf of the RRB. The taxes collected are credited by Treasury to the RRB's trust fund account via an appropriation warrant. In fiscal years 2014 and 2013, net payroll taxes transferred to the RRB by Treasury were $5.9 billion and $5.4 billion, respectively.

  Treasury provides payment services to Federal agencies and operates collections and deposit systems. The RRB invests in government account securities through BPD. In fiscal years 2014 and 2013, investments, including accrued interest, totaled $1.7 billion and $1.6 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 2014 due to the financial interchange advances during fiscal year 2013 included principal of $3.9 billion and interest of $105 million. The amount paid by the RRB to Treasury in fiscal year 2013 due to the financial interchange advances during fiscal year 2012 included principal of $3.8 billion and interest of $110 million.

- The Social Security Administration (SSA) and the RRB participate in an annual financial interchange. The financial interchange is intended to place the social security trust funds in the same position in which they would have been had railroad employment been covered by the Social Security Act and Federal Insurance Contributions Act (FICA). In fiscal year 2014, the RRB trust funds realized $4.7 billion through the financial interchange.

Under Section 7(b)(2) of the Railroad Retirement Act of 1974, the RRB is required to pay certain individuals, described in this section, monthly social security benefits on behalf of SSA. SSA reimburses the RRB for benefits paid on behalf of SSA. The amounts reimbursed were $1.5 billion for fiscal year 2014 and $1.4 billion for fiscal year 2013.

- The Centers for Medicare & Medicaid Services (CMS) participates in the annual financial interchange in the same manner as described for SSA. The RRB transferred $612 million and $577 million to CMS in fiscal years 2014 and 2013, 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 2014 and 2013 were $32 million and $23 million, respectively.

- The General Services Administration (GSA) provides payroll processing and human resources services to the RRB. In addition, the RRB paid rent to GSA in the amount of $3.2 million for fiscal year 2014 and $3.1 million for fiscal year 2013.

- The Department of Labor (DOL) invests Railroad Unemployment Insurance Act (RUIA) contributions. Accounts receivable with the DOL amounted to $125 million and $188 million for fiscal years 2014 and 2013, respectively.

- The National Railroad Retirement Investment Trust (NRRIT) transfers funds to the RRB for payment of railroad retirement benefits. During fiscal years 2014 and 2013, the NRRIT transferred $1,429 million and $1,581 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:

	2014	2013
A. Fund Balances:		
(1) Trust Funds	$ 27,888,615	$ 88,954,793
(2) General Funds	159,023,258	158,613,159
(3) Other Fund Types	0	0
Total	$ 186,911,873	$ 247,567,952
B. Status of Fund Balance with Treasury (FBWT)		
(1) Unobligated Balance		
(a) Available	$ 146,139,664	$ 160,554,582
(b) Unavailable	32,578,409	18,482,585
(2) Obligated Balance not yet Disbursed	8,193,800	68,530,785
(3) Non-Budgetary FBWT	0	0
Total	$ 186,911,873	$ 247,567,952

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

4. Investments

The investments in Treasury securities represent the investments of two of the RRB's 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 2014	$1,689,168,000	$2,600,230	$1,691,768,230
Non Marketable Par Value 2013	$1,627,618,000	$2,509,377	$1,630,127,377

The balance on September 30, 2014, consisted of investments in 3.000 percent par value specials (with market value equal to face value) maturing on October 1, 2014. The balance on September 30, 2013, consisted of investments in 3.000 percent par value specials (with market value equal to face value) maturing on October 1, 2013. 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, 2014 and 2013. These figures were provided to the RRB by the NRRIT for the fiscal years ended September 30, 2014 and 2013.

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:

	2014	2013
Financial Interchange – Principal	$4,361,700,000	$4,373,800,000
Financial Interchange – Interest	128,400,000	130,900,000
Department of Labor	125,369,780	188,089,232
CMS – Refund of Medicare Part B Premiums	0	0
Social Security Administration - OASI/DI Benefits (Old Age and Survivors Insurance/Disability Insurance)	0	0
Treasury General Fund – HIRE Act (Tier I)	0	0
Total	$4,615,469,780	$4,692,789,232

- *Accounts Receivable, Net*

Accounts receivable, net at September 30 consisted of:

	2014	2013
Accounts receivable – Benefit overpayments	$52,537,015	$46,764,930
Accounts receivable – Past due RUI contributions and taxes	57,310	17,805
Accounts receivable – Interest, penalty & administrative costs*	380,724	1,412,885
Total	$52,975,049	$48,195,620
Less: Allowances for doubtful accounts	11,193,227	10,176,613
Net Total	$41,781,822	$38,019,007

*Includes RRB employee debts

The RRB's September 30, 2014, accounts receivable balance (after deducting currently not collectible (CNC) receivables but prior to the application of the allowance for doubtful accounts) of $52,975,049 includes $46,314,801 (87%) in railroad retirement program receivables and $6,660,248 (13%) in railroad unemployment insurance program receivables. The total allowance for doubtful accounts is $11,193,227. This includes $9,835,868 (88%) for the railroad retirement program and $1,357,359 (12%) for the unemployment insurance program receivables.

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

7. Inventory and Related Property

The RRB no longer capitalizes operating materials and supplies. The inventory write-off amount was $37,640 for fiscal year 2013.

8. General Property, Plant and Equipment

These assets are stated at cost less accumulated depreciation/amortization. In 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, 2014		
Classes of Fixed Assets	Service Lives	Cost	Accumulated Depreciation	Net Book Value
Structures, facilities and leasehold Improvements	15 years	$ 2,723,731	$ 2,723,731	$ 0
ADP software	5 years	24,628,040	21,656,868	2,971,172
Equipment	5-10 years	6,344,756	6,344,756	0
Internal-Use Software in Development		287,085	0	287,085
		$33,983,612	$30,725,355	$ 3,258,257

In fiscal year 2013, acquisitions were capitalized if the cost was $5,000 or more and the service life was 2 years or greater. Depreciation/amortization is computed on the straight-line method. These assets consisted of:

		At September 30, 2013		
Classes of Fixed Assets	Service Lives	Cost	Accumulated Depreciation	Net Book Value
Structures, facilities and leasehold Improvements	15 years	$ 2,723,731	$ 2,691,907	$ 31,824
ADP software	5 years	20,914,583	20,852,705	61,878
Equipment	5-10 years	6,423,643	5,774,273	649,370
Internal-Use Software in Development		3,696,053	0	3,696,053
		$33,758,010	$29,318,885	$4,439,125

9. Liabilities

Liabilities at September 30 consisted of:

	2014	2013
Intragovernmental:		
Other – Unfunded Federal Employees' Compensation Act (FECA) Liability	$ 554,190	$ 589,038
Public:		
Other – Accrued Unfunded Leave	$ 6,756,122	$ 6,585,182
Total Liabilities Not Covered by Budgetary Resources	$ 7,310,312	$ 7,174,220
Total Liabilities Covered by Budgetary Resources	5,709,574,794	5,732,149,749
Total Liabilities	$ 5,716,885,106	$ 5,739,323,969

• *Debt*

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

	2014	2013
Beginning Balance, Principal	$ 3,587,200,000	$ 3,401,800,000
New Borrowing	3,881,500,000	3,938,300,000
Repayments	(3,936,800,000)	(3,752,900,000)
Ending Balance, Principal	3,531,900,000	3,587,200,000
Accrued Interest	41,557,216	42,333,607
Total	$ 3,573,457,216	$ 3,629,533,607

• *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 $13,578,572 and $13,231,201, at September 30, 2014 and 2013, 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 10,967 benefit cases, estimated at $5.4 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	2014 Total
Intragovernmental:			
Employer Contributions & Payroll Taxes Payable		$ 524,479	$ 524,479
Unfunded FECA Liability		557,606	557,606
Total Intragovernmental		1,082,085	1,082,085
Accrued Unfunded Liabilities		6,756,122	6,756,122
Accrued Payroll		2,004,638	2,004,638
Accrued RRB Contributions – Thrift Savings Plan		66,450	66,450
Withholdings Payable		0	0
Contingent Liability (see Note 10 for details)		483,500,000	483,500,000
Capital Lease Liability		0	0
Other		3,319,184	3,319,184
Total Other Liabilities	0	$496,728,478	$496,728,478

	Non-Current	Current	2013 Total
Intragovernmental:			
Employer Contributions & Payroll Taxes Payable		$ 436,756	$ 436,756
Unfunded FECA Liability		589,038	589,038
Total Intragovernmental		1,025,794	1,025,794
Accrued Unfunded Liabilities		6,585,182	6,585,182
Accrued Payroll		1,724,781	1,724,781
Accrued RRB Contributions – Thrift Savings Plan		53,883	53,883
Withholdings Payable		73,783	73,783
Contingent Liability (see Note 10 for details)	0	523,573,990	523,573,990
Capital Lease Liability		0	0
Other		2,569,709	2,569,709
Total Other Liabilities	0	$535,607,122	$535,607,122

10. Commitments and Contingencies

The RRB is involved in the following actions:

- One railroad filed suit requesting a refund of approximately $22.0 million (not including interest) representing the employer's share of taxes previously paid with respect to moving and relocation expenses and with respect to stock purchased by current and former employees under non-qualified stock options. The RRB's legal counsel has determined that the likelihood of loss of taxes paid on employee stock options is reasonably possible. The likelihood of loss of taxes paid on moving expense allowances is remote.

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

- Several Class I railroads have filed claims for refund of taxes with the Internal Revenue Service (IRS). Of the $23.8 million in claims, the RRB's legal counsel has determined that it is reasonably possible that the RR and SSEB Accounts are contingently liable for $20.4 million, and the remaining $3.4 million is remote. Under the anti-disclosure provision of the IRS code, we are not permitted to disclose any details related to these claims. No provision has been made in the accompanying financial statements regarding these claims other than this disclosure.

- As of September 30, 2014, the RRB had contractual arrangements which may result in future financial obligations of $32 million.

- We also recorded a contingent liability in the amount of $483.5 million, for forthcoming adjustments to the financial interchange for military service credits due SSA.

11. Intragovernmental Costs and Exchange Revenue

	2014	2013
Railroad Retirement (RR) Act Program		
Intragovernmental Costs	$ 125,022,639	$ 146,864,012
Public Costs	12,066,340,636	11,748,774,561
Total RR Act Program Costs	$ 12,191,363,275	$ 11,895,638,573
Intragovernmental Earned Revenue	$ 29,751,063	$ 23,486,121
Public Earned Revenue	0	0
Total RR Act Program Earned Revenue	$ 29,751,063	$ 23,486,121
Railroad Unemployment Insurance (RUI) Act Program		
Intragovernmental Costs	$ 2,524,953	$ 4,404,187
Public Costs	120,214,434	124,264,146
Total RUI Act Program Costs	$ 122,739,387	$ 128,668,333
Intragovernmental Earned Revenue	$ 0	$ 0
Public Earned Revenue	15,328,919	18,268,983
Total RUI Act Program Earned Revenue	$ 15,328,919	$ 18,268,983

These totals do not include $46,610 and $24,879 of earned revenues not attributable to either program for fiscal years 2014 and 2013, respectively.

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

12. Transfers To/From NRRIT

The RRB received a total of $1,429 million and $1,581 million from the NRRIT during fiscal years 2014 and 2013, respectively. These funds were received into the RR Account. Transfers were to fund the payment of benefits.

13. Undelivered Orders at the End of the Period

	2014	2013
Undelivered Orders	$22,086,866	$17,121,501

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

A reconciliation was completed of budgetary resources, obligations incurred, distributed offsetting receipts, and outlays, as presented in the Statement of Budgetary Resources for the year ended September 30, 2013, to amounts included in the Budget of the United States Government. A reconciliation was not performed for the period ended September 30, 2014, since the RRB's Performance and Accountability Report is published in November 2014, and OMB's MAX system will not have actual budget data available until mid-December 2014.

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

		Fiscal Year 2013 (in millions)			
		Budgetary Resources	Obligations Incurred	Distributed Offsetting Receipts	Net Outlays
1.	Combined Statement of Budgetary Resources – September 30, 2013	12,971	12,792	4,682	7,989
2.	Expenditure Transfers from Trust Funds	(118)			
3.	Unobligated Balance, Brought Forward October 1, 2012	(193)			
4.	Recoveries of Prior Year Unpaid Obligations	(2)			
5.	Sickness Insurance Benefit Recoveries	(19)			
6.	Administrative Expense Reimbursement	(24)			
7.	Interfund Transfers: Federal Payment Obligations – Income Taxes Collected on Benefits (0113)	(647)			
8.	Intrafund Transfers: Receipts from the Old-Age and Survivors Insurance (OASI) Trust Fund	(3,948)			
9.	Intrafund Transfers: Receipts from the Disability Insurance (DI) Trust Fund	(551)			
10.	Carriers' Refunds - Net Principal Payments for 8010 and 8011	(64)	(64)		(64)
	Financial Interchange				
11.	Accrued Receipts from the OASI and DI Trust Funds			(179)	179
12.	Accrued Transfers to the Federal Hospital Insurance Trust Fund			643	(643)
	NRRIT				
13.	NRRIT Obligations / Outlays	1,646	1,646		1,646
14.	Intrafund Transfers: NRRIT Transfer to RRA	(1,581)		1,581	(1,581)
15.	Proprietary Receipts: NRRIT – Gains and Losses	(2,668)		2,668	(2,668)
16.	Proprietary Receipts: NRRIT – Interest and Dividends	(379)		379	(379)
17.	Rounding	1			
18.	Budget of the United States Government FY 2013 Actuals	4,424	14,374	9,774	4,479

15. Social Insurance

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

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

- Estimated future expenditures include benefit and administrative costs.

- Detail may not add to totals due to rounding. Employee and beneficiary status are determined as of 1/1/2013, whereas present values are as of 1/1/2014.

Treasury Securities and Assets Held by the Program

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

16. Significant Assumptions

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

The estimates are also based on various economic, employment, and other actuarial assumptions. The ultimate economic assumptions are a 7.0 percent investment return, a 2.8 percent annual increase in the cost of living, and a 3.8 percent annual wage increase.

The employment assumption for the Statement of Social Insurance is employment assumption II, the intermediate employment assumption, as used in the 2014 Section 502 Report. Under employment assumption II, starting with an average 2013 employment of 236,000, (1) railroad passenger employment is assumed to remain level at 46,000, and (2) the employment base, excluding passenger employment, is assumed to decline at a constant annual rate of 2.0 percent for 25 years, at a reducing rate over the next 25 years, and remain level thereafter.

Actuarial assumptions are those published in the Technical Supplement to the "Twenty-Fifth Actuarial Valuation of the Assets and Liabilities Under the Railroad Retirement Acts as of December 31, 2010." This may be found on the RRB's website, www.rrb.gov.

