

Office of Inspector General
for the U.S. Railroad Retirement Board



SEMIANNUAL REPORT
TO THE CONGRESS

April 1, 2016 to September 30, 2016



UNITED STATES RAILROAD RETIREMENT BOARD

OFFICE OF INSPECTOR GENERAL

October 31, 2016

Office of the Chairman
Railroad Retirement Board
844 North Rush Street
Chicago, Illinois 60611-2092

Dear Office of the Chairman,

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, 2016 through September 30, 2016. 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 published the following audit reports:

- Fiscal Year 2015 Audit of Information Security at the Railroad Retirement Board - Abstract (OA Report 16-06);
- Audit of the Railroad Retirement Board's Compliance with the Improper Payments Elimination and Recovery Act of 2010 in the Fiscal Year 2015 Performance and Accountability Report (OA Report 16-07);
- Management Information Report - The Railroad Retirement Board's Method for Recording and Reporting Overpayments Identified by Death Matches Can be Improved (OA Report 16-08);
- Report on Cybersecurity Information For Covered Systems at the Railroad Retirement Board - Abstract (OA Report 16-09); and
- Railroad Retirement Board Did Not Calculate Reimbursed Medicare Costs in Accordance With Federal Requirements (OA Report 16-10)

Our criminal investigators achieved 7 arrests, 13 criminal convictions, 22 indictments and informations, 6 civil judgments, and more than \$16.5 million in financial accomplishments resulting from OI's investigative work, including joint investigations.

We appreciate the ongoing assistance extended to our staff during the performance of their duties and look forward to the resolution of program integrity issues within the agency's disability program.

Sincerely,

Original Signed by,
Martin J. Dickman
Inspector General



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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, retirement-survivor, and unemployment-sickness insurance 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 2015, the RRB paid retirement-survivor benefits of nearly \$12.2 billion to about 558,000 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 (CMS), awards and monitors a single nationwide Railroad Medicare Part B Services contract. RRB's Medicare Contractor, Palmetto, processed over 8 million claims, and paid approximately \$829 million in Part B benefits for fiscal year 2015.

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. The Chairman position has been vacant since August 2015.

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. The RRB's Inspector General is a Presidential Appointee, with Senate confirmation, who serves as an independent and objective voice to the RRB Board Members and the Congress. It is the



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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, Texas, and Virginia. These field offices provide an increased investigative presence which aid in the effective and efficient coordination of joint investigations with other Inspector General Offices and law enforcement agencies.

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, OA published the following reports:

- Fiscal Year 2015 Audit of Information Security at the Railroad Retirement Board - Abstract (OA Report 16-06);
- Audit of the Railroad Retirement Board's Compliance with the Improper Payments Elimination and Recovery Act of 2010 in the Fiscal Year 2015 Performance and Accountability Report (OA Report 16-07);
- Management Information Report - The Railroad Retirement Board's Method for Recording and Reporting Overpayments Identified by Death Matches can be Improved (OA Report 16-08);
- Report on Cybersecurity Information for Covered Systems at the Railroad Retirement Board - Abstract (OA Report 16-09); and
- Railroad Retirement Board Did Not Calculate Reimbursed Medicare Costs in Accordance With Federal Requirements (OA Report 16-10).



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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, and/or administrative recovery of program benefit funds.

From April 1, 2016 through September 30, 2016, OI achieved:

- 7 arrests;
- 22 indictments and informations;
- 13 convictions;
- 6 civil judgments;
- 25 referrals to the Department of Justice; and
- more than \$16.5 million in financial accomplishments.¹

Defendants, in the aggregate, were sentenced to more than 6 years of prison, more than 33 years of probation, and over 150 hours of community service. Additional details regarding OI activities are discussed on pages 16 through 24.

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.



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APRIL 1, 2016 – SEPTEMBER 30, 2016 OIG 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 reporting period follow. In addition to these audits, OA will discuss three management and performance challenges they have identified as facing the RRB.

Fiscal Year 2015 Audit of Information Security at the Railroad Retirement Board - Abstract (OA Report 16-06)

Background

OA conducted an audit of information security at the RRB for fiscal year 2015, as mandated by the Federal Information Security Modernization Act of 2014 (FISMA). This act modified the Federal Information Security Management Act of 2002 and included changes in the requirements for evaluations performed by Inspectors General. FISMA now requires an assessment of effectiveness of the agency's information security policies, procedures, and practices, rather than an assessment of compliance. An assessment of effectiveness considers internal control integration and whether the organization is achieving its intended objective.

