



**Office of Inspector General
for the
Railroad Retirement Board**

Semiannual Report to the Congress



April 1, 2013 to September 30, 2013



UNITED STATES RAILROAD RETIREMENT BOARD

OFFICE OF INSPECTOR GENERAL

October 31, 2013

The Honorable Michael S. Schwartz, Chairman
Railroad Retirement Board
844 North Rush Street
Chicago, Illinois 60611-2092

Dear Mr. Schwartz:

I am pleased to submit our *Semiannual Report to the Congress*. This report provides a descriptive summary of our activities and accomplishments during the period of April 1, 2013 through September 30, 2013. This report is submitted in accordance with Section 5 of the *Inspector General Act of 1978*, as amended. The Act requires that you transmit this report, along with any comments you may wish to make, to the appropriate Congressional committees and subcommittees within 30 days.

During this reporting period, we:

- audited the RRB's management control review process for Railroad Medicare contract oversight;
- completed our review of questionable railroad on-the-job injury claims;
- audited the RRB's internal controls over widow(er) annuities;
- published the results of our audit regarding the RRB's compliance with the Government Charge Card Abuse Prevention Act of 2012; and
- audited the RRB's privacy policy.

Our criminal investigators achieved 17 arrests, 25 criminal convictions, 27 indictments and informations, 28 civil judgments, and more than \$408 million in financial accomplishments resulting from OI's investigative work, including joint investigations.

The Office of Inspector General sincerely appreciates the ongoing assistance extended to our staff during the performance of their audits and investigations. We look forward to a continued cooperative relationship.

Sincerely,

Original Signed by
Martin J. Dickman
Inspector General



Table of Contents

INTRODUCTION.....	1
Railroad Retirement Board	1
Board Members	1
Office of Inspector General.....	1
EXECUTIVE SUMMARY.....	3
Office of Audit	3
Office of Investigations	3
APRIL 1, 2013 – SEPTEMBER 30, 2013 ACCOMPLISHMENTS	4
Office of Audit	4
Audit of the Railroad Retirement Board’s Management Control Review Process for Railroad Medicare Contract Oversight	5
Review of Questionable On-the-Job Injury Claims.....	7
Audit of the Railroad Retirement Board’s Internal Controls over Widow(er) Annuities	9
Audit of the Railroad Retirement Board’s Compliance with the Government Charge Card Abuse Prevention Act of 2012	12
Audit of the Railroad Retirement Board’s Privacy Program.....	13
Management Decisions and Implementation	15
Office of Investigations	16
Current Caseload	16
Caseload and Potential Fraud Loss By Case Type.....	17
Investigative Accomplishments	18
Representative Investigations.....	19
Disability Investigations.....	19
Unemployment-Sickness Insurance Investigations	20
Retirement-Survivor Benefits and Representative Payee Investigations	22
Railroad Medicare Investigations	24
Civil Enforcement Results	25
Hotline Contacts	26
OTHER OVERSIGHT ACTIVITIES	27



Table of Contents

Occupational Disability Program.....	27
OIG Alerts.....	27
American Recovery and Reinvestment Act of 2009.....	28
OPERATIONAL ISSUES.....	28
National Railroad Retirement Investment Trust	28
LEGISLATIVE & REGULATORY REVIEW	29
APPENDICES	30
Appendix A – Office of Inspector General Reports and Other Publicly Available Papers Issued.....	31
Appendix B – Audit Reports with Questioned Costs or with Recommendations That Funds be Put to Better Use	32
Appendix C – Report on Receivables, Waivers, and Recoveries	33
Appendix D – Significant Matters.....	35
Appendix E – Peer Reviews	37
Appendix F – Reports Prepared by Management.....	38
Appendix G – Reporting Requirements	45
Appendix H – Acronyms	46
Appendix I – Legal References.....	47



Office of Inspector General for the Railroad Retirement Board

INTRODUCTION

Railroad Retirement Board

The Railroad Retirement Board (RRB) is an independent agency in the executive branch of the Federal government. The RRB administers comprehensive disability, unemployment-sickness insurance, and retirement-survivor benefit programs for the nation's railroad workers and their families. These programs are codified under the Railroad Retirement Act (RRA) and the Railroad Unemployment Insurance Act (RUIA), respectively. During fiscal year (FY) 2012, the RRB paid more than \$11.4 billion in retirement-survivor and unemployment-sickness benefits to roughly 595,000 beneficiaries.

The RRB also has administrative responsibilities for certain benefit payments under the Social Security Act, including the administration of Medicare benefits for qualifying railroad workers and dependents. Pursuant to statutory authority, the RRB, in consultation with the Centers for Medicare and Medicaid Services, awards and monitors the single nationwide Railroad Medicare Part B Services contract. During FY 2012, the Railroad Medicare contractor paid approximately \$849 million in Part B medical insurance benefits on behalf of roughly 452,000 Railroad Medicare beneficiaries.

Board Members

The RRB's Board consists of three members who are appointed, with the advice and consent of the Senate, by the President of the United States. One member is appointed upon the recommendation of railroad employers; another member is appointed upon the recommendation of railroad labor organizations; and the third, who is the Chairman, is appointed to represent the public's interest. Board Members' terms are five years in length and expire in staggered years.

Office of Inspector General

The Railroad Retirement Solvency Act of 1983 amended the RRA to provide for an Office of Inspector General (OIG) for the RRB. The 1988 amendments to the Inspector General Act added the RRB to the list of covered agencies.



Office of Inspector General for the Railroad Retirement Board

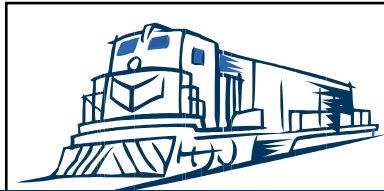
The RRB's Inspector General is a Presidential Appointee, with Senate confirmation, who serves as an independent and objective voice to both the RRB Board Members and the Congress. It is the Inspector General's responsibility to promote economy, efficiency, and effectiveness in the RRB's programs and operations. To that end, the OIG conducts audits/evaluations, management reviews, and inspections of the RRB's programs and operations. As a product of its efforts, the OIG offers recommendations for agency improvement to RRB management. The OIG also identifies and investigates cases of waste, fraud, and abuse in the RRB's programs and operations. The OIG works closely with Federal prosecutors and makes the appropriate referrals for criminal prosecution, civil prosecution, monetary recovery, or administrative sanctions.

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

Long Island Rail Road Occupational Disability Fraud Investigation

During this semiannual reporting period, 3 individuals were convicted and 5 individuals pled guilty to charges stemming from their participation in a brazen occupational disability fraud scheme involving former Long Island Rail Road (LIRR) employees, doctors, and disability facilitators thereby bringing the total up to 31 guilty resolutions out of 33 indictments. The remaining two individuals were on trial as of September 30, 2013 and the verdict will be discussed in our next reporting period. These results are discussed further on page 19.

In connection with our ongoing LIRR investigation, we've recommended the immediate termination of benefits (including Railroad Medicare coverage, if applicable) for all RRB annuitants whose disability awards were granted based upon medical documentation submitted by either doctor found guilty in this case. The RRB subsequently agreed and has issued termination letters. Based upon our experience gained through the LIRR investigation, we've made a number of recommendations to the Board designed to increase program integrity of the adjudication process for any new disability applications filed in connection with these terminations. As of September 30, 2013, the Board's response is pending.



Office of Inspector General for the Railroad Retirement Board

EXECUTIVE SUMMARY

Office of Audit

The Office of Audit (OA) conducts financial, performance, and compliance audits and evaluations/inspections of the RRB's programs and operations. During this reporting period, the OA:

- audited the RRB's management control review process for Railroad Medicare contract oversight;
- completed their review of questionable railroad on-the-job injury claims;
- audited the RRB's internal controls over widow(er) annuities;
- published the results of their audit regarding the RRB's compliance with the Government Charge Card Abuse Prevention Act of 2012; and
- audited the RRB's privacy policy.

OA's activities, during this reporting period, are discussed in further detail on pages 4 through 15 of this report. All publicly available reports are available on our website at www.rrb.gov/oig.

Office of Investigations

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

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

Investigative efforts may result in criminal convictions; civil judgments and penalties; administrative recovery of program benefit funds; and/or administrative sanctions.



Office of Inspector General for the Railroad Retirement Board

From April 1, 2013 through September 30, 2013, OI achieved:

- 17 arrests;
- 27 indictments and informations;
- 25 convictions;
- 28 civil judgments;
- 40 referrals to the Department of Justice; and
- more than \$408 million¹ in financial accomplishments.

Defendants, in the aggregate, were sentenced to more than 31 years of prison, over 73 years of probation, and 150 hours of community service. Additional details regarding OI's activities are discussed on pages 16 through 25.