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

Table S-1.	2010 RRB Annuitants Mortality Table
Table S-2.	2010 RRB Disabled Mortality Table for Annuitants with Disability Freeze
Table S-3.	2010 RRB Disabled Mortality Table for Annuitants without Disability Freeze
Table S-4.	2006 RRB Active Service Mortality Table
Table S-5.	2010 RRB Spouse Total Termination Table
Table S-6.	Probability of a retired employee having a spouse eligible for railroad retirement benefits
Table S-7.	1995 RRB Mortality Table for Widows
Table S-8.	1997 RRB Remarriage Table
Table S-9.	2004 RRB Total Termination Table for Disabled Children
Table S-10.	Calendar year rates of immediate age retirement
Table S-11.	Rates of immediate disability retirement and of eligibility for disability freeze
Table S-12.	Calendar year rates of final withdrawal
Table S-13.	Service months and salary scales
Table S-14.	Family characteristics of railroad employees assumed for the valuation of survivor benefits

Note 17 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, 2014									
Assets									
Fund Balance with Treasury*	($8,722,558)	($10,296,851)	$2,497,376	$16,634,136	$27,881,105	$211,764	$1,373,715		$29,578,689
Investments	887,957,908	803,810,323							1,691,768,231
NRRIT Net Invested Assets		26,090,536,029							26,090,536,029
Taxes and Interest Receivable	4,490,100,000	36,472,360	119,132,052		7,328	9,908,301			4,655,620,041
Other Assets					3,764,160		27,959		3,792,119
Total Assets	5,369,335,350	26,920,521,861	121,629,428	16,634,136	31,652,593	10,120,065	1,401,674		32,471,295,108
Liabilities Due and Payable	4,772,008,901	438,109,080	9,446,337		204,394	209,364	198,780		5,220,176,856
Other Liabilities	483,500,000	3,316,133			9,181,312		724,566		496,722,011
Total Liabilities	5,255,508,901	441,425,213	9,446,337		9,385,706	209,364	923,346		5,716,898,867
Unexpended Appropriations				16,634,136					16,634,136
Cumulative Results of Operations	113,826,449	26,479,096,648	112,183,091		22,266,887	9,910,701	478,329		26,737,762,105
Total Liabilities and Net Position	$5,369,335,350	$26,920,521,861	$121,629,428	$16,634,136	$31,652,593	$10,120,065	$1,401,674		$32,471,295,108
Statement of Net Cost for the Period Ended September 30, 2014									
Gross Program Costs	$7,143,507,115	$4,878,895,256	$101,776,805	$29,379	$142,109,724		$10,115,630	($475,683)	$12,275,958,226
Less Earned Revenues		9,116	15,328,919		28,791,947		950,000		45,079,982
Net Program Costs	7,143,507,115	4,878,886,140	86,447,886	29,379	113,317,777		9,165,630	(475,683)	12,230,878,244
Costs Not Attributable to Program Costs									
Less Earned Revenues Not Attributable to Program Costs					46,610				46,610
Net Cost of Operations	$7,143,507,115	$4,878,886,140	$86,447,886	$29,379	$113,271,167		$9,165,630	($475,683)	$12,230,831,634
Statement of Changes in Net Position for the Period Ended September 30, 2014									
Net Position Beginning of Period	$141,027,860	$25,366,013,653	$172,781,031	$16,609,802	$16,018,675	$12,323,635	$765,758		$25,725,540,414
Appropriations Received				620,770,468					620,770,468
Expended Appropriations				620,649,847					620,649,847
Other Adjustments				(96,288)					(96,288)
Appropriations Used				(620,649,847)					(620,649,847)
Taxes and Non-Exchange Revenue**	2,947,469,832	3,065,092,143	10,595,471		2,147,918	25,225,059	250,000	(475,683)	6,050,304,741
Other Financing Sources**	4,168,835,871	419,283,660	15,254,475	(620,620,468)	117,371,461	(27,637,993)	8,628,201		4,081,115,206
Transfers In From NRRIT		1,429,000,000							1,429,000,000
Change in NRRIT Assets		1,078,593,332							1,078,593,332
Net Cost of Operations**	(7,143,507,115)	(4,878,886,140)	(86,447,886)	(29,379)	(113,271,167)		(9,165,630)	475,683	(12,230,831,634)
Change in Net Position	(27,201,411)	1,113,082,995	(60,597,940)	24,334	6,248,212	(2,412,934)	(287,429)		1,028,855,827
Net Position End of Period	$113,826,449	$26,479,096,648	$112,183,091	$16,634,136	$22,266,887	$9,910,701	$478,329		$26,754,396,241

*The negative cash balances for SSEB (Fund 60x8010) and RRA (60x8011) accounts are a result of regular, retroactive year-end adjustments made by Treasury.

**Income Tax transfers from fund 0113 to funds 8010 and 8011 previously recorded as revenue and expenses were eliminated upon consolidation.

Note 17 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, 2013									
Assets									
Fund Balance with Treasury	$24,300,941	$22,212,100	5,090,161	$16,609,802	$20,060,396	($632,355)	$1,313,748		$88,954,793
Investments	841,032,832	789,094,545							1,630,127,377
NRRIT Net Invested Assets		25,011,942,697							25,011,942,697
Taxes and Interest Receivable	4,504,700,000	32,451,332	178,772,041			12,955,989			4,728,879,362
Other Assets					4,812,132		148,021		4,960,153
Total Assets	5,370,033,773	25,855,700,674	183,862,202	16,609,802	24,872,528	12,323,634	1,461,769		31,464,864,382
Liabilities Due and Payable	4,745,405,914	451,196,180	7,028,313		92,815		2,596		5,203,725,818
Other Liabilities	483,600,000	38,490,840	4,052,858		8,761,038		693,415		535,598,151
Total Liabilities	5,229,005,914	489,687,020	11,081,171		8,853,853		696,011		5,739,323,969
Unexpended Appropriations				16,609,802					16,609,802
Cumulative Results of Operations	141,027,859	25,366,013,654	172,781,031		16,018,675	12,323,634	765,758		25,708,930,611
Total Liabilities and Net Position	$5,370,033,773	$25,855,700,674	183,862,202	$16,609,802	$24,872,528	$12,323,634	$1,461,769		$31,464,864,382
Statement of Net Cost for the Period Ended September 30, 2013									
Gross Program Costs	$6,975,814,483	$4,755,539,098	$103,354,628	$647,088,939	$130,995,424		$9,495,867	($647,512,626)	$11,974,775,813
Less Earned Revenues			18,268,983		22,648,852		1,262,269	(425,000)	41,755,104
Net Program Costs	6,975,814,483	4,755,539,098	85,085,645	647,088,939	108,346,572		8,233,598	(647,087,626)	11,933,020,709
Costs Not Attributable to Program Costs									
Less Earned Revenues Not Attributable to Program Costs					24,879				24,879
Net Cost of Operations	$6,975,814,483	$4,755,539,098	$85,085,645	$647,088,939	$108,321,693		$8,233,598	($647,087,626)	$11,932,995,830
Statement of Changes in Net Position for the Period Ended September 30, 2013									
Net Position Beginning of Period	$798,560,511	$23,959,249,060	$162,499,293	$24,889,494	$7,956,268	$11,390,815	$698,025		$24,965,243,466
Appropriations Received				638,886,050					638,886,050
Expended Appropriations				647,088,939					647,088,939
Other Adjustments				(76,803)					(76,803)
Appropriations Used				(647,088,939)					(647,088,939)
Taxes and Non-Exchange Revenue	2,968,446,898	3,136,770,669	89,655,827			26,201,814		(647,087,626)	5,573,987,582
Other Financing Sources	3,349,834,933	73,951,139	5,711,556		116,384,100	(25,268,995)	8,301,331		3,528,914,064
Transfers In From NRRIT		1,581,000,000							1,581,000,000
Change in NRRIT Assets		1,370,581,884							1,370,581,884
Net Cost of Operations	(6,975,814,483)	(4,755,539,098)	(85,085,645)	(647,088,939)	(108,321,693)		(8,233,598)	647,087,626	(11,932,995,830)
Change in Net Position	(657,532,652)	1,406,764,594	10,281,738	(8,279,692)	8,062,407	932,819	67,733		760,296,947
Net Position End of Period	$141,027,859	$25,366,013,654	$172,781,031	$16,609,802	$16,018,675	$12,323,634	$765,758		$25,725,540,413

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

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

The Category B direct obligations are $13,015,213,320 and the reimbursable obligations are $32,227,888. These are reported under Obligations Incurred on the SBR in the amount of $13,047,441,208 which combines the direct and reimbursable obligations.

This disclosure agrees with the aggregate of RRB direct and reimbursable obligations as reported on the RRB's fiscal year 2014 year-end SF-133, *Report on Budget Execution and Budgetary Resources*, and line 2190 in the Statement of Budgetary Resources.

19. 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 (OASDI) and Hospital Insurance (HI) trust funds in the same position they would have been had railroad employment been covered under the Social Security and Federal Insurance Contributions Acts.

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

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

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

20. Available Borrowing Authority, End of the Period

The amount of RRB available borrowing authority at the end of the period associated with financial interchange advances is $3,881,500,000.

21. Legal Arrangements Affecting Use of Unobligated Balances

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

22. Subsequent Events

There was a decrease of $9.5 million in NRRIT net assets from the SOSI, January 1, 2014, valuation date and the September 30, 2014, balance sheet date. Other than this event, no other material events or transactions have occurred subsequent to September 30, 2014, that we are aware of. We have evaluated subsequent events through November 17, 2014, the date the financial statements were released.

23. Adjustment to Unobligated Balance, Brought Forward, October 1, and Obligated Balance, Start of the Year

In fiscal year 2013, there is an adjustment to the unobligated balance brought forward of $205,736 and an adjustment to obligated balances of $29,920,140.

24. Permanent Indefinite Appropriations

In fiscal year 2014, the Railroad Retirement Board had the following permanent indefinite appropriations:

- 60X0113 – Federal Payments to Railroad Retirement Accounts, Railroad Retirement Board
- 60X8010 – Social Security Equivalent Benefit Account, Railroad Retirement Board
- 60X8011 – Railroad Retirement Account
- 60X8051.001 – Railroad Unemployment Insurance Trust Fund, Benefits Payments, Railroad Retirement Board
- 60X8051.002 – Railroad Unemployment Insurance Trust Fund, Administrative Expenses, Railroad Retirement Board

Note 25 Reconciliation of Net Cost of Operations to Budget
For the Years Ended September 30, 2014 and 2013
(in dollars)

	2014	2013
Resources Used to Finance Activities:		
Budgetary Resources Obligated		
Obligations Incurred	$13,047,441,208	$12,791,504,773
Less: Spending Authority from Offsetting Collections and Recoveries	(170,101,106)	(162,070,967)
Obligations Net of Offsetting Collections and Recoveries	12,877,340,102	12,629,433,806
Less: Offsetting Receipts	(4,648,895,280)	(4,681,535,209)
Net Obligations	**8,228,444,822**	**7,947,898,597**
Other Resources		
Imputed Financing from Costs Absorbed by Others	8,175,216	8,750,053
Other	1,118,667,322	856,007,894
Net Other Resources Used to Finance Activities	**1,126,842,538**	**864,757,947**
Total Resources Used to Finance Activities	**9,355,287,360**	**8,812,656,544**
Resources Used to Finance Items Not Part of the Net Cost of Operations:		
Change in Budgetary Resources Obligated for Goods, Services & Benefits Ordered but not yet Provided	(6,689,446)	(5,021,006)
Budgetary Offsetting Collections & Receipts That Do Not Affect Net Cost of Operations	1,297,820	874,575
Resources That Finance the Acquisition of Assets	(1,084,462,466)	(1,375,309,714)
Other Resources or Adjustments to Net Obligated Resources That Do Not Affect Net Cost of Operations	4,032,866,000	4,034,487,999
Total Resources Used to Finance Items Not Part of the Net Cost of Operations	**2,943,011,908**	**2,655,031,854**
Total Resources Used to Finance the Net Cost of Operations	**12,298,299,268**	**11,467,688,398**
Components of the Net Cost of Operations That Will Not Require or Generate Resources in the Current Period:		
Components Requiring or Generating Resources in Future Periods:		
Increase in Annual Leave Liability	170,940	(348,301)
Other	(30,985,503)	513,690,713
Total Components of Net Cost of Operations That Will Require or Generate Resources in Future Periods	**(30,814,563)**	**513,342,412**
Components Not Requiring or Generating Resources:		
Depreciation and Amortization	1,491,365	1,496,113
Total Components of Net Cost of Operations That Will Not Require or Generate Resources	**1,491,365**	**1,496,113**
Total Components of Net Cost of Operations That Will Not Require or Generate Resources in the Current Period	**(29,323,198)**	**514,838,525**
Net Cost of Operations	**$12,268,976,070**	**$11,982,526,923**

Required Supplementary Information

Social Insurance

Program Financing

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

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

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

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

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

On a present value basis, funds provided through the FI are expected to equal $81.9 billion, or 35.4% of the estimated future income of $231.1 billion.

Benefits

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

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

Program Finances and Sustainability

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

The Statement of Social Insurance presents an actuarial analysis of the financial position of the railroad retirement system as of January 1, 2014. The figures in the table are based on the 2014 Section 502 Report extended through calendar year 2088. The present values in the table are based on estimates of income and expenditures through the year 2088. The estimates include income and expenditures related to future participants as well as to former and present railroad employees. The present values are computed on the basis of economic and demographic assumptions and employment assumption II, the intermediate employment assumption, as used in the 2014 Section 502 Report. Under employment assumption II, starting with an average 2013 employment of 236,000, (1) railroad passenger employment is assumed to remain level at 46,000, and (2) the employment base, excluding passenger employment, is assumed to decline at a constant annual rate of 2.0 percent for 25 years, at a reducing rate over the next 25 years, and remain level thereafter.

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

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

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

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

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

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

The Statement of Social Insurance and the required supplementary information are based on actuarial and economic assumptions used in the 2014 Section 502 Report extended through calendar year 2088, the RRA, and the Railroad Retirement Tax Act. This information includes:

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

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

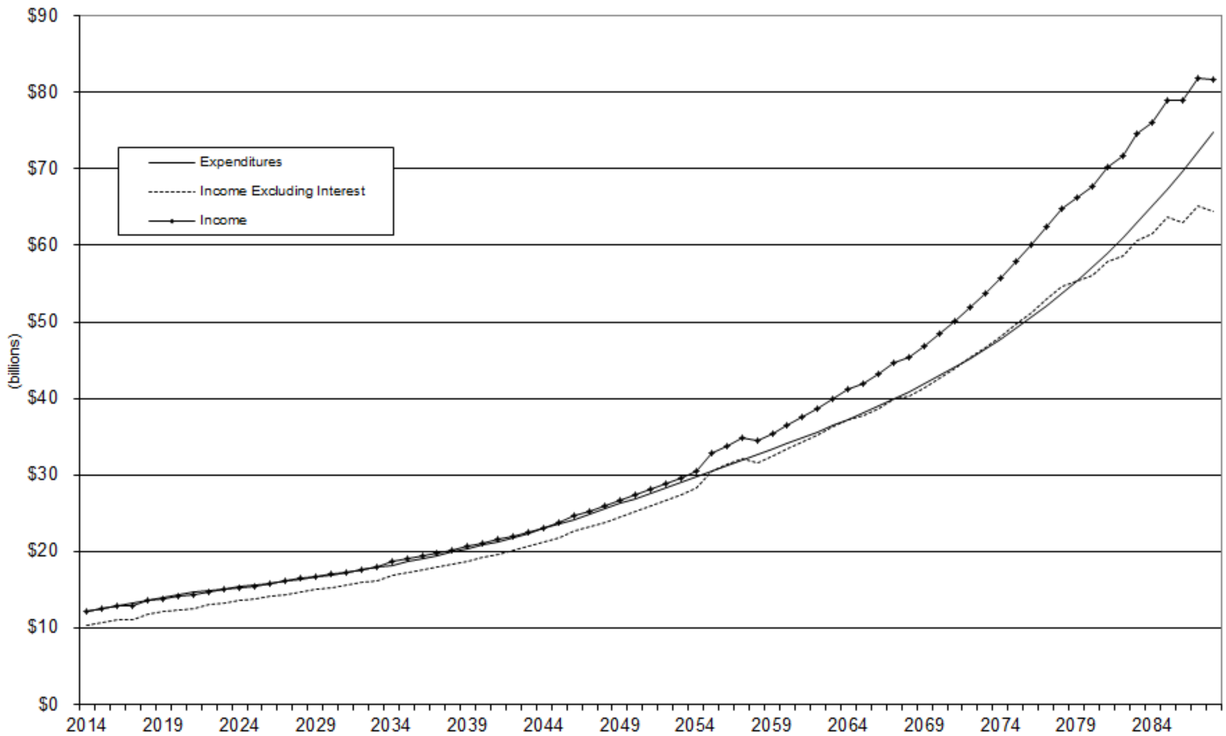
(3) the ratio of estimated annuitants to estimated full-time employees, showing the relationship between the program's benefit recipients and taxpayers; and