Objectives

The objectives of OA's audit included:

- testing the effectiveness of information security policies, procedures, and practices of a representative subset of the agency's information systems;



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- assessing the effectiveness of the information security policies, procedures, and practices of the agency; and
- preparing a report on selected elements of the agency's information security program in compliance with the fiscal year 2015 FISMA reporting instructions.

Results of Audit

OA determined that the RRB continues to make progress in implementing an information security program that meets the requirements of FISMA; yet a fully effective security program has not been achieved. OA identified deficiencies in the areas of continuous monitoring management, configuration management, identity and access management, remote access management, incident response and reporting, plan of action and milestones, and security training.

Recommendations

In total, OA made 23 detailed recommendations to RRB management related to assorted policies, procedures, and time standards; exploring new automated technology products; access control; training; updating agency records; and implementing stronger controls.

Management's Response

Agency management concurred with all recommendations.²

Audit of the Railroad Retirement Board's Compliance with the Improper Payments Elimination and Recovery Act of 2010 in the Fiscal Year 2015 Performance and Accountability Report (OA Report 16-07)

Background

OA conducted a mandated audit to assess fiscal year 2015 compliance with the Improper Payments Elimination and Recovery Act of 2010 (IPERA) and the Improper Payments Elimination and Recovery Improvement Act of 2012, which both amended the Improper Payments Information of 2002.²

² Public Laws 111-204, 112-248, and 107-300, respectively.
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Findings

OA determined that the RRB was not fully compliant with IPERA requirements. The RRB was not in compliance with the requirements for a risk assessment because its risk assessment documents did not meet the minimum requirements specified in Office of Management and Budget's (OMB) guidance. OA found that the agency was in compliance with the other IPERA reporting requirements, when applicable.

OA further determined that improvement is needed to ensure the accuracy of reported improper payment amounts for the RRA and RUIA programs, which were understated by approximately \$12 million and \$904,000, respectively. As a result of these understatements, the reported improper payment amounts for fiscal year 2014 would have exceeded the amounts reported for fiscal year 2013. Thus, the agency's performance in reducing improper payments has not been effective. OA also identified improper payment reporting deficiencies, which made the RRB improper payments report incomplete.

Recommendations

OA made 6 detailed recommendations to RRB management related to:

- revising the overall process for the RRA program to ensure the accuracy of the data that supports improper payment reporting;
- recording entire receivable balances;
- revising its methodology for the RUIA program to ensure compliance with improper payment guidance;
- increasing the quantity of cases in a review to ensure that it is representative of the population;
- strengthening controls for the review of underlying support for improper payment reporting to ensure the accuracy of the data; and
- developing and documenting policies and procedures to ensure that improper payment reporting is prepared in accordance with applicable guidance.

Management's Response and OA's Comments

The Office of Programs concurred with three of the six recommendations, deferred their response for two recommendations, and did not concur with our recommendation regarding revising the overall process for the RRA program to ensure the accuracy of the data that supports improper payment reporting. The Office of Programs stated that



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their methodology has been refined for the RRA program as a result of the previous IPERA audit and these revisions have been submitted to OMB for their comments. They also stated that their overall process has been in place since 2002 and that they routinely review and make adjustments as appropriate based on applicable OMB guidance.

While the OIG agrees that the Office of Programs' overall process for the RRA improper payment process has been in place for many years with occasional adjustments, our audit results show that this process is insufficient for improper payment reporting purposes. Approximately 23 percent of improper payments reported for the RRA program are based on estimates and projections that has proven to be error prone, resulting in RRA improper payments being understated by at least \$12 million. OA reiterates the need for revision of their overall process to improve the accuracy of improper payment reporting. Without a thorough and reliable assessment of its improper payments program, the RRB is at risk of failing to identify all improper payments, which ultimately will allow them to continue.

Management Information Report - The Railroad Retirement Board's Method for Recording and Reporting Overpayments Identified by Death Matches can be Improved (OA Report 16-08)

Background

OA conducted a review of the effectiveness of aspects of the RRB's program integrity activities to identify, terminate, and recover payments made to deceased annuitants. The objective was to determine if the RRB's program integrity processes effectively identified deceased annuitants resulting in the termination of their benefits and recovery of any overpayments.