APRIL 1, 2013 – SEPTEMBER 30, 2013 ACCOMPLISHMENTS

Office of Audit

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

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

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



Office of Inspector General for the Railroad Retirement Board

Audit of the Railroad Retirement Board's Management Control Review Process for Railroad Medicare Contract Oversight

Background

In May 1966, the Social Security Administration (SSA) delegated authority to the RRB for administering certain provisions of the Medicare program for Qualified Railroad Retirement Beneficiaries (QRRBs). These provisions included enrollment, premium collection, and selection of a carrier to process Medicare Part B claims. The enactment of Public Law 92-603 in October 1972 amended the Social Security Act and granted the RRB jurisdiction over all QRRB's that were receiving benefits from both the RRB and the SSA.

Since April 2000, the RRB has contracted with a nationwide contractor, Palmetto GBA, LLC (Palmetto), to process the Medicare Part B claims for QRRBs. As of September 28, 2012, Palmetto was awarded contract responsibilities as the Railroad Specialty Medicare Administrative Contractor. The RRB's contract with Palmetto states that, "[t]he contractor shall perform all carrier functions for individuals enrolled in Part B of the Railroad Medicare program throughout the United States." These carrier functions include medical review and benefit integrity. As a Specialty Medicare Administrative Contractor with responsibility for nationwide Railroad Medicare claims, Palmetto has not been assigned to a Zoned Program Integrity Contractor; and therefore, is potentially subject to increased risk of improper payments when compared with a regional Medicare Administrative Contractor.

Office of Management and Budget (OMB) Circular A-123, Management Accountability and Control, states that management controls are the organization, policies, and procedures used to reasonably ensure that:

- programs achieve their intended results;
- resources are used consistent with agency mission;
- programs and resources are protected from waste, fraud, and mismanagement;
- laws and regulations are followed; and
- reliable and timely information is obtained, maintained, reported, and used for decision making.



Office of Inspector General for the Railroad Retirement Board

Circular A-123 further states that these policies require agencies and individual Federal managers to take systematic and proactive measures to develop and implement appropriate, cost-effective management controls for results-oriented management; assess the adequacy of management controls in their operations; identify needed improvements; take corresponding corrective actions; and report annually on management controls.

Objective

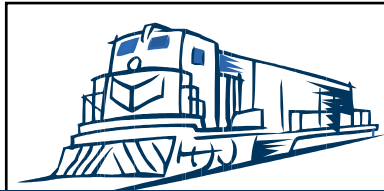
The objective of the audit was to determine if the RRB's management control review (MCR) process adequately addresses the RRB's responsibilities for Railroad Medicare contract oversight.

Findings

The RRB's current MCR process does not include the RRB's responsibilities for oversight of the Railroad Medicare contract with Palmetto. While Railroad Medicare has been identified by the RRB as a mission-critical agency program, with annual processed claims exceeding 9.4 million and payments of approximately \$849 million for Part B medical services, the Office of Programs has not conducted an MCR risk assessment or established risk-based control objectives and techniques specific to its contract oversight responsibilities.

Based on the Centers for Medicare & Medicaid Services' FY 2012 improper payment rates, the OIG estimates Railroad Medicare Part B improper payments to be more than \$84 million, annually.² As Railroad Medicare contract oversight is not subject to the RRB's MCR process, the risks of program fraud, waste, and abuse cannot be fully mitigated by management controls. As a result, material weaknesses or significant deficiencies in the Railroad Medicare program may go undetected, increasing the risk of improper payments. The inclusion of contract oversight in the RRB's MCR process will help to ensure the fulfillment of the RRB's program responsibilities, which include monitoring the integrity and effectiveness of the Railroad Medicare program.

² Source: Centers for Medicare and Medicaid Services' Fact Sheet, Fiscal Year 2012 Improper Payment Rates For CMS Programs, November 21, 2012 (Railroad Medicare improper payments were estimated by applying the improper payment rate for the Physician/Lab/Ambulance claim type. As a result, claim types not processed by Palmetto were excluded from the calculation).



Office of Inspector General for the Railroad Retirement Board

Recommendation

We recommend that the agency include Railroad Medicare contract oversight in the RRB's MCR process to ensure that management controls effectively monitor carrier performance and mitigate the risks of program fraud, waste, and abuse.

Management's Response

The agency concurred with this recommendation

Review of Questionable On-the-Job Injury Claims

Background

Generally, railroad employees do not receive workers' compensation for on-the-job injuries; instead, they sue their employers for injury claims. The RRB pays sickness benefits to railroad employees during the period of injury, and subsequently sets up a lien against any future settlements to recover the amount of sickness benefits paid. The RRB's Office of Programs is responsible for adjudicating and processing sickness applications and for issuing Notices of Lien. They also issue Internal Revenue Service Form W-2, Wage and Tax Statement (W-2), which identifies sickness benefits paid and taxes withheld.

In order to be eligible to receive sickness benefits, employees must complete an Application for Sickness Benefits and have their doctor complete a Statement of Sickness. If the employee designates that his or her injury or illness is work-related, the RRB claims examiner codes the claim appropriately and a Notice of Lien is automatically generated.

The RRB sends Notices of Lien to each person or company identified as liable, or potentially liable, for causing the employee's injury at work or work-related illness. The Notice of Lien notifies the person or company that the RRB is entitled to reimbursement of the sickness benefits paid if the employee receives any sum or damages from the liable party through suit, compromise, settlement, or judgment. As of February 2013, there were approximately 11,500 outstanding Notices of Lien.

From May 2011 through September 2012, 4 railroad employers sent the OIG a total of 247 referrals for cases where they had received a Notice of Lien from the RRB, yet they had no corresponding record of a work-related injury. In order to respond directly to



Office of Inspector General for the Railroad Retirement Board

these inquiries and to support the RRB's goal to provide excellent customer service, we performed this audit.

Objective

Our objective was to determine if the agency's Notices of Lien were issued in accordance with applicable laws and regulations.

Findings

Our review determined that the agency's policies and procedures generally complied with applicable laws and regulations regarding the processing of Notices of Lien. However, we disclosed that Notices of Lien were incorrectly sent to the railroads and sickness benefits were not taxed because of coding errors by claims examiners.

We also observed that although the employees had certified to the RRB that their injuries or illnesses were work-related, they had not notified their railroad employers. The RRB relies on the employee's certification of an on-the-job injury or illness, without corroboration from the railroad employer, to exempt sickness benefits from taxation. As a result, employees can receive tax-free sickness benefits even though the employer does not have any record of the injury or illness.

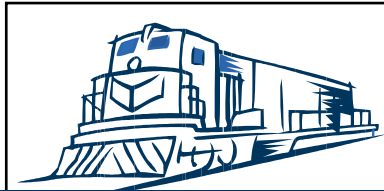
Recommendations

We recommend that the Office of Programs:

- strengthen controls to ensure that claims examiners correctly code Application for Sickness Benefits forms;
- issue corrected W-2s for eight miscoded cases; and
- consider changing the procedures for coding Applications for Sickness Benefits so that the determination of the taxability of sickness benefits is separate from the issuance of the Notices of Lien.

Management's Response

The Office of Programs concurred with the first two recommendations but rejected the third recommendation. They stated that they do not believe changes to the current process are warranted and that they expect the actions planned in response to our first recommendation will result in the necessary improvements to this area.



Office of Inspector General for the Railroad Retirement Board

OIG's Comments on Management's Response

We disagree with the Office of Program's response and question the adequacy of their procedures that exempt sickness benefits from taxation without validation of an on-the-job injury or illness.

Audit of the Railroad Retirement Board's Internal Controls over Widow(er) Annuities

Objective

OA conducted an audit of internal controls over widow(er) annuities. The audit objective was to determine if internal controls were adequate to ensure the accuracy of benefit payments awarded to widow(er)s.

Findings

Internal controls are not sufficient to ensure that widow(er) annuities are accurate. OA's review of a statistical sample of 105 widow(er) annuity awards identified 5 sample cases that contained a payment error for the actual rate or for the period paid. Based on our projection, we estimate the monetary impact of unidentified improper payments to be approximately \$2.6 million.

Documentation to support eligibility for widow(er) annuities is not always maintained in the RRB's imaging system. We were unable to verify the widow(er) annuity entitlement in 65 of 105 sample cases because the RRB did not always retain documentary evidence supporting proofs necessary to determine eligibility for a widow(er) annuity. Instead, the RRB relied on dates transcribed from the proofs and entered into the Application Express System (APPLE). Proof information transcribed into an electronic record by a single individual without secondary review is not sufficient documentation to verify eligibility to a widow(er) annuity. Based on our projection, there could be a total of 4,465 cases without all of the supporting documentation.

The proper management official is not being held accountable for the agency's management control activities as related to the survivor application proof process. Although these control activities are now performed by Field Service, they are currently included in the Office of Programs' assessable unit which was appropriate when Field Service was part of the Office of Programs. Field Service became a separate bureau in



Office of Inspector General for the Railroad Retirement Board

May 2012 when the Board Members approved a change in the agency's organizational structure related to its nationwide network of 53 field offices.