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

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

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

Chart 1: Estimated Income and Expenditures

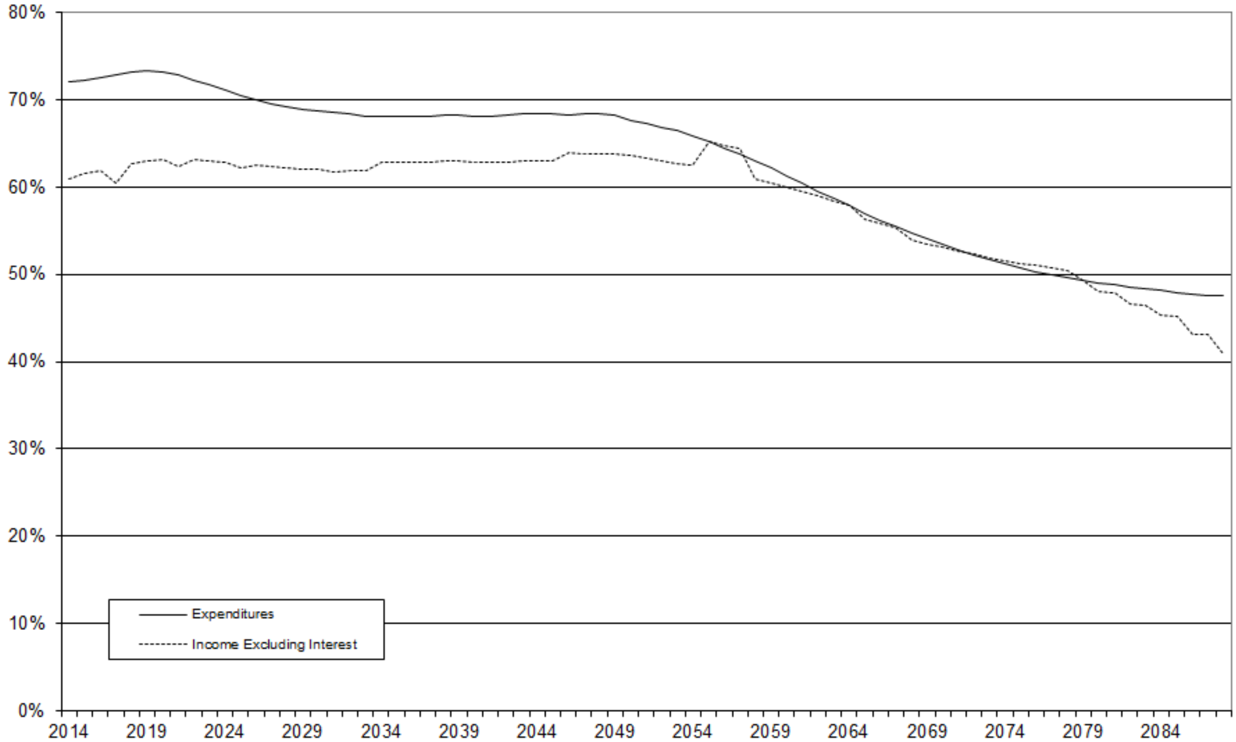


Cashflow Projections – Chart 1 shows actuarial estimates of railroad retirement annual income, income excluding interest, and expenditures for 2014-2088 in nominal dollars. The estimates are for the open-group population, which includes all persons projected to participate in the railroad retirement program as railroad workers or beneficiaries during the period. Thus, the estimates include payments from, and on behalf of, those who will be employed by the railroads during the period as well as those already employed at the beginning of the period. They also include expenditures made to, and on behalf of, such workers during that period.

As Chart 1 shows, annual expenditures exceed annual income through 2025. By 2026, income is greater than expenditures. This remains true throughout the remainder of the projection period. Without investment income, however, annual expenditures are generally greater than annual income although this is not true in 2055 through 2057, 2064, and 2072 through 2078. Reasons for this pattern include participant demographics, the assumed drop in railroad employment, and the automatic tier 2 tax rate adjustment mechanism. The combined balance of the NRRIT, RR Account, and SSEB Account never becomes negative largely because (i) a sufficient balance exists at the beginning of the projection period and (ii) tier 2 tax rates respond automatically to changing account balances.

Percentage of Taxable Payroll – Chart 2 shows estimated annual income excluding interest and expenditures for the railroad retirement program expressed as percentages of taxable payroll. Expenditures as a percentage of payroll increase slightly from 2014 through 2019 primarily due to the anticipated retirement of a large percentage of the current workforce combined with the projected decline in railroad employment. Except for the income from tier 1 payroll taxes, the sources of income vary as a percentage of payroll.

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



<u>Sensitivity Analysis</u> – The projections of the future financial status of the railroad retirement program depend on many economic and demographic assumptions including rail employment, inflation, wage increase, investment return, age retirement, disability retirement, withdrawal, active service mortality, beneficiary mortality, total termination, probability of spouse, remarriage, family composition, disability freeze, service patterns, and salary scales. Because perfect long-range projections are impossible, this section is included to illustrate the sensitivity of the long-range projections to changes in certain key assumptions that have the greatest impact on the results. All present values are calculated as of January 1, 2014, and are based on estimates of income and expenditures during the projection period 2014-2088.

Employment: Average employment in the railroad industry has generally been in decline for some years. This decline is expected to continue. Since employment is a key consideration, projections of income and expenditures using three different employment assumptions have been made. The Statement of Social Insurance uses employment assumption II, the intermediate assumption, but this section compares results under the three assumptions. For all three cases, the average employment for the year 2013 is equal to 236,000. Employment assumptions I and II, based on a model developed by the Association of American Railroads, assume that (1) passenger employment will remain at the level of 46,000, and (2) the employment base, excluding passenger employment, will decline at a constant annual rate (0.5 percent for assumption I and 2.0 percent for assumption II) for 25 years, at a reducing rate over the next 25 years, and remain level thereafter. Employment assumption III differs from employment assumptions I and II by assuming that (1) passenger employment will decline by 500 per year until a level of 35,000 is reached and then remain level, and (2) the employment base, excluding passenger employment, will decline at a constant annual rate of 3.5 percent for 25 years, at a reducing rate over the next 25 years, and remain level thereafter. Employment assumptions I, II, and III are intended to provide an optimistic, moderate, and pessimistic outlook, respectively.

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

Table 1
Excess of Assets and Present Value of Income over Present Value of Expenditures for Three Employment Assumptions, 2014-2088
(in billions)

Employment Assumption	I	II	III
Present Value	$2.3	$1.6	$0.5
Average Tier 2 tax rate[a]	16.1%	18.4%	21.2%

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

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

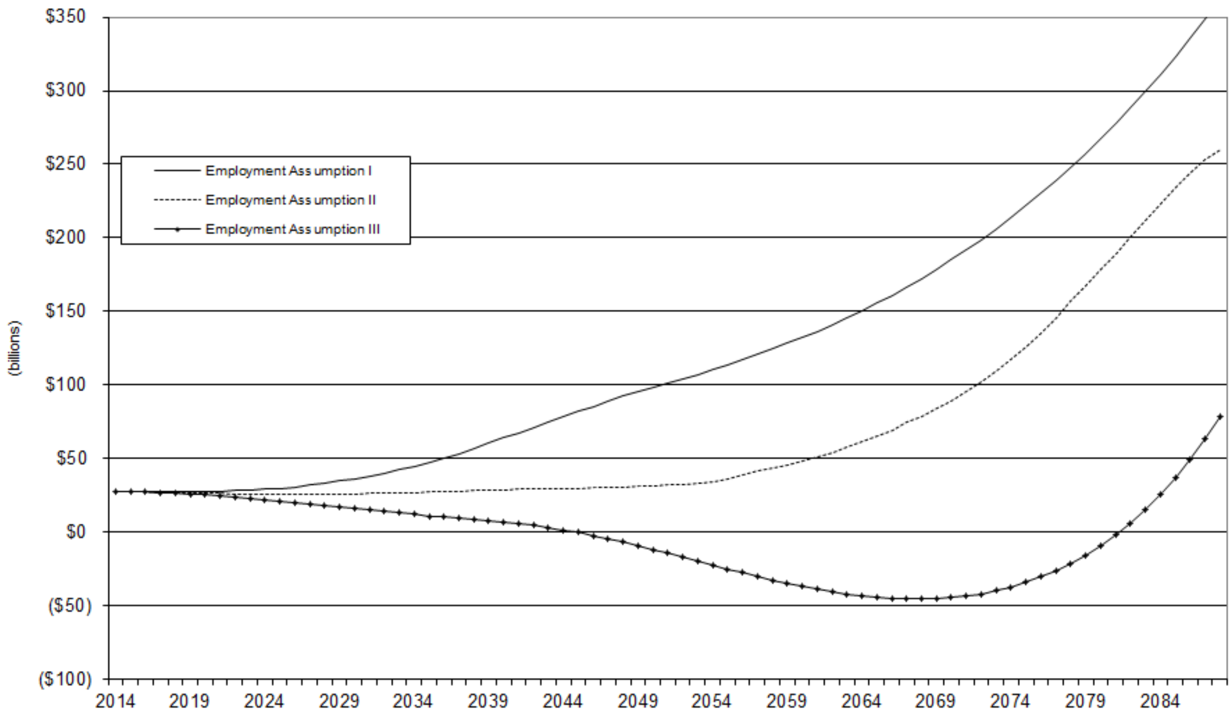
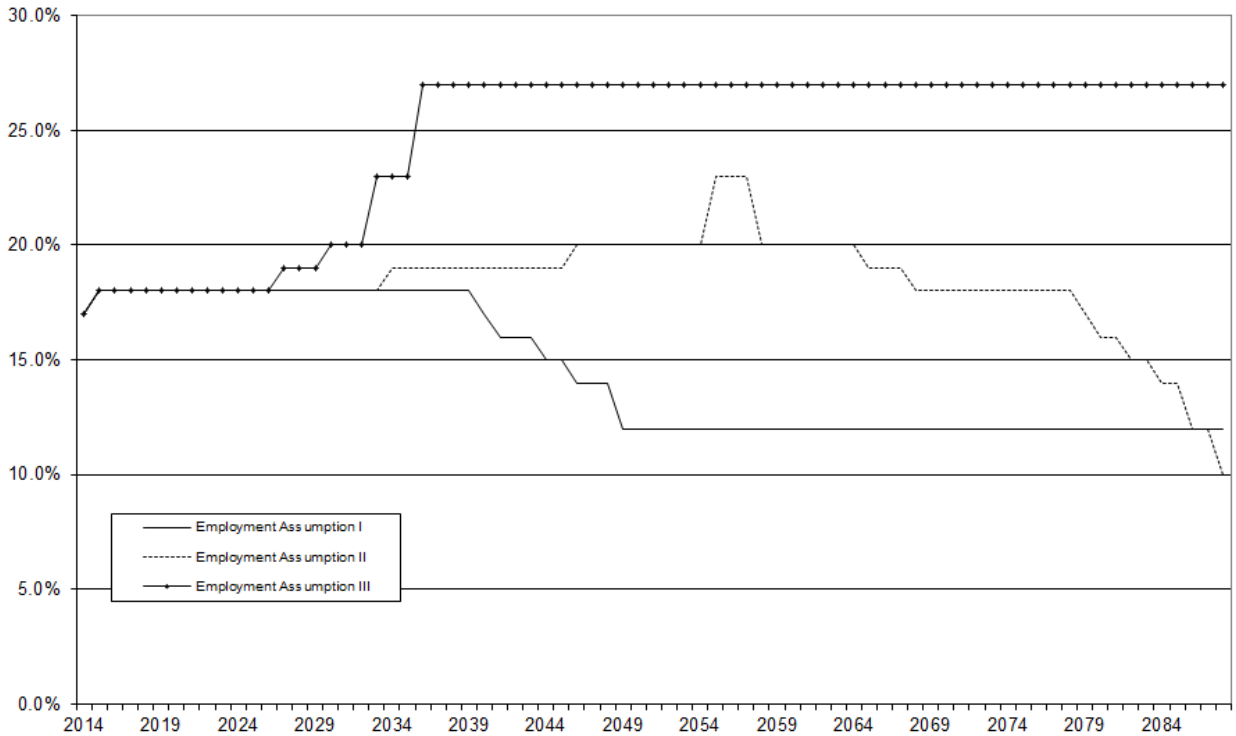


Chart 3a shows the combined balance of the accounts under each of the three employment assumptions. Note that the combined account balance is positive throughout the entire period for assumptions I and II but goes negative in 2045 for assumption III and remains so until 2082. Negative after-transfer balances under employment assumption III indicate the amount that would be owed, including interest, if unreduced benefits were paid by borrowing.

Chart 3b shows the tier 2 tax rate under these employment assumptions. The tax rate reaches 12 percent in 2049 under employment assumption I and remains at that level throughout the rest of the projection period. The tax rate goes down to 12 percent in 2086 under employment assumption II and drops to 10 percent in 2088. Under employment assumption III, the tax rate reaches the maximum of 27 percent in 2036, remaining at that level through the rest of the 75-year period.

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



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

Investment return: Since investments may include non-governmental assets such as equity and debt securities as well as governmental securities, it is worthwhile to examine the effects of future rates of investment return. In addition to the investment return of 7 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 present value of income over the present value of expenditures for the three investment return assumptions. If the tier 2 tax rate were fixed, the actuarial surplus would increase with increasing investment return. However, the tier 2 tax rate adjusts to changing account balances, resulting in the highest average tax rate under the 4 percent scenario and the lowest average tax rate under the 10 percent scenario.