Findings

The RRB's program integrity processes for matching files of deceased individuals provided by the Social Security Administration (SSA) and Centers for Medicare and Medicaid Services (CMS) to RRB payment and Medicare systems were generally effective in identifying overpayments for recovery. However, OA identified weaknesses that impacted the accuracy of reporting for the RRB program integrity processes. The RRB needs to eliminate duplicate reporting, only report those cases identified as a result of the death matches, and include all cases identified through the matches. In



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addition, the Office of Programs should recognize returned payments as outstanding debts for which receivables must be recorded. Also, the RRB's Medicare utilization reviews are too narrowly focused. As a result, they offer limited value. Lastly, the RRB does not have an Information Exchange Agreement with CMS for the use of the CMS death update files. OA also separately reported a sensitive fraud vulnerability to RRB management.

Recommendations

In total, OA made seven detailed recommendations to RRB management related to:

- ensuring that receivables are recorded for overpayments returned to the RRB;
- ensuring that all overpayments made to deceased annuitants are included in the RRB's improper payment reporting;
- preventing duplicate reporting of death matches;
- preventing the inclusion of information on receivables that were not the result of the death matches in death match reporting;
- reporting information on all receivables that were established as a result of death matches;
- reducing the age of the annuitants used in their Medicare utilization reviews, to be more comparable to SSA; and
- contacting CMS to propose a written information exchange agreement between the RRB and CMS for electronic death information provided by CMS.

Management's Response

Agency management has agreed to take corrective action for all recommendations.

Report on Cybersecurity Information for Covered Systems at the Railroad Retirement Board - Abstract (OA Report 16-09)

Objective

OA conducted a review of the Cybersecurity Information for Covered Systems at the Railroad Retirement Board. The objective of this review was to prepare a report on the agency's cybersecurity program as mandated in the Consolidated Appropriations Act of 2016. The OIG is required to obtain and report information from the RRB about specific information in the agency's covered Federal computer systems that provide access to personally identifiable information. Specifically, this report included information on the RRB's logical access controls, RRB multi-factor authentication for privileged users,



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software inventories and licenses for the RRB and its contractors, and threat monitoring and detection capabilities for the RRB and its contractors.

Results of the Review

The RRB has established logical access control policies and procedures to guard against unauthorized access and enforce least privilege. Past OIG reviews of the RRB's identity and access management program show that it is consistent with applicable standards, but some improvement is necessary to be fully effective.

Multi-factor authentication has not been established for privileged users due to issues that arose from the use of multiple accounts for these users. The RRB understands the requirement for using multi-factor authentication for privileged accounts and has developed a project plan to implement a solution.

The RRB and its contractors have established configuration management policies and procedures that include developing, documenting, and keeping current an inventory of software and associated license information. The inventories are periodically reviewed and updated as appropriate.

Railroad Retirement Board Did Not Calculate Reimbursed Medicare Costs in Accordance with Federal Requirements (OA Report 16-10)

Background

OA conducted an audit of the RRB's cost allocation plans for Medicare. The RRB performs services on behalf of Medicare and is reimbursed by CMS based on an interagency agreement. This interagency agreement and OMB Circular A-87 (A-87) require the development of a Medicare cost allocation plan port for this reimbursement.³ The objective was to determine if the RRB's cost allocation plan and Medicare

³ OMB Circular No. A-87, *Cost Principles for State, Local, and Indian Tribal Governments* (Washington D.C.: May 10, 2004). A-87 was relocated to 2 Code of Federal Regulations (CFR) Part 225 (effective August 31, 2005). OMB has consolidated and streamlined its guidance located at 2 CFR Part 200.



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reimbursement calculations were accurate and supported in accordance with federal requirements.

Findings

OA determined that controls were not adequate to ensure the RRB's cost allocation plans and Medicare reimbursement calculations were accurate and supported in accordance with Federal requirements. Further, the RRB's Medicare cost allocation policies and procedures were not effective in preventing errors. Labor costs were reimbursed based on management's professional judgement and indirect costs had not been formally approved by CMS. These weaknesses resulted in unsupported Medicare direct costs totaling approximately \$30.4 million and unsupported indirect costs ranging from \$9.5 million to \$33.8 million for fiscal years 2010 through 2014.