Key Recommendations

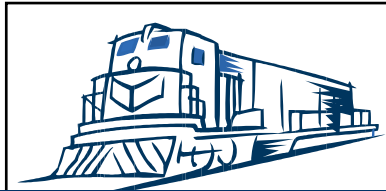
We recommend that agency management:

- take action for the error cases cited above to correct the annuity beginning dates, payment amounts, and to establish overpayments and/or issue accruals when necessary;
- improve internal controls;
- determine if there are similar error cases and take all corrective action;
- provide additional training;
- revise procedures to require the retention of scanned copies of needed proofs in the RRB's claim folder system;
- obtain and retain the copies of proofs to verify the eligibility of the widow(er) annuities for the 65 error cases and determine if verification of eligibility should be expanded to the universe of widow(er) annuities processed using proof data transcribed in APPLE; and
- establish a separate assessable unit for Field Service's control activities related to the survivor widow(er) annuity application and proof process to ensure that the proper management official is accountable for these control responsibilities.

Management's Response

The Office of Programs agreed to take corrective actions for the error cases involving annuity beginning dates, payment amounts, and to establish overpayments and/or issue accruals when necessary. The Office of Programs stated that they will conduct refresher training and periodically perform data comparisons to address the identified internal control weaknesses. The Office of Programs stated that they have already run a query but did not find any additional cases where the annuity beginning date is prior to the employee's date of death.

The Office of Programs and Field Service disagreed with the recommendations pertaining to revising procedures requiring the retention of scanned copies of proofs. They stated that the current method of transcription has been in place for many years and has proven to be sufficient and reliable. The Office of Programs and Field Service also disagreed with the recommendations pertaining to obtaining and retaining copies of proofs for the 65 error cases and did not agree with our recommendation to determine if



Office of Inspector General for the Railroad Retirement Board

the verification of eligibility should be expanded to the universe of widow(er) annuities processed using proof data transcribed in APPLE. The Office of Programs and Field Service also stated that they believed that the 65 cases should not have been characterized as errors because they were handled according to procedure.

The Management Control Review Committee did not concur with our recommendation to establish a separate assessable unit for Field Service's control activities related to the survivor widow(er) annuity application and proof process. They stated that the responsible official for Survivor Benefits-Initial assessable unit should continue to document and test the controls at this time.

OIG's Comments on Management's Response

In regard to the recommendations that the Office of Programs and Field Service disagreed with, we do not agree with management's statement that transcribing the proof data is sufficient and reliable. We maintain that proofs should be obtained and retained for all error cases identified and for the universe of widow(er) annuities processed that only used transcribed proof data. Proof retention would provide clearly documented evidence to ensure that these annuitants are eligible and as a means to detect potential fraud. Proof retention is needed to address the agency's goal of serving as responsible stewards for customer trust funds and agency resources and to ensure that the correct amount of benefits are paid to the right people. While management disagrees that the 65 cases should be cited as errors, we were unable to verify eligibility for the 65 annuitants and as such, these cases have been cited as errors.

In regard to the recommendation that the Management Control Review Committee did not concur with, we maintain that the responsible official for Survivor Benefits is too far removed from Field Service's organizational structure to be knowledgeable about and kept informed of internal control issues related to the survivor application proof process conducted in the 53 Field Offices.



Office of Inspector General for the Railroad Retirement Board

Audit of the Railroad Retirement Board's Compliance with the Government Charge Card Abuse Prevention Act of 2012

Background

On October 5, 2012, the President signed into law the Government Charge Card Abuse Prevention Act of 2012, which creates stricter rules for Federal employees' use of government charge cards. This includes requiring agencies to establish and maintain safeguards and internal controls over purchase cards, travel cards, and centrally billed accounts.³ The law also introduced rules of eligibility for travel cards and specific penalties for the abuse of inappropriate activity.

The RRB uses purchase cards for individual purchases of goods and services and uses travel cards for all payments of expenses related to official Government travel. In FY 2012, the RRB's purchase card and travel card charges totaled approximately \$600,000 and \$500,000, respectively.

Objective

To assess the agency's compliance with the Government Charge Card Abuse Prevention Act of 2012, and to support the agency's goal to "serve as responsible stewards for our customers' trust funds and agency resources," the OIG conducted this audit of the RRB's policies, procedures, and records for purchase and travel card transactions from December 2011 through January 2013.

Key Findings

Our audit determined that the agency generally complied with the requirements of the Government Charge Card Abuse Prevention Act of 2012. Improvements; however; are needed to ensure that: (1) the control to perform a continuing need review for charge card holders is included in the management control review process, (2) that written procedures for the continuing need review for charge card holders are developed, and (3) that only credit card statements with proper authorization are processed.

³ A centrally billed account is a card or account established by the RRB's credit card company (Citibank) at the request of the Program Coordinator for direct payment of transportation expenses. Payments are made directly by the RRB to Citibank.



Office of Inspector General for the Railroad Retirement Board

Recommendations

We recommend that agency management:

- update management control review documentation for the Procurement Assessable Unit to include a control for periodic continuing need reviews of charge card holders;
- develop written procedures for continuing need reviews, to include when and how often the review should be performed; and
- ensure that the agency only processes payments for credit card statements with proper authorization.

Management's Response

Agency management concurs with all recommendations.

Audit of the Railroad Retirement Board's Privacy Program

Objective

OA conducted an audit to assess the adequacy of the RRB's privacy program and to ensure that the RRB is in compliance with current and anticipated requirements for privacy. The audit focused on the initial and annual privacy training for RRB employees and contractors, the privacy reviews that are performed, the privacy reports that are filed, and the policies and procedures of the privacy program.

Findings

We identified the following weaknesses:

- contractor personnel are not adequately identified;
- instructional memo from Acquisition Management to the contracting officer's representative needs revision;
- contractor personnel did not receive annual privacy training;
- outdated privacy and security training materials are provided to new employees;
- administrative circulars are outdated;



Office of Inspector General for the Railroad Retirement Board

- privacy considerations need to be included with systems development requests; and
- a strategic organizational privacy plan needs to be developed to include policies on the validation of personally identifiable information (PII), communication between bureaus regarding changes in PII, and the use and protection of PII in testing, training, and research.

Recommendations

To address the identified weaknesses, we recommended that RRB officials take the following actions:

- Update and maintain the Contractor Security Control Log to reflect all contractor personnel that work at the RRB during the life of the contract, and indicate if they will have access to PII.
- Revise the instructions to the contracting officer's representative to update the Contractor Security Control Log and implement a control to ensure those updates are made.
- Revise the methods for identifying contractor personnel and distributing the annual privacy training, and implement a control to verify that all contractors receive annual training.
- Revise and update the privacy and security awareness training documents, and update the privacy training materials provided to new employees.
- Revise Administrative Circulars IRM-2 and IRM-15 to reflect current security and privacy documents and procedures.
- Revise Form G-436A to include privacy related questions and an approval by the Chief Privacy Officer.
- Develop a strategic organizational privacy plan that is multi-organizational and represents the RRB as a whole.
- Develop policies for the validation of PII, the communication between bureaus regarding changes in PII, and the use and protection of PII in testing, training, and research.

Management's Response

Agency management concurs with all recommendations.



Office of Inspector General for the Railroad Retirement Board

Management Decisions and Implementation

As part of its oversight activities, the OIG tracks the agency’s implementation of audit recommendations. Additionally, OMB Circular No. A-50 (Revised) and the Inspector General Act Amendments of 1988 require the reporting of management decisions and corrective actions for all audit recommendations.

Management Decisions	
Requiring Management Decision on April 1, 2013	5
Pending Management Decision for New Recommendations	0
Management Decision on Previous Recommendations	0
Recommendations Pending Management Decision on September 30, 2013	5

Corrective Action	
Recommendations Requiring Action on April 1, 2013	202
Recommendations Issued During Reporting Period	29
Corrective Actions Completed During Reporting Period	19
Recommendations Rejected During Reporting Period	7
Final Actions Pending on September 30, 2013	205



Office of Inspector General for the Railroad Retirement Board

Office of Investigations

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

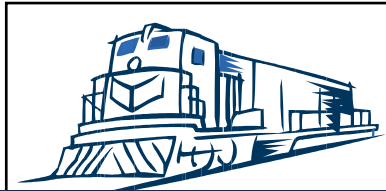
Current Caseload

During this semiannual reporting period, OI opened 72 new cases.