Table 2
Excess of Assets and Present Value of Income over Present Value of Expenditures for Three Investment Return Assumptions, 2014-2088
(in billions)

Investment Return Assumption	4%	7%	10%
Present Value	$9.4	$1.6	$1.4
Average Tier 2 tax rate	20.9%	18.4%	15.6%

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

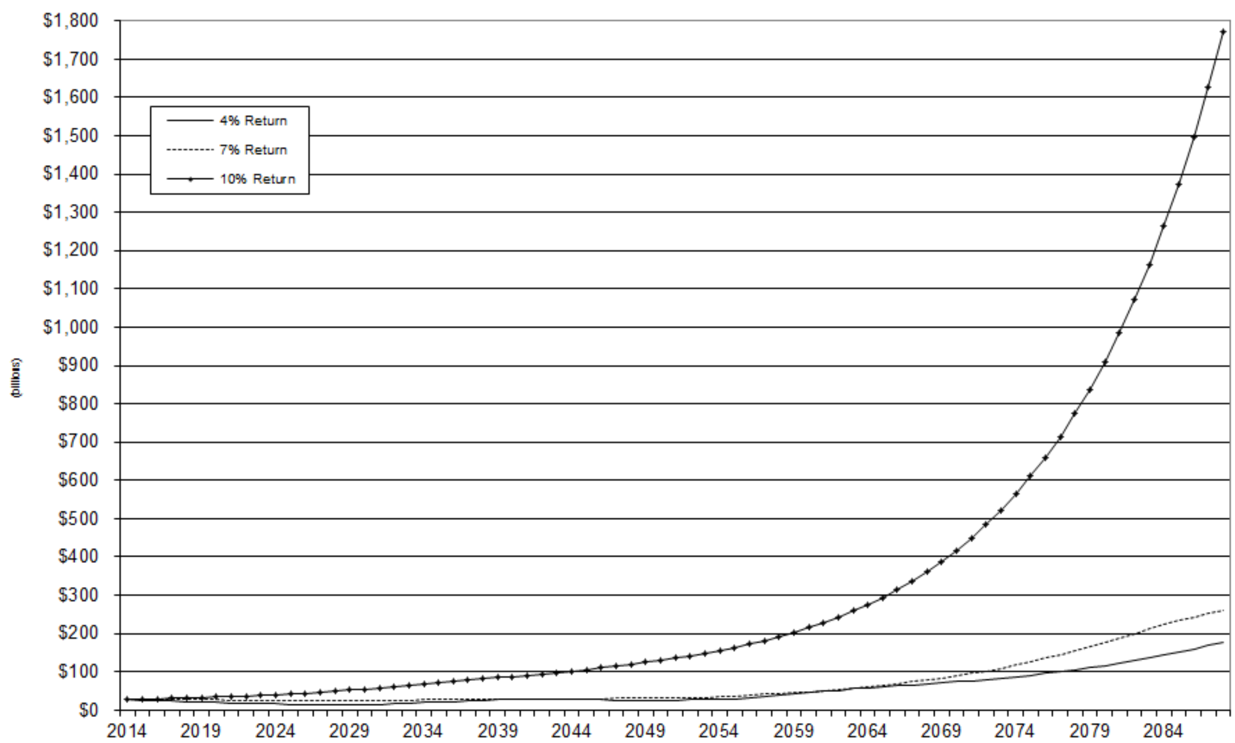
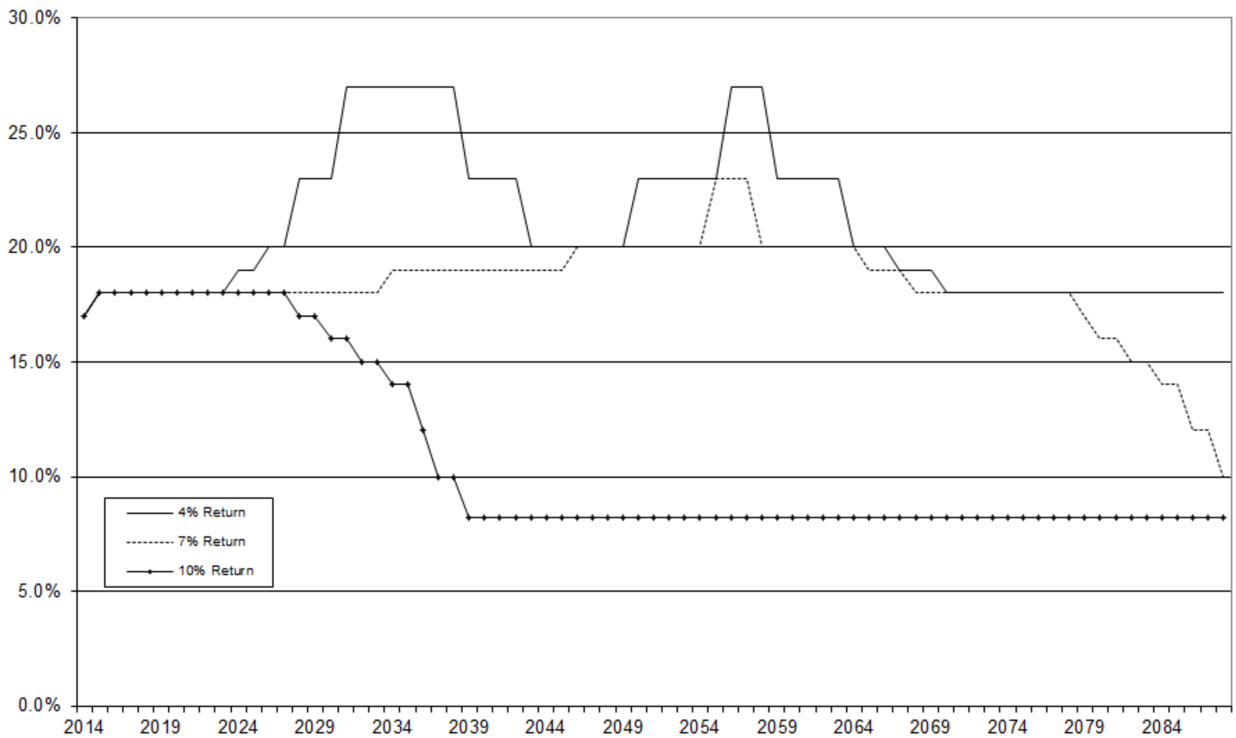


Chart 4a shows the combined account balance under the three investment return assumptions for the projection period. At a 4 percent investment return, the account balance reaches its lowest value in 2027 and never becomes negative. After that it increases, except for slight decreases in 2043 through 2049 before it starts increasing again in 2050. With a 7 percent investment return, the account balance decreases through 2025 and increases thereafter. 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, 2014.

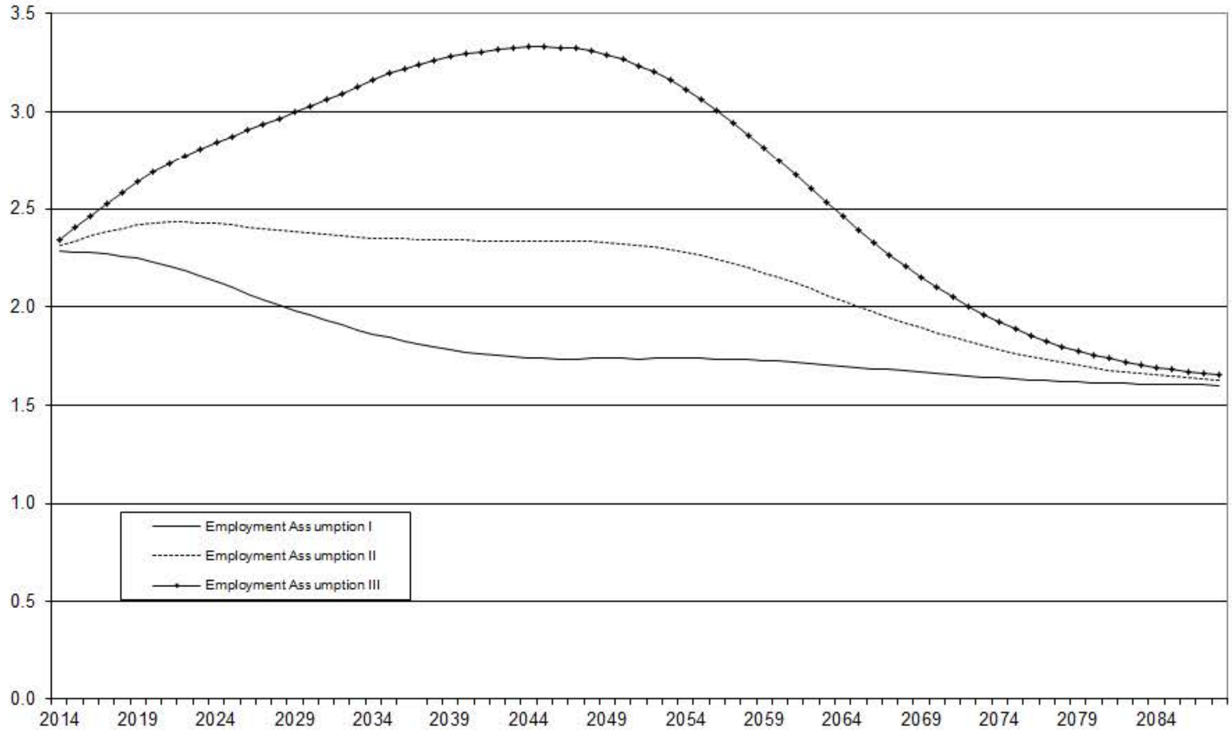
Chart 4b shows the tier 2 tax rate under the same three investment return assumptions. With a 4 percent investment return, the maximum tier 2 tax rate applies from 2031 through 2038 and again from 2056 through 2058. With the 7 percent investment return, the maximum tax rate never applies during the projection period. With a 10 percent investment return, the maximum tax rate is also never applicable, and the minimum tax rate of 8.2 percent is paid beginning in 2039. As mentioned above, the tier 2 tax rate is determined based on the ratios of asset values to benefits and administrative expenses, so it will be affected by investment return, but tier 1 tax rates will not.

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



Ratio of Beneficiaries to Workers: Chart 5 shows the estimated number of annuitants per full-time employee under all three employment assumptions. The average number of annuitants per employee for employment assumption I is highest in 2014. For assumptions II and III, the ratio is highest in 2022 and 2044, respectively. For all three employment assumptions, the average number of annuitants per employee declines to between 1.6 and 1.7 by the end of the projection period. The convergence in number of annuitants per employee at the end of the projection period results primarily from level employment projected in the latter years under all three employment assumptions.

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



RAILROAD RETIREMENT BOARD
DISAGGREGATE OF BUDGETARY RESOURCES
FOR THE YEAR ENDED SEPTEMBER 30, 2014
(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 brought forward, October 1	36,481,143	141,906,279	649,745	179,037,167
Adjustment to unobligated balance brought forward, October 1 (+ or -)	0	0	0	0
Unobligated balance brought forward, October 1, as adjusted	36,481,143	141,906,279	649,745	179,037,167
Recoveries of prior year unpaid obligations	2,441,737	0	13,585	2,455,322
Other changes in unobligated balance (+ or -)	(2,633,943)	0	0	(2,633,943)
Unobligated balance from prior year budget authority, net	36,288,937	141,906,279	663,330	178,858,546
Appropriations (discretionary and mandatory)	8,896,093,647	102,201,322	(140,019)	8,998,154,950
Borrowing authority (discretionary and mandatory)	3,881,500,000	0	0	3,881,500,000
Spending authority from offsetting collections (discretionary and mandatory)	142,273,838	15,898,784	9,473,162	167,645,784
Total budgetary resources	**$12,956,156,422**	**$260,006,385**	**$9,996,473**	**$13,226,159,280**
Status of Budgetary Resources				
Obligations incurred	$12,919,580,053	$118,480,950	$9,380,205	$13,047,441,208
Unobligated balance, end of year:				
Apportioned	4,500,104	141,525,435	114,124	146,139,663
Unapportioned	32,076,265	0	502,144	32,578,409
Total unobligated balance, end of year	36,576,369	141,525,435	616,268	178,718,072
Total Budgetary Resources	**$12,956,156,422**	**$260,006,385**	**$9,996,473**	**$13,226,159,280**
Change in Obligated Balance				
Unpaid obligations, brought forward, October 1	$898,916,301	$4,013,179	$664,004	$903,593,484
Obligations incurred	12,919,580,053	118,480,950	9,380,205	13,047,441,208
Outlays (gross) (-)	(12,856,216,817)	(120,265,024)	(9,273,179)	(12,985,755,020)
Recoveries of prior year unpaid obligations (-)	(2,441,737)	0	(13,585)	(2,455,322)
Unpaid obligations, end of year	959,837,800	2,229,105	757,445	962,824,350
Uncollected payments:				
Uncollected pymts, Fed sources, brought forward, Oct 1 (-)	22,144	0	0	22,144
Adjustment to uncollected pymts, Fed Sources, start of year (+ or -)	0	0	0	0
Change in uncollected pymts, Fed Sources (+ or -)	(1,059)	(66,286)	3	(67,342)
Uncollected pymts, Fed sources, end of year (-)	21,085	(66,286)	3	(45,198)
Memorandum (non-add) entries				
Obligated balance, start of year (+ or -)	$898,938,445	$4,013,179	$664,004	$903,615,628
Obligated balance, end of year (+ or -)	$959,858,883	$2,162,820	$757,447	$962,779,150
Budget Authority and Outlays, Net				
Budget authority, gross (discretionary and mandatory)	$12,919,867,485	$118,100,106	$9,333,143	$13,047,300,734
Actual offsetting collections (discretionary and mandatory) (-)	(142,272,779)	(15,761,452)	(9,473,165)	(167,507,396)
Change in uncollected customer pymts, Fed sources (discretionary and mandatory) (+ or -)	(1,059)	(66,286)	3	(67,342)
Budget authority, net (total) (discretionary and mandatory)	**$12,777,593,647**	**$102,272,368**	**($140,019)**	**$12,879,725,996**
Outlays, gross (discretionary and mandatory)	$12,856,216,817	$120,265,024	$9,273,179	$12,985,755,020
Actual offsetting collections (discretionary and mandatory) (-)	(142,272,778)	(15,832,499)	(9,473,165)	(167,578,442)
Outlays, net (total) (discretionary and mandatory)	12,713,944,039	104,432,525	(199,986)	12,818,176,578
Distributed offsetting receipts (-)	(4,648,895,280)	0	0	(4,648,895,280)
Agency outlays, net (discretionary and mandatory)	**$8,065,048,758**	**$104,432,525**	**($199,986)**	**$8,169,281,298**

Independent Auditor's Report

To the 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, 2014 and 2013; the related statements of net cost, changes in net position, and budgetary resources for the years then ended; the statement of social insurance as of January 1, 2014, 2013, 2012, 2011, and 2010, the statement of changes in social insurance amounts for the two year period ended December 31, 2013, 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 conducting the audit in accordance with auditing standards generally accepted in the United States of America. Because of the matter described in the Basis for Disclaimer of Opinion paragraphs, however, 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. Accordingly, 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. As a result, the financial statements of the NRRIT were audited by other auditors whose reports have been furnished to us. Pursuant to the group financial statement audit requirements promulgated by the American Institute of Certified Public Accountants (AICPA) in AICPA Professional Standards in AU-C section 600, *Special Considerations - Audits of Group Financial Statements*, we made an inquiry requesting communication with and cooperation from the NRRIT's auditors. We were informed that contact between the RRB-OIG auditors and the NRRIT's auditors is inconsistent with the independent status of the NRRIT under section 15(j) of the Railroad Retirement Act. As a result, the NRRIT's auditors have not complied with the group financial statement audit requirements. Consequently, we were unable to perform the specified AU-C section 600 group audit procedures and have determined that undetected misstatements, which could be material and pervasive, could exist.[1]

The net assets of the NRRIT represent $26.0 billion and $25.0 billion or approximately 80% and 79% of the total assets reported for the RRB for fiscal year (FY) 2014 and 2013, respectively. NRRIT assets also represent approximately 95% and 94% of the Treasury securities and assets held by the Railroad Retirement program as of January 1, 2014 and 2013, respectively. Related changes in the net value of investments held by the NRRIT are reported as a source of financing which contributed a net gain of $1.1 billion during FY 2014 and a net gain of $1.4 billion during FY 2013.

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, 2014 and 2013; and the financial condition of the Railroad Retirement program as of January 1, 2014, 2013, and 2012 and changes in the financial condition of the program for the two year period ended December 31, 2013. Accordingly, we do not express an opinion on these financial statements.

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[1] Misstatements in the NRRIT net assets could be both material and pervasive. AICPA AU-C 705.06 defines pervasive as, "[a] term used in the context of misstatements to describe the effects on the financial statements of misstatements or the possible effects on the financial statements of misstatements, if any, that are undetected due to an inability to obtain sufficient appropriate audit evidence." In context to the RRB's financial statements, the "[p]ervasive effects on the financial statements are those that, in the auditor's 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."

Emphasis of Matter

The RRB discloses transactions with related parties in Note 2 to the financial statements. The RRB, Social Security Administration, and Centers for Medicare and Medicaid Services are parties to a financing arrangement described as a financial interchange. Under this arrangement, transfers-in from the Social Security Administration's Old-Age and Survivors Insurance and Disability Insurance trust funds and transfers-out to the Federal Health Insurance trust fund represented approximately $4.0 billion (net), or about 33% of the financing sources reported on the RRB's statement of changes in net position for FY 2014 before considering the change in the reported value of NRRIT net assets. For FY 2013, financial interchange transfers of $4.0 billion (net) represented about 35% 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 Matter

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 85 and Statement of Budgetary Resources on page 96. Such information, although not a part of the basic financial statements, is required by Office of Management and Budget (OMB), 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.