Fundamentally, RRB and RRB OIG disagree on the applicability of and the RRB's compliance with A-87. In its written comments, RRB states it is in compliance with A-87, using a multiple allocation base method. During the course of OA's audit, the RRB never mentioned or presented documentation supporting their use of the multiple allocation base method and first identified the method in its written response to OA's draft report. OA requested documentation from the RRB to support its written comments that the RRB was in compliance with A-87 in determining direct costs and uses a multiple allocation base method for indirect costs. RRB replied that it did not have any additional documentation to provide. Because of the differences between what A-87 defines as the multiple allocation base method and how RRB is allocating indirect costs, OA does not believe its indirect cost allocation is in compliance with A-87.

Over reimbursements may be offset to some extent after RRB and CMS implement a compliant direct labor cost system, establish an indirect cost rate, and determine the allow ability of indirect costs. Final determination of the accurate reimbursable Medicare



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costs may result in violations of the Purpose Statue and Antideficiency Act.

Recommendations

OA made 26 detailed recommendations to RRB management. The key recommendations were related to:

- determining the allowable Medicare program costs and adjusting the prior reimbursements as appropriate;
- working with CMS to update the Medicare interagency agreement and adopt A-87 as an RRB agency requirement;
- implementing an OMB compliant direct labor costs system; establishing a CMS approved Medicare indirect cost rate; and determining allowable indirect costs; and
- the reporting of any Purpose Statue and Antideficiency Act violations identified pursuant to OMB Circular A-11.⁴

Management's Response

RRB management concurred with 10 recommendations and did not concur with 16 recommendations. Further, while concurring with recommendations one and five, management's response raised concern because the estimated completion timeframes are unreasonable and increase the risk of inaccurate reimbursements from CMS in the future. Such significant nonconcurrence is of concern and, as such, OA met with knowledgeable RRB staff to discuss management's response to OA's draft report. OA had previously provided detailed explanations to agency questions by phone and email and held ongoing focused discussion to resolve differences of understanding as they occurred and to obtain mutual concurrence on OA's finding and recommendations. During this meeting, OA expressed their concerns about inaccuracies in management's responses to the draft report. This information was communicated to agency management and no revisions were made to its written responses.

Generally, RRB nonconcurred with recommendations that would require retroactive assessment of the accuracy of reimbursements received from CMS in compliance with the applicable interagency agreement or to address the examples of noncompliance with A-87 discussed throughout this report. In order to assure the accuracy of prior and

⁴ OMB Circular No. A-11, *Preparation, Submission, and Execution of the Budget* (Washington D.C.: June 2015).
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future reimbursements, RRB should take all necessary steps to implement OA's recommendations.

In addition to reports described above, Office of Audits issued the following assessments or memorandum highlighting key issues or matters at the RRB.

Implementation of Federal Accounting Standards Advisory Board's (FASAB) Statement of Federal Financial Accounting Standards 47 (SFFAS 47) *Reporting Entity* and the National Railroad Retirement Investment Trust (NRRIT)

Recently, the Federal Accounting Standards Advisory Board (FASAB) issued a new Statement of Federal Financial Accounting Standard (SFFAS). SFFAS 47, *Reporting Entity*, provides guidance regarding what organizations are to be included in the governmentwide financial statement and whether an entity is classified as a consolidating or disclosure entity. It is the opinion of OA that the NRRIT should be a consolidating entity while the RRB has indicated the NRRIT should be a disclosure entity. The RRB indicated that it has no ownership interest in the NRRIT in its assertion that the NRRIT should be classified as a disclosure entity for financial statement reporting purposes under SFFAS 47. The OIG disagrees with the RRB's assertion and believes that the NRRIT should be classified as a consolidating entity based on the criteria in SFFAS 47. The classification determination ultimately decides whether the NRRIT's net assets will continue to be included in the RRB and governmentwide financial statements beginning in fiscal year 2018 when SFFAS 47 becomes effective. Based on the RRB's classification of the NRRIT as a disclosure entity, the net assets would not be included, there would only be a footnote reference to the NRRIT. If the NRRIT were classified as a consolidating entity, the net assets would still be included in the financial statements.