Investigative Caseload Data	
Investigative Cases Open as of April 1, 2013	442
Investigative Cases Opened During Reporting Period	72
Investigative Cases Closed During Reporting Period	141
Investigative Cases Open as of September 30, 2013	373

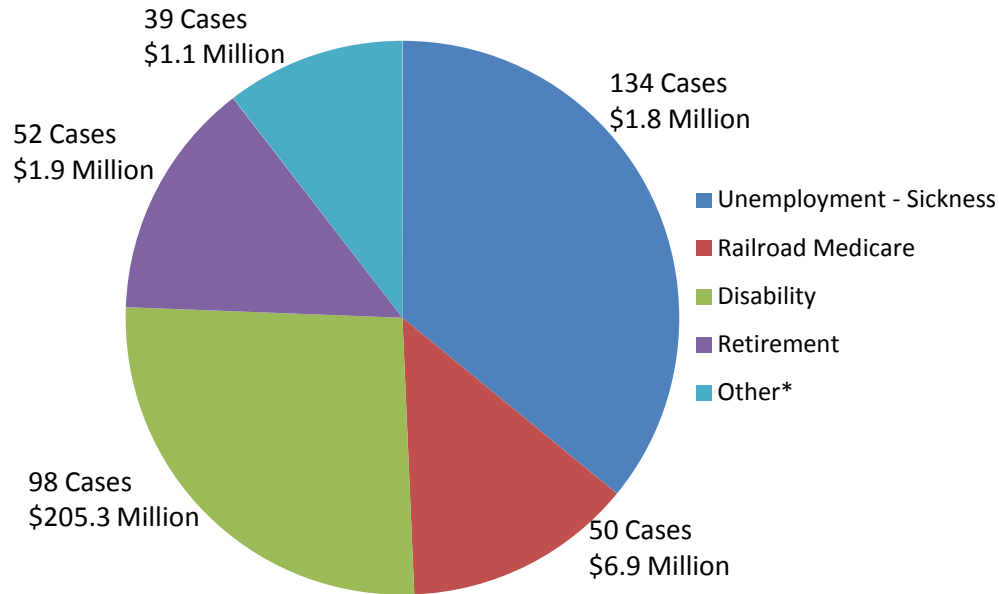
As of September 30, 2013, OI's investigative case load totaled 373 matters which represent approximately \$217 million in potential fraud losses.⁴ The chart located on the next page reflects the distribution of OI cases and potential fraud losses by RRB major program area.

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



Office of Inspector General for the Railroad Retirement Board

Caseload and Potential Fraud Loss By Case Type



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



Office of Inspector General for the Railroad Retirement Board

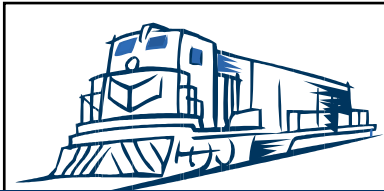
Investigative Accomplishments

Action	April 1, 2013 – September 30, 2013
Referrals to the Department of Justice	40
Indictments/Informations	27
Arrests	17
Convictions	25
Civil Complaints	8
Civil Judgments	28
Restitution and Fines ⁵	\$270 Million
Civil Damages and Penalties ⁶	\$137.9 Million
Investigative Recoveries ⁷	\$108,619
Community Service Hours	150

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

⁶ See above footnote.

⁷ RRB benefits that are overpaid due to fraud and can be recouped through RRB administrative recovery action are expressed as investigative recoveries.



Office of Inspector General for the Railroad Retirement Board

***April 1, 2013 – September 30, 2013
Representative Investigations***

Disability Investigations

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

During this reporting period, OI obtained five convictions and one civil judgment in disability fraud cases. The defendants received, in the aggregate, sentences totaling more than 11½ years of prison, 11 years of probation, and were ordered to pay more than \$233.5 million in restitution and civil damages/penalties.

Descriptions of representative cases completed during this reporting period follow.

Doctor Sentenced to Eight Years of Prison For His Role in the LIRR Occupational Disability Fraud Scheme

We previously reported the guilty plea entered by a doctor who admitted to preparing medical narrative used to fraudulently qualify LIRR employees for RRB occupational disability annuities. During this semiannual reporting period, a Federal District Court Judge sentenced the doctor to eight years of prison and three years of supervised release. In connection with his guilty plea, the doctor had previously agreed to forfeit \$116.5 million and to pay \$116.5 million in restitution.

Doctor and Two Consultants Found Guilty in First LIRR Occupational Disability Fraud Trial

The first three defendants (a doctor, a former LIRR union president, and a former RRB employee) tried for their participation in the massive LIRR fraud scheme were convicted on all counts. The doctor was convicted for preparing fraudulent medical narratives designed to qualify LIRR employees for RRB occupational disability annuities and for billing thousands of dollars worth of unnecessary medical tests to support these narratives. The other two individuals were convicted for their roles as disability consultants who would falsify RRB disability applications on behalf of their clients. Sentencing has been scheduled for December 2013.



Office of Inspector General for the Railroad Retirement Board

Disability Annuitant Sentenced to Prison for Failure to Report Information to the Railroad Retirement Board

Special Agents investigated a self-employed RRB disability annuitant who owned and operated a home theater installation company but reported earnings under his spouse's social security number to avoid detection by the RRB.

This case was referred to the United States Attorney's Office for the Central District of Illinois which filed an indictment against the annuitant. He subsequently pled guilty to Failure to Report Information to the RRB and was sentenced to 1 day of prison, 6 months of home confinement, 1 year of probation, and more than \$34,000 in restitution.

Annuitant Pays \$25,000 Lump Sum to Settle Potential False Claims Charges

Special Agents investigated an RRB disability annuitant who failed to report earnings associated with his ownership of a successful construction business. His failure to report this information to the RRB caused him to fraudulently receive RRB disability payments.

This case was referred to the United States Attorney's Office for the Southern District of Ohio. The United States Attorney's Office entered into a settlement agreement with the annuitant for \$25,000.

Unemployment-Sickness Insurance Investigations

Unemployment-Sickness Insurance benefit fraud typically involves individuals claiming and receiving Unemployment Insurance (UI) or Sickness Insurance (SI) benefits while working or collecting state administered unemployment benefits. OI receives the majority of these cases from the RRB's Disability, Sickness, and Unemployment Benefits Division as a result of information developed through state wage matching programs. The RRB conducts computer wage matches with various states to identify claimants who may have collected RRB administered UI or SI benefits on the same days they received wages from a private employer or on the same days they received state administered unemployment benefits.



Office of Inspector General for the Railroad Retirement Board

Since the enactment of the American Recovery and Reinvestment Act of 2009 and various other benefit extending legislation, OI has seen a substantial increase of UI fraud referrals. In fact, almost 88% of OI's current UI fraud cases involve extended UI benefits.

During this reporting period, OI obtained 9 convictions and 17 civil judgments for UI-SI fraud cases. Defendants in these cases received, in the aggregate, 5 years of prison, 29 years of probation, 150 hours of community service, and were ordered to pay more than \$461,500 in restitution, fines, and civil damages/penalties.

The following are examples of UI-SI cases completed during this reporting period.

UI Claimant Fails to Report Work and Earnings to the RRB

OI investigated an RRB claimant based upon an agency referral. OI's investigation determined that during the period of May 2009 through March 2010, the claimant applied for RRB UI benefits on the same days he was working and being paid by a private employer. The claimant submitted a total of 22 false claims and collected more than \$12,000 in fraudulent UI benefits.

This case was referred to the United States Attorney's Office for the Southern District of Illinois. The United States Attorney's Office filed an indictment charging the claimant with Theft of Government Funds. The claimant pled guilty and was sentenced to 5 years of probation, 10 hours of community service, and ordered to pay full restitution plus a special assessment.

UI Claimant Enters into Pretrial Diversion

OI investigated an RRB UI claimant based upon an agency referral. OI's investigation determined that during the period of June 2010 through March 2011, the claimant applied for RRB UI benefits on many of the same days he was working for a private employer. His actions resulted in the theft of more than \$12,000 in UI benefits.

This case was referred to the United States Attorney's Office for the Western District of Tennessee. The claimant entered into a 12 month Pretrial Diversion agreement with the United States Attorney's Office for making false claims to the Government. Under this agreement, the claimant must pay full restitution, complete one year of supervision, and perform 100 hours of community service.



Office of Inspector General for the Railroad Retirement Board

UI Claimant Sentenced to Five Years of Probation

OI investigated an RRB UI claimant based upon an agency referral. OI's investigation determined that during the period of May 2009 through May 2010, the claimant collected RRB UI benefits on the same days he was working for a private employer. The claimant failed to report his work and earnings to the RRB and fraudulently received more than \$14,000 in UI benefits.

This case was referred to the United States Attorney's Office for the Middle District of Florida. The United States Attorney's Office filed an information against the annuitant for Theft of Government Funds. The annuitant pled guilty and was sentenced to five years of probation, six months of home detention, and ordered to pay full restitution plus a special assessment.

Retirement-Survivor Benefits and Representative Payee Investigations

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

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

During this reporting period, OI obtained five convictions and four civil judgments for retirement benefit fraud cases. Defendants in these cases received, in the aggregate, almost 4 years of prison, 10½ years of probation, and were ordered to pay more than \$649,400 in restitution, fines, and civil damages/penalties.



Office of Inspector General for the Railroad Retirement Board

Retirement Annuitant Reported Earnings under Spouse's Social Security Number

OI Special Agents investigated an RRB retirement annuitant who, in order to conceal his return to work in the railroad industry, reported his wages under his spouse's social security number. The annuitant's failure to report his income to the RRB caused him to fraudulently receive more than \$83,000 in retirement payments.

This case was referred to the United States Attorney's Office for the District of Maine. The United States Attorney's Office filed an information against the annuitant for Theft of Government Funds. He pled guilty and was sentenced to three years of probation, full restitution, and a special assessment fee.