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 OMB Bulletin No. 14-02, *Audit Requirements for Federal Financial Statements*.

Consideration of Internal Control

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

With respect to the previously reported material weaknesses for information technology security, the RRB has taken the necessary corrective actions and both have been resolved.[2] The RRB has strengthened controls to mitigate the previous material weakness for the risk management framework. The RRB's program now includes sufficient review of the deliverables obtained from their independent contractor, and coordination among the various system owners to ensure adequate coverage and consideration of inherited controls. The RRB has also taken appropriate actions for the previous material weakness for configuration management by removing unsupported servers and migrating away from the unsupported operating system.

Our internal control work would not necessarily disclose all deficiencies in internal control that might be material weaknesses or other significant deficiencies. Although not considered to be material weaknesses or significant deficiencies, we will report other matters involving internal control and its operation to RRB management in a separate letter.

Material Weakness

Financial Reporting

- Ineffective Controls

Controls related to financial reporting were not effective during FY 2014 and corrective actions for previously cited budgetary reporting deficiencies have not been completed.[3] Material financial recording errors were discovered and internal control procedures were not always performed timely or effectively. We also found that various reconciliations were performed after the year-end financial statements had been prepared and that the reconciliation for payroll was ineffective in FY 2014. Other significant audit concerns regarding the RRB's financial management system

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[2] 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.

[3] Railroad Retirement Board Office of Inspector General (RRB OIG), *Report on the Railroad Retirement Board's Fiscal Year 2013 Financial Statements*, OIG Audit Report No. 14-01 (Chicago, IL: December 16, 2013).

were noted in a separate audit, including: partial or no supporting documentation for many recorded transactions, and policies and procedures for internal controls and transactions had not been clearly documented or maintained.[4]

Treasury guidance provides specific requirements regarding accounting transactions, general ledger accounts, and the placement of those accounts to create the financial statements. Internal guidance requires approvers to review transactions and supporting documentation to ensure completeness and accuracy. According to the Government Accountability Office's (GAO) *Standards for Internal Control in the Federal Government,* policy and procedure documentation should appear in management directives, administrative policies, or operating manuals and may be in paper or electronic form. All documentation and records should be properly managed and maintained. Transactions should be promptly recorded to maintain their relevance and value to management in controlling operations and making decisions. This standard applies to the entire process or life cycle of a transaction or event from its initiation and authorization through its final classification in summary records. In addition, management should design control activities so that all transactions are completely and accurately recorded.

Agency guidance requires monthly and quarterly reconciliations for various financial transactions. According to the *Financial Audit Manual*, regular reconciliation of entity records with Treasury records is a key control in maintaining the accuracy and reliability of entity fund balance records.[5] Effective reconciliations serve as a detection control for identifying unauthorized and unrecorded transactions at the entity and Treasury. Effective reconciliations are also important in preventing entity disbursements from exceeding appropriated amounts and providing an accurate measurement of the status of available resources.

Specifically, BFO's progress regarding corrective actions for budgetary reporting is ongoing, including plans to automate the statement. In addition, although the new financial management system has been operational for one year, the related internal controls have not been documented or assessed by agency staff. Further, reconciliations were not prepared timely due to their complex nature and because procedures do not specify the required completion date. Some reconciliations did not achieve their intended purpose due to an ineffective design, lack of procedures, and inadequate review and approval. Finally, insufficient supporting documentation was caused by inadequate review of the transactions and the lack of new procedures was due to time and personnel constraints.

As a result, financial recording errors of $4.5 billion were not detected in the June 30, 2014 Statement of Changes in Net Position and recorded transactions of approximately $1.5 billion could not be validated for the period ending

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[4] RRB OIG, *Audit of the Business Process Controls in the Financial Management Integrated System*, OIG Audit Report No. 14-10 (Chicago, IL: August 1, 2014).

[5] Government Accountability Office and the President's Council on Integrity and Efficiency, *Financial Audit Manual*, Volume 2, GAO-08-586G (Washington, D.C.: July 2008).

March 31, 2014. The effect of untimely reconciliations is the risk of potential material errors that may not be detected in a timely manner. Inaccurate reconciliations and untimely accruals and reversals of payroll expenses impact financial reporting and management's reliance on inaccurate data.

A recommendation to improve budgetary reporting and controls was previously made in OIG audit report No. 12-04.[6] Recommendations for sufficient supporting documentation and documented policies and procedures for the new financial management system were made in OIG audit report No. 14-10.

Recommendations:

We recommend that the Bureau of Fiscal Operations:

1. expedite the control assessment of the general ledger;

2. develop and implement new controls for financial reporting;

3. provide training for the preparation of the various reconciliations;

4. establish an adequate timeframe and deadline for completion of the reconciliations;

5. redesign the payroll reconciliation process to ensure that it achieves its intended purpose;

6. develop and implement procedures and controls for the payroll reconciliation; and

7. develop and implement procedures to ensure that payroll expenses are accrued and reversed timely and accurately.

- Communication with the NRRIT's Auditor

RRB management has not permitted the NRRIT's auditor (component auditor) to communicate with the RRB OIG auditors as required by AICPA standards.

RRB OIG auditors have specific requirements, which include establishing communication with the NRRIT's auditor, working with them to establish a cohesive financial reporting framework and consistent materiality levels, and to identify the relevant risks of material misstatement. The component auditor must agree to comply with these requirements and to communicate material weaknesses and significant deficiencies identified during its audit in a timely manner.

[6] RRB OIG, *Fiscal Year 2011 Financial Statement Audit Letter to Management*, OIG Audit Report No. 12-04, Recommendation 2 (Chicago, IL: January 31, 2012).

RRB management has identified the legal circumstances that it believes preclude communication between the RRB OIG and the component auditor. Further, RRB management has indicated that the legal precedent is overriding; thus, has not developed a legislative proposal to amend the legislation or established a functional workaround that would enable the audit to be performed in compliance with AICPA standards.

Without direct communication with the component auditor, undetected material misstatements could exist. Until communication with the component auditor is established, the RRB will continue to receive a disclaimer opinion, which also directly impacts the government wide financial statements. Of the 35 significant reporting entities included in the government wide financial statements for FY 2013, the RRB was 1 of the 2 agencies that received a disclaimer of opinion on its financial statements.

Recommendation:

8. We recommend that the Board establish an independent committee that will work to identify a functional solution that will enable communication between the OIG and the NRRIT's component auditor and achieve compliance with the AICPA's standards.

Compliance with Laws and Regulations

Our tests of the RRB's compliance with selected provisions of laws and regulations for FY 2014 disclosed no instances of non-compliance that are reportable under auditing standards generally accepted in the United States of America or OMB guidance. However, the objective of our audit was not to provide an opinion on overall compliance with laws and regulations. Accordingly, we do not express such an opinion.

Objectives, Scope, and Methodology

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

We are responsible for (1) obtaining a sufficient understanding of internal control over financial reporting and compliance to plan the audit, (2) testing compliance with selected provisions of laws and regulations that have a direct and material effect on the financial statements, and laws for which OMB audit guidance requires testing; and (3) performing limited procedures with respect to certain other information appearing in the RRB's Performance and Accountability

Report. We considered the RRB's compliance with laws and regulations for FY 2014. In order to fulfill these responsibilities, we:

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

We considered the material weaknesses identified above in determining the nature, timing, and extent of our audit procedures on the FY 2014 financial statements.

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

We did not test compliance with all laws and regulations applicable to the RRB. We limited our tests of compliance to selected provisions of laws and regulations that have a direct and material effect on the RRB's financial statements and those required by OMB audit guidance that we deemed applicable to the RRB's financial statements for the fiscal year ended September 30, 2014. We caution that noncompliance may occur and not be detected by these tests and that such testing may not be sufficient for other purposes.

RRB MANAGEMENT'S COMMENTS

Agency management did not respond to the recommendations provided in this report. We plan to reiterate these recommendations in our letter to management audit report regarding internal controls. Agency management commented that although a material weakness was identified and a disclaimer opinion was rendered, the agency has devoted substantial resources to strengthen processes and internal controls and will continue to implement solutions.

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

Original Signed by:

Martin J. Dickman
Inspector General
Chicago, Illinois

November 7, 2014, except for matters relating to the net assets of the NRRIT as of September 30, 2014 as to which the date is November 14, 2014

UNITED STATES GOVERNMENT

FORM G-115f (1-92)

MEMORANDUM

RAILROAD RETIREMENT BOARD

November 17, 2014

TO : Heather J. Dunahoo
Assistant Inspector General for Audit

FROM : George V. Govan
Chief Financial Officer

George Govan

SUBJECT: FY 2014 Financial Statement Audit – Auditor's Report;
Re: Your memorandum dated November 17, 2014

My office, and those of the Board Members, have reviewed the Office of Inspector General's auditor's report. We will continue our efforts to pay benefits to the right people, in the right amounts, in a timely manner, and will take appropriate action to safeguard our customers' trust funds. Although a material weakness was identified and a disclaimer opinion provided on the agency's financial statements, we have devoted substantial resources to strengthen processes and internal controls and will continue to implement solutions. We will continue to work closely and cooperatively with your office to help ensure that the RRB will be able to meet this year's reporting deadline.

cc: The Board
Executive Committee

OTHER ACCOMPANYING INFORMATION

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UNITED STATES RAILROAD RETIREMENT BOARD

OFFICE OF INSPECTOR GENERAL

MANAGEMENT AND PERFORMANCE CHALLENGES FACING THE RAILROAD RETIREMENT BOARD

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

Congress created the railroad retirement system more than 75 years ago. The Railroad Retirement Act (RRA) created a nationwide retirement system for railroad workers to provide income security in old age. Over the years the program has been expanded to include disabled workers, elderly spouses and widow(er)s, children, and parents of young children. In 1938, Congress added a nationwide system of unemployment insurance and later, a program of sickness insurance benefits. During fiscal year 2013, the Railroad Retirement Board (RRB) paid about $11.7 billion in retirement and survivor benefits to approximately 568,000 beneficiaries and approximately $91 million in net unemployment and sickness insurance benefits, including almost $7 million in temporary extended unemployment benefits under the American Recovery and Reinvestment Act of 2009, to more than 26,000 claimants.

Our identification of challenges facing RRB management is based on recent audits, evaluations, investigations, and current issues. The RRB Office of Inspector General (OIG) identified the following seven major management challenges facing the RRB during fiscal year 2014.

Most Serious Management and Performance Challenges Facing the RRB as of October 1, 2014 (as identified by the Inspector General)	
Challenge 1	*Program Integrity to Strengthen Disability*
Challenge 2	*Information Technology Security and Modernization*
Challenge 3	*Oversight of Railroad Medicare*
Challenge 4	*Preventing and Detecting Improper Payments*
Challenge 5	*Oversight of RRB Contracts and Contracting Activity*
Challenge 6	*Controls over Budgetary Reporting*
Challenge 7	*Limited Transparency at the National Railroad Retirement Investment Trust*

844 N RUSH STREET CHICAGO IL 60611-2092

Challenge 1 – Program Integrity to Strengthen Disability

Over the last several years, the OIG has issued numerous recommendations in the form of audits, alerts, and memoranda directed toward increasing program integrity within the RRB's occupational disability program, many to address weaknesses identified during the Long Island Rail Road (LIRR) investigation. This investigative effort resulted in 30 annuitants, 2 doctors, and a former longtime RRB employee being either convicted or pleading guilty to charges stemming from their involvement in the sweeping LIRR occupational disability fraud scheme.

However, to date the RRB has failed to either adequately address or implement the majority of these recommendations and has allowed the adjudication process to remain ineffective and incapable of preventing fraud. For example, the RRB attempted to increase oversight efforts through Board Order 08-63, yet the LIRR occupational disability application approval rate remains essentially unchanged at more than 90 percent.

The following are selected reported challenges in this program:

In January 2013, the OIG reported that the RRB's disability examiners did not always verify job duty information before granting occupational disability annuities as required by RRB regulations.[1] The OIG identified nine individuals employed by LIRR who had been approved for occupational disability annuities even though LIRR did not report their job information to the RRB. The nine unverified annuities represented an estimated $3.8 million in financial risk to the RRB. In December 2013, the RRB sent a letter to rail management and rail labor requesting that they look into this matter. However, the RRB has not taken any corrective action to improve this process.

On February 10, 2014, the OIG issued a seven-day letter—a serious and rarely used communication—alerting the RRB's Chairman to "particularly serious or flagrant problems, abuses, or deficiencies relating to the administration of" the RRB's occupational disability program.[2] In response, the Chairman wrote to the Congress that the letter was unwarranted and failed to acknowledge the circumstances surrounding the fraudulent scheme and the elements that made this fraud possible.[3] While the OIG's ongoing investigation into widespread occupational disability fraud committed by individuals associated with the LIRR was the catalyst for issuance of the seven-day letter, the OIG has a longstanding concern that the RRB's problems are systematic and are not isolated to a particular railroad, and a growing concern about the RRB's failure to take

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[1] RRB OIG, *Audit of Job Duty Verification Procedures for Long Island Rail Road Occupational Disability Applicants,* 13-02 (Chicago, IL.: January 15, 2013).
20 CFR § 220.13(b)(2)(iv)(E).
[2] 5 U.S.C. App. 3, § 5(d).
[3] Railroad Retirement Board Chairman Michael S. Schwartz to the Honorable Patty Murray, Committee on Budget Chairman, February 18, 2014.

meaningful action to identify and prevent fraud in its occupational disability program.

In June 2014, the Government Accountability Office (GAO) reported on the RRB's disability program; concluding, as we do, that the RRB's existing policies and processes impede its ability to prevent improper payments or to detect and prevent fraudulent claims system-wide.[4] While, in response to that report, the RRB agreed with all of GAO's recommendations for improvement; we remain concerned that the RRB has not developed or implemented significant program improvements in the past several years, and in many instances disregarded our recommendations entirely by providing no plans or timeframes for corrective action.

In July 2014, the OIG's Office of Audit reported on the financial impact of injury settlements that awarded service months to qualify railroad employees for occupational disability benefits. Specifically, the report found that the financial impact to the Railroad Retirement trust funds could be minimized if the RRB's three-member Board seeks legislative changes to disallow the allocation of service months as part of injury settlements to qualify for occupational disability annuities, and to tax all creditable compensation.[5] To date, the Board has not responded to these recommendations.

In September 2014, the RRB's three-member Board wrote to the Inspector General to update him on the status of numerous recommendations regarding the disability program. In the letter, they indicated that they implemented several of the Inspector General's recommendations and that they continue to analyze and review the remainder of the recommendations. Additionally, the Board indicated that it was exploring more effective ways to prevent and detect fraud and enhance program integrity. However, the Inspector General views the actions taken by the Board as focusing on peripheral issues, and the Board has not taken decisive actions to address the factors that have contributed to the ongoing fraud in the disability program.

As responsible public stewards, RRB management must implement comprehensive and meaningful procedural and cultural change to ensure that disability award benefits are adjudicated accurately; granting benefits to those who are eligible after an independent, thorough review of the application and all required supporting documentation. If implemented properly, recommendations contained in our previous audits, alerts, and memoranda provide valuable steps to improve program integrity. Without these changes, the RRB's practice of awarding disability benefits based on questionable and even fraudulent

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[4]GAO, *Railroad Retirement Board Total and Permanent Disability Program at Risk of Improper Payments,* GAO-14-418 (Washington, D.C.: June 2014).
[5]RRB OIG, *Financial Impact of Injury Settlements Awarding Service Months to Qualify Railroad Employees for Occupational Disability Benefits,* 14-08 (Chicago, IL.: July 18, 2014).

applications will continue to cost the RRB and its eligible beneficiaries millions in unwarranted expenses annually.