Representative Payee Sentenced to 33 Months of Prison

OI substantiated allegations that from April 2001 through November 2009 a representative payee had misused RRB funds for her own personal use instead of paying the RRB beneficiary's nursing home bills.

This case was referred to the United States Attorney's Office for the Northern District of Illinois. The United States Attorney's Office indicted the representative payee and she pled guilty to one count Theft of Public Money, Property, or Records and was sentenced to 33 months of prison and more than \$388,000 in restitution.

Owners of a Residential Care Facility Fraudulently Receives RRB Benefits

OI's investigation revealed that from October 2010 through January 2012 the owners of a residential personal care facility continued to accept RRB survivor benefits for the care of an RRB beneficiary even though the individual no longer resided in their facility.

This case was referred to the United States Attorney's Office for the Southern District of Georgia. The individuals entered into a settlement agreement with the United States Attorney's Office agreeing to pay more than \$17,500 to settle charges under the False Claims Act.



Office of Inspector General for the Railroad Retirement Board

Railroad Medicare Investigations

During this reporting period, OI obtained four convictions and six civil judgments in Railroad Medicare fraud cases. Defendants in these cases received, in the aggregate, almost 11 years of prison, 9 years of probation, and were ordered to pay more than \$173.4 million in restitution, fines, and civil damages/penalties.⁸

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

Descriptions of representative cases completed during this reporting period follow.

Physical Therapy Company Co-Owners Are Sentenced to Prison

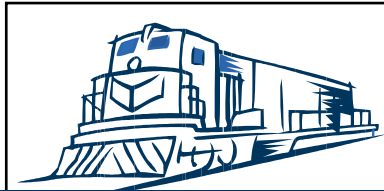
OI Special Agents worked cooperatively as members of the Medicare Fraud Strike Force to investigate allegations against the owners of a physical therapy company. The team's investigation revealed that the subject provider sold fictitious physical and occupational therapy notes to companies who then submitted these fraudulent claims to Medicare for payment.

This case was referred to the United States Attorney's Office for the Eastern District of Michigan. The co-owners subsequently pled guilty and were sentenced to a combined total of 6½ years of prison and more than \$850,000 in restitution.

Qui Tam Lawsuit Settled for \$600,000

OI Special Agents worked cooperatively as members of a multi-agency team investigating allegations contained in a Qui Tam lawsuit filed in the Southern District of Florida. Agents were able to prove that the subject medical provider performed procedures without the required supervision in addition to "unbundling" or double billing Medicare for the same procedure. The United States Attorney's Office for the Southern District of Florida subsequently intervened in this case.

⁸ This total reflects the full amount of restitution, fines, and civil damages/penalties ordered. Since OI's Railroad Medicare fraud cases are joint investigations, the total dollar amount includes losses to other health care programs.



Office of Inspector General for the Railroad Retirement Board

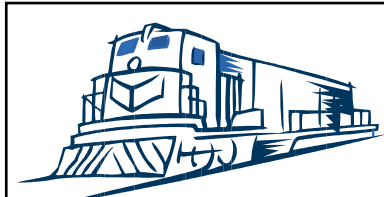
The provider entered into a settlement agreement with the United States Attorney's Office consenting to pay \$600,000 to settle these claims.

Civil Enforcement Results

OI may pursue civil actions to recover funds fraudulently obtained by annuitants or claimants. These civil actions are typically prosecuted under the provisions of the False Claims Act. This statute provides that the government may recover up to treble damages as well as a \$5,500 to \$11,000 penalty for each false claim submitted.

During this semiannual reporting period, a total of 28 civil judgments were entered by U.S. District Courts for RRB fraud cases totaling more than \$137.9 million in damages and penalties.⁹ Some of these civil actions are pursued under the Department of Justice's Affirmative Civil Enforcement program which provides an efficient and effective means to address fraud against the RRB's programs including the unemployment-sickness insurance program and the disability program.

⁹ The total amount of damages and penalties listed reflects fraud amounts related to programs administered exclusively by the RRB and fraud amounts from other Federal programs such as Medicare or Social Security which were included in the disposition resulting from the investigation.

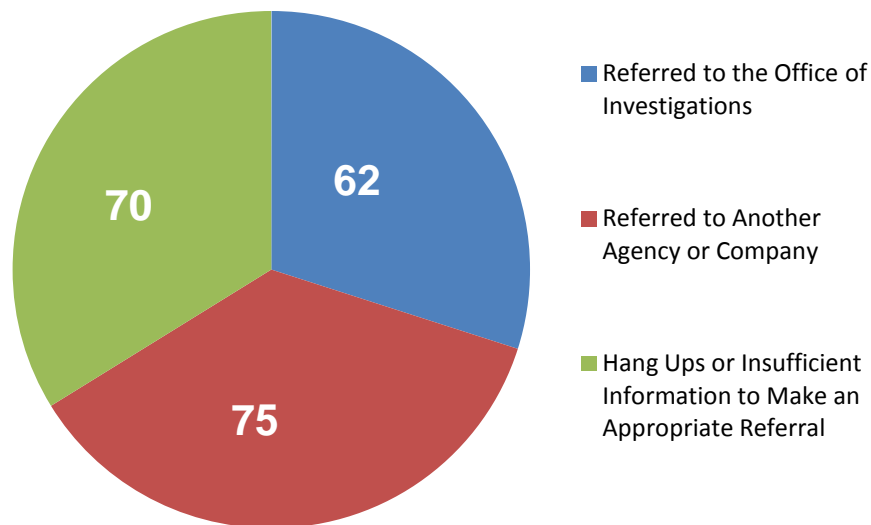


Office of Inspector General for the Railroad Retirement Board

Hotline Contacts

Our office established its hotline to receive complaints concerning suspected fraud, waste, and abuse in the RRB's programs and operations. The hotline provides an open line of communication for individuals to report suspected criminal activity and mismanagement/waste of RRB funds.

During this reporting period, our hotline received 207 contacts in the following manner: 81% by telephone, 17% by email, and 2% by mail. The following chart summarizes the disposition of hotline contacts received.





Office of Inspector General for the Railroad Retirement Board

OTHER OVERSIGHT ACTIVITIES

Occupational Disability Program

The prevention of improper payments remains our priority and we continue to devote investigative and audit resources to strengthening the integrity of the RRB's benefit programs including the occupational disability program. In fact, over the last several years, the Inspector General has identified a wide range of recommendations to strengthen the integrity of this program; however, a vast majority of these recommendations have not been implemented and vulnerabilities continue to threaten program integrity.¹⁰

The RRB owes it to the nation's railroad workers and their families to fulfill the agency's mission by paying "benefits to the right people, in the right amounts, in a timely manner, and ... [taking] appropriate action to safeguard [their] customers' trust funds."¹¹

OIG Alerts

In June 2012, the Inspector General began issuing OIG Alerts to the agency. OIG Alerts supplement our current investigative and audit processes by providing the Inspector General with a quick and efficient mechanism to suggest recommendations for agency improvement. During this semiannual reporting period, the Inspector General issued four OIG Alerts. These recommendations included:

- amending the RUIA and the RRA to specifically exclude voluntarily retired individuals from receiving sickness insurance benefits or occupational disability benefits from the RRB;
- strengthening the criminal penalty provisions of the RRA and the RUIA by adding felony charges;
- adding either a fraud disqualification period or a nonpayment of benefits penalty to the RRA; and
- creating reliable and searchable electronic files in the RRB's disability program.

¹⁰ See pages 2 and 19 for details relating to our ongoing LIRR occupational disability fraud investigation.

¹¹ Railroad Retirement Board, *Mission Statement*. (Chicago, Illinois: September 2003). Retrieved from <http://www.rrb.gov/general/mission.asp>. Accessed September 30, 2013.



Office of Inspector General for the Railroad Retirement Board

American Recovery and Reinvestment Act of 2009

During this semiannual period, we continued our efforts to aide in a transparent American Recovery and Reinvestment Act process by preparing monthly progress reports in formats developed by the Recovery Accountability and Transparency Board. These monthly reports are published on the Recovery.gov website and are also available on the RRB's Recovery Act Information webpage.

Since the enactment of the American Recovery and Reinvestment Act of 2009 and various other benefit extending legislation, OI has seen a substantial increase of UI fraud referrals. In fact, almost 88% of OI's current UI fraud cases involve extended UI benefits.

OPERATIONAL ISSUES

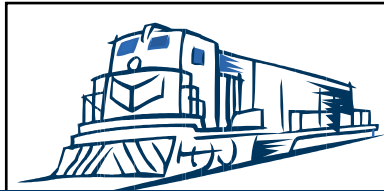
The following operational issue impacts the OIG's ability to effectively carry out its oversight role. This issue would have to be remedied with legislative change.

National Railroad Retirement Investment Trust

The National Railroad Retirement Investment Trust (NRRIT) is a tax-exempt entity independent of the Federal government which was established by the Railroad Retirement and Survivors' Improvement Act of 2001 (RRSIA) to manage and invest railroad retirement assets.¹² RRSIA does not provide OIG with oversight authority to conduct audits and investigations of the NRRIT; however, RRSIA does require that the NRRIT report to the RRB.