Challenge 2 – Information Technology Security and Modernization

The RRB faces challenges of how best to use existing and emerging technologies to meet its agency and program goals. At the RRB, like all Federal agencies, there are limited budgetary and human resources. In the coming years, RRB plans to replace some existing technologies and update the tools provided to the RRB workforce to allow greater productivity.

In the coming years, RRB seeks to fund several major information technology initiatives, including:

- migration of the Program Accounts Receivable (PAR) system to the Financial Management Integrated System (FMIS);
- implementation of elements of its "Office in the Cloud" plan, which is technology to offer a virtual office to a mobile work force;
- disaster recovery modernization; and
- mainframe reengineering.

Each of these major initiatives presents risks to the RRB that are of concern to the OIG.

The migration of the RRB's PAR system to FMIS is expected to begin in fiscal year 2015. According to the Fiscal Year 2015 Budget Submission for RRB, $2.5 million is budgeted for this project.[6] This project involves the RRB converting the legacy PAR system to an accounts receivable module of FMIS. The current PAR system records and manages about 40,000 new debts and 80,000 cash receipts annually. The RRB risks encountering many of the same challenges or resulting weaknesses during the PAR migration to FMIS as they had faced during the original FMIS migration. Specifically, in audits by the OIG to assess information security controls related to FMIS, we reported on significant weaknesses including unsupported opening balances and inadequate audit trail, insufficient or missing policies and procedures for FMIS, and insufficient documentation regarding the interfaces and interconnections for FMIS.[7]

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[6] RRB, *Railroad Retirement Board Fiscal Year 2015 Budget Submission* (Chicago, IL.: September 19, 2013).
[7] RRB OIG, *Audit of the Business Process Controls in the Financial Management Integrated System,* 14-10 (Chicago, IL.: August 1, 2014).
RRB OIG, *Audit of the Adequacy of Interface Application Controls in the Financial Management Integrated System,* 14-11 (Chicago, IL.: August 14, 2014).

Further, the OIG is concerned about adequately securing transactions in virtual offices of the mobile work force and the pace of implementation of cloud technology.

Given the historic challenges in information technology implementation both at RRB and across government, the OIG considers these major technology systems initiatives to be of risk, requiring close attention and oversight.

Challenge 3 – Oversight of Railroad Medicare

The Railroad Medicare Program provides medical care for qualified railroad retirees. The Railroad Medicare Program is managed by one nationwide Medicare contractor, Palmetto GBA, which processes Medicare Part B claims of qualified railroad retirement beneficiaries. The RRB is responsible for administering its contract with Palmetto GBA. In fiscal year 2013, the RRB withheld approximately $532 million in premiums and Palmetto processed about $846 million in payments for services covered by Medicare Part B.[8] CMS reimburses the RRB for expenses related to administering this program—approximately $23 million in fiscal year 2013.[9]

In May 2014, the OIG reported control weaknesses regarding Railroad Medicare payments to physical therapists.[10] These weaknesses allowed payments to unlicensed providers, to providers with invalid provider numbers, to providers subject to disciplinary actions, and to providers with practice locations that have not been authenticated. The OIG estimated $14.3 million in improper payments to physical therapists: this includes $1.8 million in payments to unlicensed providers and another $12.5 million to providers with invalid provider numbers. RRB management agreed to work with its Medicare contractor to take corrective action on seven of our ten recommendations. They have not agreed to take corrective action on our two recommendations related to recovery of the estimated improper payments. In addition, they have not agreed to work with the contractor to take corrective action on our recommendation related to Railroad Medicare providers subject to state disciplinary actions.

[8] *Fiscal Year 2014, Annual Report, U.S. Railroad Retirement Board,* page 27. Approximately $532 million estimated based on total number of individuals from/for whom premiums were withheld at a monthly rate of $99.90 through December 2012 and $104.90 thereafter.
[9] RRB, *Performance and Accountability Report, Fiscal Year 2013* (Chicago, IL.: December 2013).
[10] RRB OIG, *Audit of Payment Controls over Railroad Medicare Claims Submitted by Physical Therapists,* 14-07 (Chicago, IL.: May 16, 2014).

In July 2014, the OIG reported a number of challenges facing the Railroad Medicare contractor.[11] These challenges limit the contractor's ability to detect fraud and abuse. The contractor does not:

- have access to the same program integrity tools as other Medicare contractors.
- have adequate communications between its various units.
- have medical staff with specialized experience in the detection of fraud and abuse.
- utilize all available tools to identify improper payments, including potential fraud.

These and other known challenges in the Railroad Medicare program cause concern to the OIG. The RRB will be challenged to continue to improve controls over the more than $800 million in Medicare payments made on behalf of its beneficiaries.

Challenge 4 – Preventing and Detecting Improper Payments

Pursuant to the Improper Payments Elimination and Recovery Act of 2010 (IPERA), the RRB reports its progress in reducing improper payments for its two benefit payment programs, RRA benefits and Railroad Unemployment Insurance Act (RUIA) benefits.

For fiscal year 2013, the RRB estimates over $82 million in improper RRA benefit payments, which represents 0.70 percent of program outlays. This is a reduction from the 1.64 improper payment percentage reported for fiscal year 2004. However, RRA actual overpayments were still more than $62 million for fiscal year 2013.

In its current improper payment reporting, the RRB estimates that 27 percent of RRA improper payments are due to "Authentication and Medical Necessity," which is a significant increase from the 2.2 percent reported in the fiscal year 2013 Performance and Accountability Report (PAR). The RRB attributes the increase to terminated disability cases and a change in methodology for projecting causes. The RRB states that it has ongoing efforts to prevent fraud in the disability process but does not elaborate. The RRB then dismisses the higher percentage as a possible anomaly based on historical overpayments in this category.

As outlined in Challenge 1, the OIG has serious concerns about the RRB's disability program and the adequacy of its improper payment detection methods. Therefore, the current year percentage may not be an anomaly.

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[11]RRB OIG, *Railroad Medicare Progress and Challenges,* 14-09 (Chicago, IL.: July 25, 2014).

The RRB estimates that 67 percent of RRA improper payments are due to changes coming from outside the RRB and the challenge is to obtain the information and process it as quickly as possible. The RRB has established a number of automated initiatives designed to minimize RRA improper payments. The reduction of RRA improper payments is impacted by manual workload backlogs and requires long range planning.

For fiscal year 2013, the RRB estimates over $4 million in improper RUIA benefit payments, which represents 3.7 percent of program outlays. RUIA improper payments are considered relatively low due to the RRB's current program integrity effort. However, RUIA actual overpayments were still more than $3 million for fiscal year 2013. The RRB has convened an inter-bureau project team to identify additional ways of further minimizing RUIA improper payments.

In our 2014 IPERA report, we recommended that RRB management identify all programs that they administer in its risk assessment for improper payments, including Railroad Medicare.[12] In its current IPERA reporting, the RRB has included a risk assessment for Railroad Medicare with a determination of low risk. The OIG will assess the accuracy of this determination in our next IPERA review.

While the OIG recognizes that the RRB has made some efforts toward minimizing RRA and RUIA improper payments, the RRB must include initiatives to reduce the impact of manual workload backlogs on RRA improper payments in their long range planning.

Challenge 5 – Oversight of RRB Contracts and Contracting Activity

In fiscal year 2014, the RRB estimated over $13.4 million for major contracts.[13] The RRB's estimate for major contracts in fiscal year 2015 is approximately $10.2 million.[14]

Previous OIG audits have identified issues related to the review of contractor's deliverables for IT contracts. The RRB also has contracts for the Railroad Medicare, and for medical exams related to disability decisions, which are two areas of concern that have already been highlighted. As such, there is a great need for the RRB's continual vigilance in all phases of contract administration.

In fiscal year 2011 report, the OIG performed a review of Railroad Medicare contract costs and found that controls for both the RRB and its contracted carrier

[12] RRB OIG, *Audit of the Railroad Retirement Board's Fiscal Year 2013 Compliance with the Improper Payments Elimination and Recovery Act of 2010*, 14-05 (Chicago, IL.: March 28, 2014).
[13] RRB, *Justification of Budget Estimates Fiscal Year 2014 Draft* (Chicago, IL.: April 3, 2013).
[14] RRB, *Congressional Justification of Budget Estimates Fiscal Year 2015 Draft* (Chicago, IL.: March 5, 2014).

were not fully effective.[15] The carrier's records of work performed were insufficient to support amounts billed. The RRB's oversight and contract management procedures were inadequate to fully ensure the integrity of Railroad Medicare cost reimbursements. This report contained 15 recommendations and the RRB agreed to take action on each of the recommendations. More than three years later, none of the recommendations have been closed, including the recommendation to review total costs of $3.1 million and $3.7 million incurred by the Customer Service Unit and Medical review unit during fiscal years 2008 and 2009 to determine if the costs are allowable. In September 2013, when asked about the status of the open recommendations, the RRB responded "[o]ther higher priority project prevented in-depth review of new contract." The OIG finds it problematic that higher priorities would delay the review of contract cost by more than 3 years considering that this is a multi-million dollar contract. The RRB entered into the new contract in 2012 without performing an in-depth review of the contract.

Challenge 6 – Controls over Budgetary Reporting

The RRB's Statement of Budgetary Resources (SBR) remains a concern. The OIG observed that through June 2014, the Bureau of Fiscal Operations (BFO) had not been able to produce the SBR through FMIS. Although BFO has taken some corrective action, including the migration to FMIS, and the implementation of the Department of the Treasury's Governmentwide Treasury Account Symbol Adjusted Trial Balance System, further corrective actions need to be taken to ensure the accuracy of calculations, consistency in recorded amounts and effectiveness of controls.

Challenge 7 – Limited Transparency at the National Railroad Retirement Investment Trust

The National Railroad Retirement Investment Trust (NRRIT) was established by the Railroad Retirement and Survivors' Improvement Act of 2001 (RRSIA). The NRRIT is a tax-exempt entity, independent of the Federal government, whose purpose is to manage and invest railroad retirement assets. The NRRIT is authorized to invest the assets entrusted to it in a diversified investment portfolio in the same manner as private sector retirement plans. From time-to-time, the NRRIT may transfer funds to the RRB as necessary to pay benefits that are not covered through current tax receipts from railroad employees or employers. Over $25 billion in assets were held by the NRRIT, on behalf of railroad retirees and their families, at the end of fiscal year 2013.[16]

The OIG has a longstanding concern that NRRIT oversight is inadequate. In March 2008, the OIG published a statement of concern which stated that reliance on the annual audits of the NRRIT's financial statements had left the

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[15] RRB OIG, *Audit of Controls Over Railroad Medicare Contract Costs*, 11-06 (Chicago, IL.: April 20, 2011).
[16] RRB, *Performance and Accountability Report*, Fiscal Year 2013 (Chicago, IL.: December 2013).

NRRIT with fewer safeguards than those established to protect other similar retirement investments.[17] Further, while the RRB has legal standing to enforce the NRRIT's compliance with RRSIA, the authority is not supported by adequate legislative authority to assert an oversight role, which may support such enforcement activities.

Oversight and improved transparency of the NRRIT could be accomplished through a combination of independent performance audits conducted in compliance with Generally Accepted Government Auditing Standards (GAGAS) and a transparent annual financial statement audit; along with independent investigations, evaluations, and assessments, as appropriate.[18] The following outlines major challenges presented in each of these areas.

Performance Audits

The NRRIT has commissioned four periodic performance audits since its inception in 2002, but has not established a formal policy for such audits. There is no indication that the performance audits commissioned by the NRRIT are performed in accordance with GAGAS, which provides a framework for conducting high-quality audits with competence, integrity, objectivity, and independence. Of concern is that the NRRIT self-selects the audit areas. Comparable entities, such as the Thrift Savings Plan and private pensions, are subject to performance audits by one or more independent external entities. In contrast, the NRRIT defines the subject and scope of its performance audits. It is the OIG's opinion that selection by the NRRIT of the audits to be performed prevents thorough oversight of the NRRIT's assets and operations. The OIG strongly opposes any arrangement that allows the NRRIT to control performance audits. It is also the OIG's opinion that a statutory amendment to provide for performance audits would have greater permanence, since the NRRIT could not legally opt to discontinue new oversight practices.

In fiscal year 2014, GAO reported on performance audit policies and practices that exist for overseeing the NRRIT, performance audit policies in place at comparable organizations, and options that could be pursued to improve NRRIT performance audit policies.[19] While the report did not contain any formal recommendations, it did list options for expanded NRRIT oversight including:

- granting the OIG authority to conduct performance audits, which would ensure that these reviews are initiated and performed independent of the NRRIT;

[17] RRB OIG, *Statement of Concern: National Railroad Retirement Investment Trust Lack of Provision for Performance Audits* (Chicago, IL.: March 31, 2008).
[18] GAO, *Government Auditing Standards, 2011 Revision*, GAO-12-331G (Washington, D.C.: December 2011).
[19] GAO, *RETIREMENT SECURITY: Oversight of the National Railroad Retirement Investment Trust,* GAO-14-312 (Washington, D.C.: May 15, 2014).

- requiring periodic audits with external input on scope, which would ensure NRRIT performance audits continue; and/or
- establishing an office of internal audit, which could ensure performance audits are independently initiated and conducted.

These options could be adopted through either an agreement between the key parties or through legislation.

The OIG continues to strongly believe that performance audits would be most efficiently conducted by the OIG and encourages the RRB and NRRIT to develop a legislative proposal that would mandate this change.

Disclaimer of Opinion on RRB Financial Statements

The OIG's lack of access to the NRRIT has resulted in the OIG issuing a disclaimer of opinion on the RRB's fiscal year 2013 financial statements, and we expect to do so again in fiscal year 2014. The OIG is required by law to audit the financial statements of the RRB, and the NRRIT is a significant component of the RRB. In order to comply with the American Institute of Certified Public Accountants (AICPA) group financial statement auditing standard, the OIG contacted the NRRIT requesting direct communication with, and cooperation from their auditor.[20] To date, there has been no communication or cooperation from the NRRIT's auditor, directly or indirectly. In view of the fact that the OIG cannot obtain sufficient appropriate audit evidence with respect to the NRRIT, we cannot issue an opinion on the RRB's financial statements. To prevent future disclaimers of opinion, it's imperative that RRB management counsel the NRRIT regarding its auditor's responsibilities to comply with the AICPA's group financial statement requirements.

The OIG plans to continue oversight in the areas highlighted in this letter. We encourage the RRB to take action on these challenges in order to prevent fraud and abuse in the Railroad Medicare and disability programs, and to reduce improper payments in all of its programs. Finally, increased oversight of, and access to, the NRRIT is necessary for the OIG to accomplish all of its statutory mandates.

Original signed by:

Martin J. Dickman
Inspector General

October 8, 2014

[20] AICPA, AU-C Section 600, Special Considerations - Audits of Group Financial Statements (including the Work of Component Auditors).

Management's Comments

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

Program Integrity to Strengthen Disability

RRB management has taken decisive action to strengthen both the initial disability determination process as well as overall program integrity. In response to OIG recommendations and ad hoc communications as well as the Government Accounting Office (GAO) audit findings, the agency has taken meaningful action to improve the central critical functions of the RRB's disability program including:

- Established Medical Provider Database to facilitate provider analysis;
- Established an Anti-Fraud Task Force;
- Initiated fraud awareness training;
- Ensured that all cases would be subject to a second review;
- Enhanced notifications to annuitants; and
- Hired a Director of Audit Affairs.

In addition, the Board has directed the following program improvements be implemented:

- Independent Medical Examinations for most cases.
- Review of contracted sources by the Disability Advisory Committee for the purpose of making recommendations for improvement.
- Freeze determination to be made concurrently with the disability rating under the Railroad Retirement Act (RRA).
- Revise the job information process/forms to ensure that disability examiners have adequate and uniform vocational information available to them when adjudicating applications.
- Enhance training in disability adjudication and provide additional professional medical support to claims examiners.
- Task a multi-component team from the RRB with the responsibility for reviewing SSA's disability program and identifying "best practices" that can be utilized by the RRB.
- Review and revise application forms to ensure that all relevant information is obtained.
- Resume continuing disability reviews for occupational disability cases on a more routine basis.
- Establish a quality control unit and related performance goals.
- Create a matrix analyzing those attributes associated with a higher level of fraud and require annuitants who meet the parameters of the matrix to annually certify their continued eligibility.
- Explore options to obtain more timely earnings data to support stronger initial adjudication and post-entitlement program integrity.
- Set up procedures to identify and address cases of potential fraud before claims are approved.

The Board has taken a strong anti-fraud stance and communicated its expectations for program improvement to operational management. We have taken a constructive approach to program change within the parameters established by law.

Information Technology Security and Modernization

The Information Technology (IT) Enterprise Roadmap outlines the plan to enable a future ready RRB workforce equipped with modern tools and technologies to do their jobs in the most efficient, effective, and secure manner that leads to sustained customer satisfaction in the railroad community we serve. The IT Enterprise Roadmap introduces the concept of Office in the Cloud. This robust and secure concept provides sustained operations for the future. Applications are modernized to run on virtual servers and do real-time processing in a secure Private Cloud. This initiative enables self-service solutions for the railroad community, mobile applications, and a virtual office that allows our workforce to accomplish tasks securely without physical constraints of the four-walled office. IT security risks in the virtual office are much smaller and better managed than the agency's current environment. All data at rest will be encrypted to FIPS 140-2 standard. The virtual office is enabled using secure socket layer virtual private network (SSL VPN) at a minimum. Each employee will use a PIV card to logon for multi-factor authentication. The virtual office will establish a secure container for every RRB employee with a USB PIV card reader and a USB Windows-To-Go boot stick for secure remote connectivity on a home PC. Furthermore, security monitoring at the Security Operations Center (SOC) gives the agency advanced capabilities to proactively block and remediate any security threats we come across.

The disaster recovery modernization initiative is a phased implementation. The RRB extended the SunGard disaster recovery services contract for a six-month period, with the option to exercise on a monthly basis if the need arises as the agency transitions to the USDA National Information Technology Center (NITC). Migration of services to NITC expands the agency's current disaster recovery processes to further advance capabilities to meet customer expectations that IT services will be operational in a matter of hours and not days. It is our vision to provide enhanced continuity of operations and fail safe disaster recovery capabilities that are routinely tested to assure confidence. The RRB will establish NITC as an alternate site for business continuity in phases. The first phase focuses on mainframe systems and applications recovery by use of a remote Virtual Tape Library at NITC and necessary data communication channels with the agency's data center.

Like much of the RRB's workforce, a large number of BIS employees are at or nearing retirement age – 60% of the Applications Development Center can already retire. Employees retire and often take with them the institutional knowledge of 40+ years, and it is becoming difficult to find young developers with COBOL skills. This is a significant risk to the agency to sustain future operations. Other agencies have considered teaching COBOL to the young workforce. However, given that this skill is not marketable, these young developers will be looking for another job and leave at the first opportunity. The appropriate manner to mitigate this risk is reengineering the legacy applications. For an IT operation of our size (200 MIPS in mainframe computing), Gartner and other sources recommend a reengineering approach. As the need for hiring increases with attrition, we will have an opportunity to attract and hire employees with more current technical skill sets that are being taught in academia or practiced at other technology forward organizations.

We agree that these initiatives require close attention and oversight to mitigate the risks of implementing change at RRB. We introduced these concepts in the FY2016 budget submission, and are currently undergoing an assessment of the legacy applications, systems and processes by an external contractor. As we continue to secure the funding, our implementation approach is to show success with small projects, communicate these wins across the agency to gain support and confidence to accomplish the remaining larger critical tasks in an iterative and incremental approach.

The RRB's Program Accounts Receivable (PAR) system is a subsystem of the Federal Financial System (FFS) that we recently migrated to the Financial Management Integrated System (FMIS). The PAR system was significantly modified and separated from the FFS core financial system and is operated as a stand-alone system. The PAR system maintains its own general ledger and generates a monthly trial balance that is manually recorded in the RRB's general ledger. PAR migration to FMIS is required to maintain an integrated general ledger system, in addition to being compliant with Office of Management and Budget and the Department of Treasury directives for financial system operations. This will require the RRB to obtain a commercial off-the-shelf accounts receivable system from the same shared service provider that provided the RRB with FMIS. The RRB expects to save staff and other costs associated with managing its accounts receivable program in a shared service environment. Data management, data quality, and internal controls will improve and reduce the risk of financial misstatements or errors. The RRB will be in compliance with Federal Information Security Management Act requirements as improved security should protect information and reduce the risk of data loss. In order to mitigate risks, we have reviewed audit recommendations by our Office of Inspector General, in conjunction with lessons learned documented during the migration of FFS to FMIS. We intend to reference and incorporate, where applicable, these contributions in the planning of PAR migration to FMIS.

Oversight of Railroad Medicare

In FY 2014 the RRB successfully modified the Medicare Management Control Review (MCR) process to include the Medicare contract and to document the controls and oversight that are in place to safeguard against waste, fraud and abuse. In addition to modifying the Medicare MCR process, we tested the controls that were put in place. The modified Medicare MCR not only reflects the actions taken by the RRB but also reflects the mechanisms that are in place to safeguard the Medicare Trust Fund.

In addition to modifying the Medicare MCR process, during option year (OP) 1 of the Specialty Medicare Administrative Contract (SMAC) which began on October 1, 2013, the Medicare Contracting Officer Representative (MCOR) and Medicare Contract Operations Specialist (MCOS) conducted the following reviews as required by the Federal Acquisition Regulations (FAR) to ensure that our Medicare contractor (Palmetto GBA) was in complete compliance with the Statement of Work (SOW):

1. Quality Assurance Surveillance Plan (QASP) reviews - QASP reviews provide oversight on the quality, quantity and timeliness of contractor performance. For OP 1, a total of 9 business functions were reviewed, which covered 40 performance standards.

2. Review of RRB SMAC Workload Reporting—the purpose of this review was to determine that the current procedures in workload reporting are being followed as required by the Centers for Medicare and Medicaid Services' (CMS) guidelines.

3. Quality Control Plan Review Report – we reviewed the quality control program for the SMAC in the Provider Customer Service Program, Provider Enrollment and Finance.

All recommendations that were made as a result of these reviews were accepted by Palmetto, GBA and implemented in OP 1.

OP 1 was completed on September 30, 2014, and we are in the process of assessing our contractor's performance (as required under the FAR). Also, overall responsibility and handling of the management and operations of the Medicare program is assigned by law to CMS which means that Palmetto, GBA must adhere to the guidelines and procedures established by CMS.

In addition to modifying and testing the updated Medicare MCR process and conducting numerous audits/reviews, the MCOR and MCOS attended training to:

- Gain a better understanding of their responsibilities under the FAR;
- Ensure that the contractor is performing its responsibilities as required; and
- Look for additional ways to protect the Medicare Trust Fund.

We are in discussions with CMS on the following initiatives:

1. Developing a partnership with a Zone Program Integrity Contractor to refer potential Medicare overpayments to the SMAC's benefit integrity unit. This endeavor will more fully ensure that Medicare overpayments are pursued for RRB beneficiaries.

2. Establishing a tentative timeframe for implementing the Health Integrated General Ledger Accounting System for the RRB SMAC.

3. Including the RRB SMAC in the CMS Comprehensive Error Rate Testing program to ensure that the contractor is paying claims appropriately and the providers are billing medically necessary services correctly.

As OP 2 begins, we will continue to conduct reviews of our SMAC contractor, Palmetto, GBA to ensure its compliance with the SOW and work with it, wherever possible, to reduce waste, fraud and abuse in an effort to protect the Medicare Trust Fund.

<u>Preventing and Detecting Improper Payments</u>

The RRB has consistently focused its efforts on monitoring and reducing improper payments and has steadily achieved impressive results. As recognized by the Inspector General, the rate of improper payments under the RRA decreased from 1.64% in FY 2004 to .70% in FY 2013. We attribute this accomplishment primarily to increased automation and standardization of work processes, and ongoing training of staff. We also perform detailed quality assurance studies and follow-up on all findings indicating that improvements are possible.

The Inspector General also noted that more than 90% of the RRA improper payments are due to information from external sources, such as changes in the beneficiary's status that affects entitlement or eligibility. We agree with the Inspector General that the RRB's challenge is to obtain current and accurate information and process it as quickly as possible. Many of our long-term system initiatives work toward that end as well as the automation of current manual workloads

The program integrity effort over the Railroad Unemployment and Insurance Act (RUIA) benefit payments is already at a very high level, keeping RUIA improper payments relatively low. Our most recent analysis of improper payments indicated that the majority (62%) of RUIA improper payments resulted from changes coming from outside the agency, particularly changes in the beneficiary's status which affect entitlement or eligibility, either temporarily or permanently. As a result, on February 18, 2014, we implemented revisions to Forms ID-4M, *Notice of Receipt of Sickness Application for Benefits* and ID-4N, *Notice of Receipt of Unemployment Application for Benefits.*

These forms are released to each sickness and unemployment applicant advising them that we have processed their application and contain general claim and payment processing information. The revised forms now include information with respect to RRB program integrity activities (i.e., prepayment verification and state wage matches) to prevent and detect earnings fraud. The revised forms are a direct, clear reminder to applicants of their responsibilities to report work activities which will help minimize improper RUIA payments.

<u>Oversight of the RRB Contracts and Contracting Activity</u>

There were several underlying factors impacting implementation of audit recommendations:

- The OIG audited a contract that was nearing the end of its term;
- The RRB had to collaboratively work with an outside agency (CMS) that was charged with administering the Medicare program, as well as having significant responsibilities and duties in co-administering the RRB legacy Medicare Part B contract; and
- The RRB was also in the process of soliciting and negotiating a new contract that may or may not have been awarded to the same vendor as the legacy contract.

To that end, we have taken a constructive approach to ensure the new contract addresses the issues raised by the OIG in its recommendations. However, we would advocate that the award and administration of the SMAC was, in fact, a legitimate priority impacting our response. The transition to the SMAC was challenging due to the lack of agency expertise and resources to convert from the predecessor Medicare legacy contract once the responsibility transferred from CMS. We leveraged our procurement staff to perform this function while simultaneously managing all other ongoing agency requirements.

Notwithstanding the responsibility of the RRB OIG audit, we must also recognize the Health and Human Services (HHS)-OIG role and its oversight responsibility for the Medicare program and all current MAC and legacy contracts. It is important to note that the HHS-OIG found the reimbursement billings for costs incurred allowable and allocable in its audit of Palmetto, GBA's RRB Final Administrative Cost Proposals (FACP) for Fiscal Years 2007 and 2008, (report number A-04-11-04018, dated June 29, 2012), and Fiscal Years 2009, 2010, 2011, and 2012, and for the period of October 2, 2012 through January 31, 2013, (report number HHSM-500-2013-00155C dated September 3, 2014).

We agree that oversight and contract management requires our vigilance to fully ensure the integrity of Railroad Medicare cost reimbursements. As such, we will make every effort to implement outstanding recommendations.

Controls over Budgetary Reporting

Budgetary training was held for our accounting and budget staff, to include the implementation of the Department of the Treasury's Government-wide Treasury Account Symbol Adjusted Trial Balance System during the fiscal year. In addition to training and assessing prior internal controls for enhancement, we will be automating the reporting of the Statement of Budgetary Resources (SBR). With the migration to FMIS we will be automating the SBR through the system for FY 2015, which was not the case with the prior obsolete financial system. This action will significantly improve accuracy and consistency of recorded amounts and effectiveness of controls.

Limited Transparency at the National Railroad Retirement Investment Trust

The National Railroad Retirement Investment Trust (NRRIT) is established by section 15(j) of the RRA to invest funds from the Railroad Retirement Account which are not needed to pay current benefits. The IG believes that the RRB conducts insufficient oversight of the Trust operations and investments, and consequently recommends amendments to the Act to require independent performance audits by the IG. The IG further recommends RRB management counsel NRRIT to allow the IG access to the NRRIT auditor. RRB management continues to believe the oversight of the NRRIT is sufficient under current law.

Initially, RRB management believes the language of section 15(j) and the legislative history leading to its enactment clearly establish the intent of Congress to protect the assets of the Trust and the NRRIT itself from political influence. Moreover, in a May 2014 Report by GAO concerning oversight of the NRRIT (GAO -14-312), the GAO in concluding remarks noted this purpose and further, that the NRRIT is not without oversight beyond mandatory financial audits. In particular, GAO noted the Trust's condition is monitored by the RRB through regular reports and other communications. GAO also noted that the NRRIT on its own initiative commissioned four performance audits since 2002 which were comparable to and, in some cases, more comprehensive than those of comparable state pension plans. Nevertheless, the RRB and NRRIT recently concluded a Memorandum of Understanding requiring performance reviews over 3-year cycles on a selection of fourteen topics. The priority for review and timeline for consideration are determined after consultation between the NRRIT and the RRB. In RRB's view, the history of continuing cooperation between NRRIT and RRB on this and other matters renders any amendment recommended by the IG unnecessary.

RRB management also believes the IG is not required to issue a disclaimer of opinion on the RRB financial statements. Although the IG is required by law to audit the RRB financial statement, the standards of the American Institute of Certified Public Accountants (AICPA) allow auditors to express a qualified opinion, rather than a disclaimer of opinion, where possible effects of undetected misstatements do not have pervasive effect on the financial statement. The RRB does not believe the IG has established that any undetected misstatements in the context of the NRRIT audit are pervasive within the meaning of the AICPA standards. Accordingly, RRB does not believe the situation warrants a disclaimer of opinion on the RRB financial statements. RRB will continue to work with the IG to identify solutions for preventing future audit disclaimers.

<u>**Improper Payments Information Act (IPIA) Reporting Details**</u>
<u>*(as amended by IPERA)*</u>

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

The RRB administers two benefit payment programs: Railroad Retirement Act (RRA) retirement and survivor benefits, and Railroad Unemployment Insurance Act (RUIA) unemployment and sickness benefits. Both were designated as "high risk" under the former Section 57 of Circular A-11.

The RRB also administers aspects of the Medicare program. The Statement of Work for the Medicare Part B Specialty Medicare Administrative Contract (SMAC) requires that our contractor (Palmetto) perform a quality assessment of Medicare claims for accuracy. The RRB's Contracting Officer's Representative receives results in a monthly quality report from Palmetto. The Medicare program is determined to be at low risk because the accuracy rate averages 99% over the last 3 years. Part of the oversight of the contract is a yearly Quality Assurance Surveillance Plan (QASP). In regards to the claims accuracy, we follow the same process in the accuracy oversight that CMS does with the jurisdictional Medicare contractors.

Improper payment analysis is currently not conducted on the Medicare program. We are currently in discussions with CMS to include the RRB SMAC in the Comprehensive Error Rate Testing program. In addition, we are also in the process of drafting a Joint Operating Agreement with a Zone Program Integrity Contractor to refer potential improper payments to the RRB SMAC. Both of these initiatives will result in analysis of the improper payment rate for the RRB SMAC.

The agency used the process described below to calculate the amount of RRA and RUIA improper payments made in fiscal year 2013.

Results of Fiscal Year 2013 Improper Payment Review

Program	Improper Payment Amt. >$10 million	Improper Payment Rate >1.5%	Action Plan or Targets Needed?
RRA	**Yes**	**No**	**No**
RUIA	**No**	**Yes**	**No**

II. Statistical Sampling. Any agency that has programs or activities that are susceptible to significant improper payments shall briefly describe the statistical sampling process conducted to estimate the improper payment rate for each program identified with a significant risk of improper payments. Please highlight any changes to the statistical sampling process that have occurred since the last report.