A lack of NRRIT investment fund management accountability, transparency, and stringent financial oversight can be precursors to fraud, waste, or abuse. In fact, we have monitored the NRRIT since 2001 and have continually expressed concerns regarding lack of meaningful oversight. Despite these concerns and questionable long-term trust fund solvency, the RRB continues to maintain a passive relationship with the NRRIT. The NRRIT fund, which supports the railroad retirement program, continues to remain outside the purview of those appointed to protect the interests of the program's beneficiaries and tax-paying public. Within the Federal agency spectrum there is no

¹² As of August 31, 2013, the RRB's investments in the NRRIT were valued at approximately \$24 billion.



Office of Inspector General for the Railroad Retirement Board

comparable example where Federal program assets are completely outside of the jurisdiction of a Federal agency's appointed Inspector General.

New American Institute of Certified Public Accountants' auditing standards, AU-C section 600 *Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)* established additional audit procedures for financial statement audit periods ending on or after December 15, 2012. These new standards require direct communication and cooperation between financial statement auditing organizations (i.e. the OIG) and other auditors who perform work on the financial information that will be utilized as audit evidence (NRRIT's component auditor). As of September 30, 2013, the NRRIT and their component auditor have been uncooperative and we may be forced to disclaim on the RRB's financial statements (for the second year in a row).¹³

To ensure the integrity, economy, and long-term viability of the NRRIT, RRB management must establish performance audit requirements that will strengthen administrative and financial oversight and ensure fund transparency.

LEGISLATIVE & REGULATORY REVIEW

The Inspector General Act of 1978, as amended, requires the Inspector General to review existing and proposed legislation and regulations relating to the programs and operations of the agency. To enhance program integrity, the Inspector General recommended the following legislative changes:

- amending both the RRA and the RUIA to specifically exclude voluntarily retired individuals from receiving occupational disability benefits and sickness insurance benefits from the RRB;
- strengthening the criminal penalty provisions of the RRA and the RUIA by adding felony charges;
- adding either a fraud disqualification period or a nonpayment of benefits penalty to the RRA; and
- amending the RRA to prohibit the payment of RRB benefits to prisoners.

¹³ The accounting firm retained by the NRRIT received a peer review rating of pass with deficiencies for its system review report for the year ended March 31, 2011. As a result, the OIG issued a disclaimer on the RRB's financial statement for fiscal years 2012, 2011, and 2010 due to the significance of the NRRIT net asset amounts included in the RRB's financial statements.

APPENDICES

Appendix	Title	Page No.
A	Office of Inspector General Reports and Other Publicly Available Papers Issued	31
B	Audit Reports with Questioned Costs or with Recommendations that Funds be Put to Better Use	32
C	Report on Receivables, Waivers, and Recoveries	33
D	Significant Matters	35
E	Peer Reviews	37
F	Reports Prepared by Management	38
G	Reporting Requirements	45
H	Acronyms	46
I	Legal References	47

Appendix A – Office of Inspector General Reports and Other Publicly Available Papers Issued

- Audit of the Railroad Retirement Board's Management Control Review Process for Railroad Medicare Contract Oversight, June 24, 2013
- Review of Questionable On-the-Job Injury Claims, July 18, 2013
- Audit of the Railroad Retirement Board's Internal Controls over Widow(er) Annuities, July 31, 2013
- Audit of the Railroad Retirement Board's Compliance with the Government Charge Card Abuse Prevention Act of 2012, September 19, 2013
- Audit of the Railroad Retirement Board's Privacy Program, September 20, 2013

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

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

	Audit Reports with Questioned Costs	Amount of Questioned Costs	Amount of Unsupported Costs
A. For which no management decision had been made by April 1, 2013	1	\$3.8 Million	\$3.8 Million
B. Which were issued from April 1, 2013 through September 30, 2013	2	\$86.6 Million	\$2.6 Million
Subtotal (A + B)	3	\$90.4 Million	\$6.4 Million
C. For which a management decision was made between April 1, 2013 through September 30, 2013	2	\$86.6 Million	\$2.6 Million
(i) dollar value of disallowed costs	0	0	0
(ii) dollar value of costs not disallowed	2	\$86.6 Million	\$2.6 Million
D. For which no management decision had been made by September 30, 2013	1	\$3.8 Million	\$3.8 Million
E. Report for which no management decision was made within six months of issuance	1	\$3.8 Million	\$3.8 Million

	Audit Reports With Recommendations that Funds Be Put to Better Use	Dollar Value
A. For which no management decision had been made by April 1, 2013	0	0
B. Which were issued from April 1, 2013 through September 30, 2013	1	\$2,440
C. Subtotal (A + B)	1	\$2,440
(i) dollar value of disallowed costs	0	0
(ii) dollar value of costs not disallowed	1	\$2,440
D. For which no management decision had been made by September 30, 2013	0	0
E. Report for which no management decision was made within six months of issuance	0	0

Appendix C – Report on Receivables, Waivers, and Recoveries

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

Office of Investigations

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

Office of Audit

Report	Funds to be put to better use	Funds Agreed by Management	Receivables Established	Waivers	Recoveries to Date ¹⁴
99-03	\$50,850	\$50,850	\$50,850	\$50,490	\$360
99-14	\$83,000	\$83,000	\$34,423	\$0	\$30,584
99-16	\$48,000,000	\$48,000,000	\$0	\$0	\$22,500,000
99-17	\$11,000,000	\$11,000,000	\$0	\$0	\$1,604,545
00-16	\$235,000	\$235,000	\$0	\$0	\$253,846
03-06	\$306,129	N/A	\$0	\$0	\$306,129
04-06	\$821,000	\$821,000	\$604,429	\$5,564	\$629,688
04-10	\$400,000	\$400,000	\$0	\$0	\$761,151
05-03	\$1,800,000	\$1,800,000	\$4,476,192	\$339,244	\$2,756,023
05-06	\$10,000	\$10,000	\$0	\$0	\$42,915
05-07	\$1,070,000	\$1,070,000	\$49,943	\$0	\$94,049
05-10	\$2,600,000	\$2,600,000	\$311,000		
06-04	\$257,000	\$257,000			
06-05	\$2,100	\$2,100	\$0	\$0	\$0
06-06	\$200,000	\$200,000	\$18,263	\$0	\$25,866
09-02	\$600,000	\$600,000	\$320	\$0	\$1,578,838
10-09	\$3,355,408	\$3,355,408	\$0	\$0	\$3,355,408
10-13	\$212,038	\$92,412	\$0	\$0	\$18,614
12-03	\$3,483	\$3,483	\$0	\$0	\$3,483
13-03	\$112,600	\$0	\$0	\$0	\$0
13-08	\$2,440	\$2,440	\$0	\$0	\$0

¹⁴ Both overpayments and underpayments are included in this column.

Appendix D – Significant Matters

The OIG has identified deficiencies in controls over budgetary reporting and information security as significant matters. A summary of the issues and related recommendations for corrective action follow.

Budgetary Reporting¹⁵

In FY 2011, we reported a material weakness for budgetary reporting and recommended that the Bureau of Fiscal Operations (BFO) provide training for the preparation of the statement and implement a review process to ensure the accuracy of calculations, consistency in recorded amounts, and effectiveness of controls. In an effort to address this material weakness, BFO staff conducted budgetary training for the accountants in March 2012. Although BFO has made an effort to address this weakness, the training was not sufficient to prevent the financial reporting errors found in the June 30, 2012 *Statement of Budgetary Resources*. In addition, corrective action remains to be taken regarding an improved review process to ensure the accuracy of calculations, consistency in recorded amounts, and effectiveness of controls.

<u>Issue Area</u>	<u>Date of Report</u>	<u>Report and Recommendations</u>
Budgetary Reporting	January 31, 2012	Report OIG 12-04, #1 & 2

¹⁵ Due to the October 2013 Government shutdown, we were unable to obtain timely information regarding the RRB's progress towards resolving the previously cited material weakness in budgetary reporting. This section will be updated during the next semiannual reporting period.

Information Security

Risk Management Program

The OIG previously evaluated information security pursuant to the provisions of the Federal Information Security Management Act of 2002 (FISMA) and concluded that the RRB has not yet achieved an effective FISMA-compliant security program. Although agency managers are working to strengthen controls, management action in response to the following OIG recommendations had either not been completed as of the end of the current semiannual reporting period or had not been in place long enough to permit evaluation.

<u>Issue Area</u>	<u>Date of Report</u>	<u>Report and Recommendations</u> ¹⁶
Internal Control Over the Risk Management Program ¹⁷	July 18, 2005	Report OIG 05-08, #4
	September 30, 2008	Report OIG 08-05, #2 & 7
	November 12, 2009	Report OIG 10-01, #1 & 5
	September 28, 2011	Report OIG 11-10, #1 – 3
	September 28, 2011	Report OIG 11-11, #1 – 4
	September 29, 2011	Report OIG 11-12, #1 – 4
	January 5, 2012	Report OIG 12-02, #2 & 5
	September 21, 2012	Report OIG 12-08, #2 - 4

Configuration Management

The OIG also identified a material weakness regarding information technology security application services because the RRB continues to use an unsupported server for some major applications. Agency management has ensured that some of the affected servers were replaced and others have been moved to the agency's virtual environment, but action to complete full decommission of all affected servers continues. Uncertainties exist in determining the timeframe in which this situation will be corrected, as well as the necessary resources for completion.

<u>Issue Area</u>	<u>Date of Report</u>	<u>Report and Recommendations</u> ¹⁸
Security Configuration Management	January 5, 2012	Report OIG 12-02, #7 & 8

¹⁶ Online report abstracts summarize the results of the noted evaluations. The full reports include information protected from disclosure and have been designated for limited distribution pursuant to 5 U.S.C. § 552.

¹⁷ Previously known as Certification and Accreditation.

¹⁸ An online report abstract summarizes the results of this evaluation. The full report includes information protected from disclosure and has been designated for limited distribution pursuant to 5 U.S.C. § 552.

Appendix E – Peer Reviews

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

Office of Audit

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

The results of OA's most recent peer review (which was for the year ended March 31, 2012) were transmitted on November 21, 2012. OA received a peer review rating of pass. This peer review did not contain any recommendations.

OA did not conduct any peer reviews during this semiannual reporting period.

Office of Investigations

During the peer review process, Federal OIG investigative organizations, in general, may receive a peer review rating of fully compliant, compliant, or not compliant with the quality standards established by the Council of the Inspectors General on Integrity and Efficiency and the Attorney General's Guidelines for Inspectors General with Law Enforcement Authority based on Section 6(e) of the Inspector General Act, as amended.

The results of OI's most recent peer review (which was for the FY ended September 30, 2011) were transmitted on February 9, 2012. OI received a peer review rating of pass. This peer review did not contain any recommendations.

During this semiannual reporting period, OI began their peer review of the Office of Inspector General for the Federal Reserve Board.

Appendix F – Reports Prepared by Management

Final Action on Audits with Disallowed Costs

For the 6-Month Period Ending September 30, 2013	<u>Number of Audit Reports</u>	<u>Disallowed Costs</u>
A. Audit reports, with management decisions, on which final action had not been taken at the beginning of the period.	0	\$ 0
B. Audit reports on which management decisions were made during the period.	0	\$ 0
C. Total audit reports pending final action during the period. (A + B)	0	\$ 0
D. Audit reports on which final action was taken during the period.		
1. Recoveries		
(a) Collections and offsets	0	\$ 0
(b) Property	0	\$ 0
(c) Other	0	\$ 0
2. Recovery Waived	0	\$ 0
3. Total of 1 and 2	0	\$ 0
E. Audit reports needing final action at the end of the period (C - D.3).	0	\$ 0

**Management Report on Final Action on Audits with
Recommendations to Put Funds to Better Use for the
6-Month Period Ending September 30, 2013**

	<u>Number of Audit Reports</u>	<u>Funds to be Put to Better Use</u>
A. Audit reports, with management decisions, on which final action had not been taken at the beginning of the period.	5	\$4,249,920*
B. Audit reports on which management decisions were made during the period.	0	\$0
C. Total audit reports pending final action during the period. (A - B)	5	\$4,249,920
D. Audit reports on which final action was taken during the period.		
1. Value of recommendations implemented (completed)	1	\$3,355,408
2. Value of recommendations that management concluded should not or could not be implemented (completed)	0	\$0
3. Total of 1 and 2	1	\$3,355,408
E. Audit reports needing final action at the end of the period	4	\$894,512

* Comprised of the following amounts: \$2,100 from Audit Report 06-05, *Review of Compliance with Provisions of the Railroad Retirement Act Governing the Initial Award of Benefits*; \$200,000 from Audit Report 06-06, *Review of the Termination and Suspension of Benefits Paid Under the Railroad Retirement Act*; \$600,000 from Audit Report 09-02, *Fiscal Year 2008 Financial Statement Audit Letter to Management*; \$3,355,408 from Audit Report 10-09, *Audit of Internal Controls over Medicare Premium Transfers Between the Railroad Retirement Board and the Centers for Medicare and Medicaid Services*; and \$92,412 from 10-13 *Railroad Medicare Services Billed with Dates of Service after Beneficiaries' Dates of Death*.

Management Statement on Resolved Audit Reports Over 12 Months Old with Final Action Pending as of September 30, 2013

Report	Date	Disallowed Costs	Funds to be Put to Better Use	Reason Action Not Completed
Review of Information Security at the Railroad Retirement Board (02-04)	02/5/02	NONE	NONE	Information Services has closed 26 out of 28 recommendations. Servers are scheduled to be replaced once remaining project on server is completed.
Review of Internal Control Over the Actuarial Projection Process (05-04)	05/5/05	NONE	NONE	The Chief Actuary is still reviewing their options to best implement this recommendation.
Review of Access Controls in the End-User Computing General Support System (05-08)	07/18/05	NONE	NONE	Information Services has closed 14 of 15 recommendations in this confidential report. Risk assessment was done and it was determined that contractor assistance will remediate last remaining recommendation by FY2014.
Fiscal Year 2005 Evaluation of Information Security at the Railroad Retirement Board (05-11)	09/28/05	NONE	NONE	Bureau of Information Services is working with outside contractor. Target for completion is FY2014.
Accuracy and Reliability of GPRA Performance Measures: Timeliness of Non-Disability Survivor Annuity Payments (06-03)	01/30/06	NONE	NONE	Programs have closed six of the seven recommendations. Last recommendation has been delayed due to higher priority project.
Review of Compliance with the Provisions of the Railroad Retirement Act Governing the Initial Award of Benefits (06-05)	04/12/06	NONE	\$2,100	Programs staff closed four of the five recommendations. Last recommendation on hold due to resources diverted to higher priority project.
Review of the Termination and Suspension of Benefits Paid Under the Railroad Retirement Act (06-06)	05/24/06	NONE	\$200,000	Analysis completed and draft report submitted for review prior to request for IT changes. Coding work is in progress.
Review of Incident Handling and Reporting at the Railroad Retirement Board (06-09)	08/24/06	NONE	NONE	Contract option to draft incident response plan was approved however staff was reassigned to another project. Training will be conducted as required in the CSIRP.

Management Statement on Resolved Audit Reports Over 12 Months Old with Final Action Pending as of September 30, 2013

Report	Date	Disallowed Costs	Funds to be Put to Better Use	Reason Action Not Completed
Audit of the DAISY/CHICO Component Application of the RRA Benefit Payment Major Application System (07-02)	03/9/07	NONE	NONE	Recent IT changes are pending review as resources were diverted to higher priority projects.
Evaluation of the Railroad Retirement Board's Privacy Program (07-06)	07/30/07	NONE	NONE	New CPO was appointed. Additional funding and resources are needed. Of the 16 recommendations, 15 have been closed. Work continues on last recommendation.
Audit of Federal Income Taxes Withheld from Railroad Retirement Annuities (07-07)	07/30/07	NONE	NONE	Coordination is required with another org. Five of the six recommendations have been closed, with the remaining one targeted for completion in FY14.
Fiscal Year 2007 Evaluation of Information Security at the Railroad Retirement Board (07-08)	09/27/07	NONE	NONE	Work continues and is targeted for completion in FY14.
Audit of Controls to Safeguard Sensitive Personally Identifiable Information (07-09)	09/27/07	NONE	NONE	Work and coordination continues along with outside contractor. Target for completion is FY14.
Fiscal Year 2007 Financial Statement Audit Letter to Management (08-01)	03/6/08	NONE	NONE	Bureau of Fiscal Operations implemented enhanced controls in FY10. OIG will reassess once sufficient time has lapse.
Evaluation of Information Security for the RRB's Financial Interchange Major Application – Abstract (08-03)	09/26/08	NONE	NONE	Work plans, policy and/or procedures continue with target for completion in FY14.
Fiscal Year 2008 Evaluation of Information Security at the RRB (08-05)	09/26/08	NONE	NONE	Work is currently being performed in coordination with outside contractor.
Fiscal Year 2008 Financial Statement Audit Letter to Management (09-02)	03/24/09	NONE	\$600,000	Review and updating of documentations along with case reviews are currently being performed on remaining recommendations. Work continues.
Audit of Internal Control Over Accounts Payable (09-03)	03/31/09	NONE	NONE	Remaining recommendation is dependent on the replacement of FFS with FMIS.