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

III. Corrective Actions. Any agency that has programs or activities that are susceptible to significant improper payments shall describe the corrective action plans for:

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

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

Root Cause of Error	Estimated Rate	Estimated Amount
Administrative and Documentation	**6.0%**	**$4,901,947**
Authentication and Medical Necessity	**27.0%**	**$22,190,119**
Verification and Local Administration	**67.0%**	**$55,011,842**
Total	**100%**	**$82,103,908**

Corrective Actions:

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

- development of an enhanced automated retirement payment system to replace the current legacy system that processes retirement applications, planned for fiscal year 2015,
- development of an interface between systems to ensure accurate use of military service in the calculation of benefits, tentatively scheduled for completion in fiscal year 2015,
- expansion of the MIRTEL Online Inquiry (MOLI) database to include Medicare Part B premium collection history. Requirements development work is scheduled to begin in fiscal year 2014.

During fiscal year 2013 we implemented the first phase of a multi-phase initiative to replace a legacy overpayment support system with a modern Overpayment Recovery and Correspondence System (ORCS) that automatically interfaces with other on-line and mainframe applications. The new system completely automated the retrieval of overpayment recovery data for benefits under the Railroad Retirement Act (RRA) and includes letter writing and calculation summary processes. During FY 2014, we launched the next phase of the project which will allow ORCS to support RUIA overpayments and we anticipate a third phase that will extend the system's support to Medicare program billing.

Authentication and Medical Necessity: We experienced an increase in improper payments estimated in the category of Authentication and Medical Necessity due to terminated disability cases and a change in improper payment root cause category projections derived from our Quality Assurance study. We have ongoing efforts to prevent fraud in the disability process and the increase in projections of improper payments associated with Authentication and Medical Necessity may just be an anomaly since historically we detect very few improper payments in this category.

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

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

- The RESCUE (Recalculate for Service and Compensation Updated to EDMA) system evaluates employer-reported changes to employee service and compensation records and adjusts annuities, if needed. RESCUE was implemented in fiscal year 2006 and evaluated record changes posted in January 2006. In fiscal year 2007, the system evaluated adjustments posted prior to January 2006 and identified specific RRA improper underpayments and paid out additional benefits due, resolving many of the improper payments that were included in previous years' estimates. However, a significant manual workload resulted from this initiative. As of September 30, 2013, 11,056 of these referrals (8,931 for active cases and 2,125 for terminated cases) were on hand. These backlogged cases are handled whenever any other work needs to be done on the case. RESCUE referrals are also processed using overtime funds as resources permit.
- RESCUE is currently run several times a year so that annuity adjustments for service and compensation changes are made timely and properly for those records that can be handled automatically. Those that cannot be processed by RESCUE are referred for manual handling and are included in the current workload. As of September 30, 2013, there were 8,441 of these current referrals.
- Work continued on SPEED (System Processing Excess Earnings Data), an automation initiative designed to process post-entitlement annuity adjustments in both retirement and survivor cases that result from excess earnings and work deductions. SPEED allows the RRB to adjust annuity payments for earnings on a timely basis, which minimizes any underpayments or overpayments that may result from changes in earnings. SPEED is being built in multi-phase approach. The first five phases of this initiative automated the handling of several survivor year-end actions; annuity adjustments when Last Person Earnings (LPE) work deductions are removed; and adjustments for cases that involve both retirement regular and LPE cease work reports. During fiscal year 2013, we automated the download of current survivor earnings estimates from the Survivor Payments System to perform the necessary survivor annuity adjustments and notifications and permanent work

deductions. During FY 2014, we began development of a process to initiate LPE and regular temporary work deductions in response to earnings estimates from retirement beneficiaries to support our long range plan to automate permanent work deductions for both retirement and survivor beneficiaries. During FY 2014, we also plan to award a contract to support automation of LPE and regular permanent work deductions, the most complex phase of the SPEED project to date.

- Electronic Data Processing (EDP Policing) Enhancements – This project will address the internal handling and mechanical matching of earnings information received from our data match with the Social Security Administration. We completed the first phase of the project, which involved the automation and capture of earnings information stored on the Retirement On-Line Calculations (ROC) system, an on-line system for calculating and paying retirement annuities. Work continues on updating the LPE process to capture the latest monthly earnings and average monthly earnings amounts. The information will be used in the EDP process to monitor earnings information, eliminate redundant information, and reduce the number of records referred to the claims adjudication units.

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

Root Cause of Error	Estimated Rate	Estimated Amount
Administrative and Documentation	**44%**	**$1,867,247**
Authentication and Medical Necessity	**0%**	**0**
Verification and Local Administration	**56%**	**$2,393,224**
Total	**100%**	**$4,260,471**

The program integrity effort over the RUIA benefit payments is already at a very high level, keeping RUIA improper payments relatively low. However, during calendar year 2013 the Office of Programs convened an inter-bureau project team to discuss additional ways of identifying and minimizing improper RUIA payments. Our analysis of Fiscal Year 2012 improper payments indicated that the majority (62%) of RUIA improper payments resulted from changes coming from outside the agency, particularly changes in the beneficiary's status which affect entitlement or eligibility, either temporarily or permanently. As a result, on February 18, 2014, we implemented revisions to Forms ID-4M, *Notice of Receipt of Sickness Application for Benefits* and ID-4N, *Notice of Receipt of Unemployment Application for Benefits.*

These forms are released to each sickness and unemployment applicant advising them that we have processed their application and contain general claim and payment processing information. The revised forms now include information with respect to RRB program integrity activities (i.e. prepayment verification and state wage matches) to prevent and detect earnings fraud. The revised forms are a direct, clear reminder to applicants of their responsibilities to report work activities which will help minimize improper RUIA payments.

Some of the RUIA improper payments can be attributed to the delay in our State wage matches. This delay could be reduced if the RRB had access to the *National Directory of New Hires* (NDNH). We believe using this database could be very beneficial, allowing us to obtain additional information not available through our current matching programs with the States and to obtain it in a timely manner. Using the NDNH would also provide a streamlined administrative process utilizing only one contract and electronic data transmission with NDNH rather than maintaining separate matching agreements and conducting separate data transmissions with all 50 States, D.C., and Puerto Rico. However, at this time, the RRB does not have legal authority to access the database and the administrative costs of participating in that program are prohibitive. Making this database accessible to all agencies would greatly improve our detection and prevention of RUIA improper payments.

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

Not applicable to RRB.

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

The table below is required for each reporting agency.

Improper Payment (IP) Reduction Outlook FY 2012 – FY 2017
($ in millions)

Program	FY 12 $ Outlays (actual)	FY 12 IP %	FY 12 IP $	FY 13 $ Outlays (actual)	FY 13 IP %	FY 13 IP $	FY 14 $ Outlays (estimated)	FY 14 IP %	FY 14 IP $
RRA	$11,347.3	0.54%	$61.8	$11,650.4	0.70%	$82.1	$11,935.3	0.70%	$83.5
RUIA	$119.2	3.9%	$4.6	$116.0	3.7%	$4.2	$106.5	3.5%	$3.7

Program	FY 15 $ Outlays (estimated)	FY 15 IP %	FY 15 IP $	FY 16 $ Outlays (estimated)	FY 16 IP %	FY 16 IP $	FY 17 $ Outlays (estimated)	FY17 IP %	FY 17 IP $
RRA	$12,212.9	0.70%	$85.5	$12,516.3	0.70%	$87.6	$12,835.0	0.70%	$89.8
RUIA	$126.3	3.0%	$3.8	$128.3	2.5%	$3.2	$129.5	2.5%	$3.2

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

At the time this report was prepared, the latest actual data available was for fiscal year 2013 (shown in **bold** in the chart).

For fiscal year 2013, RRA actual overpayments were $62,223,934 and actual underpayments were $19,879,973.

RUIA actual overpayments were $3,437,772 and actual underpayments were $822,699.

The estimates for fiscal year 2014 through 2017 are based on the December 2013 OMB budget review estimates.

There was an increase in RUIA improper payments in the FY 2012 analysis due to increased usage of the unemployment program as a result of the economic recession, as well as the enactment of several pieces of legislation which increased the duration of unemployment benefits. Our analysis last year found a significant decrease in improper payments as anticipated. Based on an analysis of historical trends and current available data, we incrementally reduced our projected percentage of improper payments for the RUIA program.

V. Recapture of Improper Payments Reporting.

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

We do have a robust, multi-faceted review process in place that is an effective approach for evaluating payment accuracy in the RRA and RUIA programs and identifying and preventing improper payments. Taken as a whole, our full range of current activities constitutes *an effective alternative to* a formal payment recapture program. However, despite all the agency's best efforts to prevent improper payments, some will always occur, due to lack of timely information, etc. In overpayment situations, the agency is diligent in its recovery efforts.

The RRB's account receivable balance for the RRA program at the end of fiscal year 2013 was $49,139,606. This balance includes debts classified as currently not collectible. We estimate that approximately 76.5 percent of the RRA receivable balance will be collected and that the remaining 23.5 percent of the RRA debt will eventually be closed as uncollectible. For the period of fiscal years 2004 through 2013, the RRB recovered $399,396,105 in RRA program receivables.

The RRB's account receivable balance for the RUIA program at the end of fiscal year 2013 was $14,854,752. This balance includes debts classified as currently not collectible. We estimate that approximately 74.9 percent of the RUIA receivable balance will be collected and 25.1 percent will eventually be closed as uncollectible. It should be noted that uncollectible RUIA debts may be reinstated for recovery by offset when a debtor files an application for retirement benefits. For the period of fiscal years 2004 through 2013, the RRB recovered $322,985,972 in RUIA program receivables.

The RRB's collection program is in full compliance with the Debt Collection Improvement Act of 1996. Recoveries are made through offset of benefits, reclamation and return of erroneous benefit payments, and direct payment from debtors. Fraudulent payments are referred to the OIG for prosecution through the Department of Justice. Delinquent accounts are referred to Treasury for cross-servicing and offset of Federal payments.

d. Table 6

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

Agency Source		Amount Identified FY 13*	Amount Recovered FY 13**	Amount Identified FY 12*	Amount Recovered FY 12**	Cumulative Amount Identified FY 04 - FY 13*	Cumulative Amount Recovered FY 04 - FY13**
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**	**$57.0**	**$42.6**	**$42.6**	**$40.9**	**$459.9**	**$399.4**
	RUIA	**$24.9**	**$26.0**	**$28.9**	**$29.3**	**$328.5**	**$323.0**

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

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

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

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

VII. Agency information systems and other infrastructure.

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

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

Although the agency has limited staff and expects further attrition of experienced personnel, the RRB has been able to meet the challenge of minimizing improper payments for both the RRA and RUIA programs. Neither benefit program has "significant" improper payments as defined by law.

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

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

The System Modernization project is a multi-year effort to modernize the agency's automation systems. When complete, it will contribute to achieving the agency's target information technology architecture, and will help the agency meet its performance goals, including improved accuracy of benefit payments and stewardship of the trust funds. Due to fiscal funding constraints, the agency last requested funding specifically for its System Modernization project in 2012. However, work has continued using internal resources on internal software improvement projects. Modernization will help reduce data redundancy, improve IT productivity, reduce development time, improve processing accuracy and speed, and transition our computing environment to more modern technology platform and methodologies.

In addition, information technology infrastructure provides a critical foundation for the agency's mission and business processes. This includes desktops, notebooks, servers, storage, printers, routers, scanners and other significant components. The agency has a long-term strategic goal to systematically replace all IT components according to industry standards in order to provide a stable technology environment. As funding is made available, IT equipment at its headquarters facility and field offices is replaced in accordance with the agency's *IT Equipment Replacement Policy*. This ensures that the agency will provide the most efficient, reliable and secure services to its customers.

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

None.

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

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

X. Agency reduction of improper payments with the Do Not Pay Initiative

The RRB's core business processes are related to the issuance of benefit payments under the Railroad Retirement Act (RRA) and Railroad Unemployment Insurance Act (RUIA). 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 the Social Security Administration (SSA), employers, and our application process. In addition, we receive post-payment wage information through established sources such as wage match programs with the fifty states and death data from SSA and the Center for Medicare and Medicaid Services (CMS).

In evaluating whether the Do Not Pay (DNP) Initiative has reduced improper payments or improper awards, we have determined that our current business processes and data sources are effective in detecting and preventing benefit overpayments. Of the data sources currently available from Treasury's DNP System, the only one that is applicable to RRB's benefit payments is the SSA Death Master File (DMF). However, as a benefit paying agency, we already receive death data directly from SSA and the Center for Medicare and Medicaid Services (CMS). This information, which is part of the Do Not Pay Initiative, is more detailed than the death information contained in the publicly available DMF in the Do Not Pay Portal. We also found that at the time Treasury Do Not Pay matching reports were received, these matched records were either suspended or terminated as they had already been identified through our existing program integrity and death match processing activities.

The RRB looks forward to additional improved matches as a result of our conversion to the Financial Management Service's Standard Payment Automation Manager Request Format, beginning with payments issued October 1, 2014. We also look forward to utilizing SSA's Prisoner Update System that will soon be available in the DNP portal. We are also interested in receiving data from the National New Hire Directory should it become available through the Do Not Pay Initiative.

The data shown in Table 7 represents death reports received from the Treasury Do Not Pay System during the period October 2013 through July 2014, the latest period for which data is available. Of the $744,614 improper payment dollar amounts, $331,635 was recovered at the time the monthly Do Not Pay report was adjudicated. Since that time an additional $268,539 was recovered, for a total recovery of $600,174.

Table 7 Implementation of the Do Not Pay Initiative to Prevent Improper Payments						
	Number (#) of payments reviewed for improper payments	**Dollars ($) of payments reviewed for improper payments**	**Number (#) of payments stopped**	**Dollars ($) of payments stopped**	**Number (#) of improper payments reviewed and not stopped**	**Dollars ($) of improper payments reviewed and not stopped payments**
Reviews with the DMF only (Required for FY 2014)	5,880,776	$10,433,742,166	0	$0.00	406	$744,614
Reviews with all other databases (Optional for FY2014)	N/A	N/A	N/A	N/A	N/A	N/A

Summaries of Financial Statement Audit and Management Assurances

Summary of Financial Statement Audit

Audit Opinion	Disclaimer				
Restatement	No				
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Ending Balance
Information Technology Security – Risk Management Framework	1		1		
Information Technology Security – Configuration Management*	1		1		
Financial Reporting		1			1
Total Material Weaknesses	2	1	2		1

Summary of Management Assurances

Effectiveness of Internal Control over Operations (FMFIA § 2)						
Statement of Assurance	Qualified					
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Information Technology Security – Risk Management Framework	1		1			
Information Technology Security – Configuration Management*	1		1			
Financial Reporting		1				1
Total Material Weaknesses	2	1	2			1

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

* Formerly referred to as Information Security – Applications and Services.

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APPENDICES

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Appendices

Glossary of Acronyms and Abbreviations

A

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

B

BPD	Bureau of the Public Debt

C

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

D

DBP Account	Dual Benefits Payments Account
DOL	Department of Labor

E

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

F

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

G

GPRA	Government Performance and Results Act
GTAS	Governmentwide Treasury Account Symbol Adjusted Trial Balance System

I

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

L

LAN	Local Area Network
LPE	Last Pre-retirement Non-Railroad Employer

M

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

N

NRRIT	National Railroad Retirement Investment Trust

O

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

P

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

R

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

S

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

T

Treasury	Department of the Treasury
Trust	National Railroad Retirement Investment Trust

U

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

V

VoIP	Voice over Internet Protocol

W

WHBAA	Worker, Homeownership, and Business Assistance Act of 2009

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