Management Statement on Resolved Audit Reports Over 12 Months Old with Final Action Pending as of September 30, 2013

Report	Date	Disallowed Costs	Funds to be Put to Better Use	Reason Action Not Completed
Audit of the Railroad Medicare Integrity Program at Palmetto Government Benefits Administrators (09-04)	09/25/09	NONE	NONE	Additional documentations were requested which requires coordination with outside agency.
Audit of the General and Application Controls in the Financial Management Major Application System (09-05)	09/30/09	NONE	NONE	Of the 3 recommendations, 1 was closed by the OIG, 1 requires additional work and the last is on hold due to other priority workloads. Target completion in FY14.
Fiscal Year 2009 Evaluation of Information Security (10-01)	11/12/09	NONE	NONE	Contractor assistance is needed and as soon as all testing is completed documentation will be sent to OIG for review. Target completion in FY14.
Review of Statistical Methods Employed in the Financial Interchange Determination (10-06m)	05/04/10	NONE	NONE	The Bureau of Actuary (BOA) is reviewing documentation and will take the necessary action(s) and coordinate with the Bureau of Information Services for programming services.
Review of the Technical Approach and Methodology Used to Determine the Annual Financial Interchange Amount for the Year Ended September 30, 2008 (10-07m)	05/19/10	NONE	NONE	The Bureau of Actuary is reviewing documentation and will take the necessary action(s).
Review of the Accuracy of the Financial Interchange as Executed for the Year Ended September 30, 2008 (10-10m)	05/25/10	NONE	NONE	The Bureau of Actuary is reviewing documentation and will take the necessary action(s).
Audit of Unilateral Disability Freeze Determinations (10-11)	08/12/10	NONE	NONE	Documentations were submitted to OIG; 2 recommendations were closed with 1 requiring additional working and the remaining 2 are awaiting Board approval. Target completion in FY14.
Audit of the Account Benefits Ratio (10-12)	09/29/10	NONE	NONE	The Bureau of Actuary reviewed and will take the necessary action(s).

Management Statement on Resolved Audit Reports Over 12 Months Old with Final Action Pending as of September 30, 2013

Report	Date	Disallowed Costs	Funds to be Put to Better Use	Reason Action Not Completed
Railroad Medicare Services Billed with Dates of Service after the Beneficiaries' Dates of Death (10-13)	09/30/10	NONE	\$92,412	Coordination continues with outside organization. In additional documentation were submitted on 2 recommendations and 1 was closed.
Fiscal Year 2010 Evaluation of Information Security at the Railroad Retirement Board - Abstract (11-01)	11/05/10	NONE	NONE	Additional documentation was requested by OIG on last recommendation, and replacement FTE is needed.
Audit of Controls Over Railroad Medicare Contract Costs (11-06)	04/20/11	NONE	NONE	Coordination is required with outside organization.
Audit of Railroad Retirement Act Benefits Overpayments and Internal Controls (11-07)	06/29/11	NONE	NONE	Programs' is working with Bureau of Information Services pending implementation of systems changes.
Review of the Railroad Retirement Board's Security Patch Management Process – Abstract (11-08)	07/07/11	NONE	NONE	Of the 12 recommendations, 2 required additional documentations, 5 are awaiting new FTE replacement from contractor, work continues on 1 and 4 have been closed.
Inspection of the Railroad Retirement Board's Agency Enterprise General Information Support System Certification and Accreditation – Abstract (11-10)	09/28/11	NONE	NONE	Bureau of Information Services is awaiting documentation from outside contractor and is also reviewing current procedures and updating.
Inspection of the Railroad Retirement Board's Financial Management System's Continuous Monitoring Program – Abstract (11-11)	09/28/11	NONE	NONE	Contract has been awarded and work is in progress with outside contractor.
Evaluation of the Railroad Retirement Board's Benefit and Payment Operations System Continuous Monitoring – Abstract (11-12)	09/29/11	NONE	NONE	Work plans, policy, and/or procedures are currently pending, in addition to coordination is required with outside contractor.
Fiscal Year 2011 Evaluation of Information Security at the Railroad Retirement Board - Abstract (12-02)	01/05/12	NONE	NONE	Coordination is required with outside contractor. In addition procedures are being updated.

Management Statement on Resolved Audit Reports Over 12 Months Old with Final Action Pending as of September 30, 2013

Report	Date	Disallowed Costs	Funds to be Put to Better Use	Reason Action Not Completed
Fiscal Year 2011 Financial Statement Audit Letter to Management (12-04)	02/31/12	NONE	NONE	Additional documentation was submitted on 1 recommendation and policies and procedures are being reviewed on remaining recommendations.
Audit of the Application Express (APPLE) System's Date of Death Reliability (12-06)	03/30/12	NONE	NONE	Analysis is deferred due to work committed to other priority project and additional documentation was requested by OIG on 1 recommendation.
Inspection of the Railroad Retirement Board's Representative Payee Monitoring (12-07)	07/27/12	NONE	NONE	Preliminary work to define the scope is in progress with actual work and in depth analysis to follow after higher priority projects has been completed.
Inspection of the Railroad Retirement Board's Financial Interchange System Continuous Monitoring (12-08)	09/21/12	NONE	NONE	The Bureau of Actuary is currently reviewing and will take the necessary action(s).
Audit of the Railroad Medicare Part B Eligibility and Premium Collection Process (12-10)	09/26/12	NONE	NONE	Work is in progress. IPI worksheet has been completed and is pending IRMC approval. Training will be conducted.

Appendix G – Reporting Requirements

Act Reference	Inspector General Reporting Requirements	Page(s)
Section 4(a) (2)	Review of Legislation and Regulations	29
Section 5(a) (1)	Significant Problems, Abuses, and Deficiencies	35 – 36
Section 5(a) (2)	Recommendations With Respect to Significant Problems, Abuses, and Deficiencies	35 – 36
Section 5(a) (3)	Prior Significant Recommendations Not Yet Implemented	35 – 36
Section 5(a) (4)	Matters Referred to Prosecutive Authorities	4, 18
Section 5(a) (5)	Instances Where Information Was Refused	None
Section 5(a) (6)	List of Audit Reports	31
Section 5(a) (7)	Summary of Each Significant Report	4 – 14
Section 5(a) (8)	Statistical Tables on Management Decisions on Questioned Costs	32
Section 5(a) (9)	Statistical Tables on Management Decisions on Recommendations That Funds be Put to Better Use	32
Section 5(a) (10)	Summary of Each Audit Report Over 6 Months Old for Which No Management Decision Has Been Made	15
Section 5(a) (11)	Description and Explanation for Any Significant Revised Management Decision	None
Section 5(a) (12)	Information on Any Significant Management Decisions With Which the Inspector General Disagrees	27 – 29

Act Reference	Management Reporting Requirements	Page(s)
Section 5(b) (1)	Management Comments	Management's Transmittal
Section 5(b) (2)	Statistical Table on Final Action on Disallowed Costs	38
Section 5(b) (3)	Statistical Table on Final Action to Put Funds to Better Use	39
Section 5(b) (4)	Statement on Audit Reports With Final Action Pending	40 – 44

Appendix H – Acronyms

Acronym	Explanation
APPLE	Application Express System
BFO	Bureau of Fiscal Operations
FISMA	Federal Information Security Management Act of 2002
FY	Fiscal Year
LIRR	Long Island Rail Road
MCR	Management Control Review
NRRIT	National Railroad Retirement Investment Trust
OA	Office of Inspector General for the Railroad Retirement Board – Office of Audit
OI	Office of Inspector General for the Railroad Retirement Board – Office of Investigations
OIG	Office of Inspector General for the Railroad Retirement Board
OMB	Office of Management and Budget
PII	Personally Identifiable Information
QRRB	Qualified Railroad Retirement Beneficiaries
RRA	Railroad Retirement Act
RRB	Railroad Retirement Board
RRSIA	Railroad Retirement and Survivors' Improvement Act of 2001
RUIA	Railroad Unemployment Insurance Act
SSA	Social Security Administration
SI	Sickness Insurance
UI	Unemployment Insurance

Appendix I – Legal References

Federal:

American Recovery and Reinvestment Act of 2009 – P.L. 111–5
Dodd-Frank Wall Street Reform and Consumer Protection Act – P.L. 111-203
False Claims Act – 31 U.S.C. §§ 3729 – 3733
False Statements – 18 U.S.C. § 1001, et. seq.
Federal Information Security Management Act of 2002 – 44 U.S.C. § 3531, et. seq.
Government Charge Card Abuse Prevention Act of 2012 – P.L. 75-717
Inspector General Act of 1978, as amended – 5 U.S.C. App. 3
Railroad Retirement Act – 45 U.S.C. § 231, et. seq.
Railroad Unemployment Insurance Act – 45 U.S.C. § 351, et. seq.
Railroad Retirement and Survivors' Improvement Act of 2001 – P.L 107–90
Railroad Retirement Solvency Act of 1983 – P.L. 98–76
Social Security Act – 42 U.S.C. § 301, et seq.
Theft of Public Money/Government Funds/Government Property – 18 U.S.C. § 641

REPORT

FRAUD, WASTE, AND ABUSE



Call the OIG Hotline:

1-800-772-4258

Email: hotline@oig.rrb.gov

The OIG cannot ensure confidentiality to persons who provide information via email. Do not send information by email that you do not want a third party to read.

**Write: RRB, OIG Hotline Officer
844 N. Rush Street
Chicago, Illinois 60611-2092**