Material Weakness in Control Environment Identified

The OIG has determined that the RRB's control environment may have a detrimental effect on the RRB's financial statements. The Federal Manager's Financial Integrity Act of 1983 provides that internal accounting and administrative controls shall be established to provide reliable financial reporting and to maintain accountability over assets.⁵ OMB issued additional guidance to further define management's responsibility

⁵ Public Law 97-255
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for ensuring that the organization is committed to sustaining an effective internal control environment.⁶ This guidance explains the five principles of the control environment and that if one principle is ineffective, management would be unable to conclude that the control environment is effective. One such principle, the enforce accountability principle, states that management should hold individuals accountable for their internal control responsibilities. Management, with oversight from the oversight body, takes corrective action as necessary to enforce accountability for internal control in the entity. These actions can range from informal feedback provided to the direct supervisor to disciplinary action taken by the oversight body, depending on the significance of the deficiency to the internal control system.

The new material weakness is based on an ineffective control principle, the enforce accountability principle, which states that management should hold individuals accountable for their internal control responsibilities. RRB management has not taken the necessary corrective actions to address several significant matters and we are concerned that ongoing noncompliance with applicable laws, regulations, and authoritative guidance could impact the reliability of financial reporting at the RRB and at governmentwide levels. In addition, RRB management does not always communicate matters of audit significance with RRB OIG auditors, and RRB management has not responded to numerous requests to reconsider its determinations and to discuss most of the matters detailed in this finding. According to American Institute of Certified Public Accountants (AICPA) guidance, inadequate two-way communication could indicate an unsatisfactory control environment, thereby impacting the risk of material misstatements⁷.

OIG specifically has concerns regarding (1) lack of action or formal response for OA's audit recommendation associated with the NRRIT communication portion of the material weakness for financial reporting, (2) a change in the social insurance valuation date that will result in NRRIT savings of approximately \$200,000 in contract services expenses, which is less than one half of one percent of NRRIT's annual total expenses but will increase the workload for the RRB's Bureau of Actuary, (3) lack of corrective action and acknowledgement for inaccurate Medicare costs reimbursements and nonadherence with applicable authoritative guidance, (4) a planned change to reclassify the RRB's financial interchange system that records approximately \$12 billion in transactions from a major application to a minor one without documented rationale and result in

⁶ OMB, *Management's Responsibility for Enterprise Risk Management and Internal Control*, M-16-17 (July 15, 2016)

⁷ AICPA, *AICPA Professional Standards AICPA Professional Standards*, AU-C Section 260, *The Auditor's Communication with Those Charged with Governance*, June 1, 2013.



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noncompliance with authoritative guidance, and (5) RRB management's inaccurate improper payment definitions, which continue to result in understate reported improper payments.

Miscalculation of Railroad Medicare Premiums

In December 2015, the RRB reported that a miscalculation had occurred resulting in Medicare beneficiaries paying an incorrect reduced variable rate. At that time, RRB indicated it was not planning to collect any underpayments. After communication by OIG, RRB ultimately identified that 2,222 beneficiaries had underpaid premiums totaling approximately \$6 million. Of this amount, 893 were deceased beneficiaries totaling approximately \$1.68 million and 1,329 were current beneficiaries totaling approximately \$4.36 million. While the rate was corrected for the January 2016 premium, the RRB is considering a wholesale write off of the under collected premiums. The OIG is concerned that the RRB's decision will leave \$6 million uncollected. Since the RRB's mission requires appropriate action to safeguard its trust funds, it is imperative that the RRB calculate and collect the proper Medicare premiums due, take action to collect premiums owed, and prevent these errors in the future.



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Management Decisions and Implementation

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

Management Decisions	
Requiring Management Decision on April 1, 2016	6
Pending Management Decision for New Recommendations	0
Management Decision on Previous Recommendations	0
Recommendations Pending Management Decision on September 30, 2016	6

Corrective Action	
Recommendations Requiring Action on April 1, 2016	229
Recommendations Issued During Reporting Period	64
Corrective Actions Completed During Reporting Period	29
Recommendations Rejected During Reporting Period	0
Final Actions Pending on September 30, 2016	264



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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 pursues 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 reporting period, OI opened 93 new cases.

Investigative Caseload Data	
Investigative Cases Open as of April 1, 2016 (may include multiple subjects)	265
Investigative Cases Closed During Reporting Period	125
Investigative Cases Opened During Reporting Period	93
Investigative Cases Open as of September 30, 2016	233

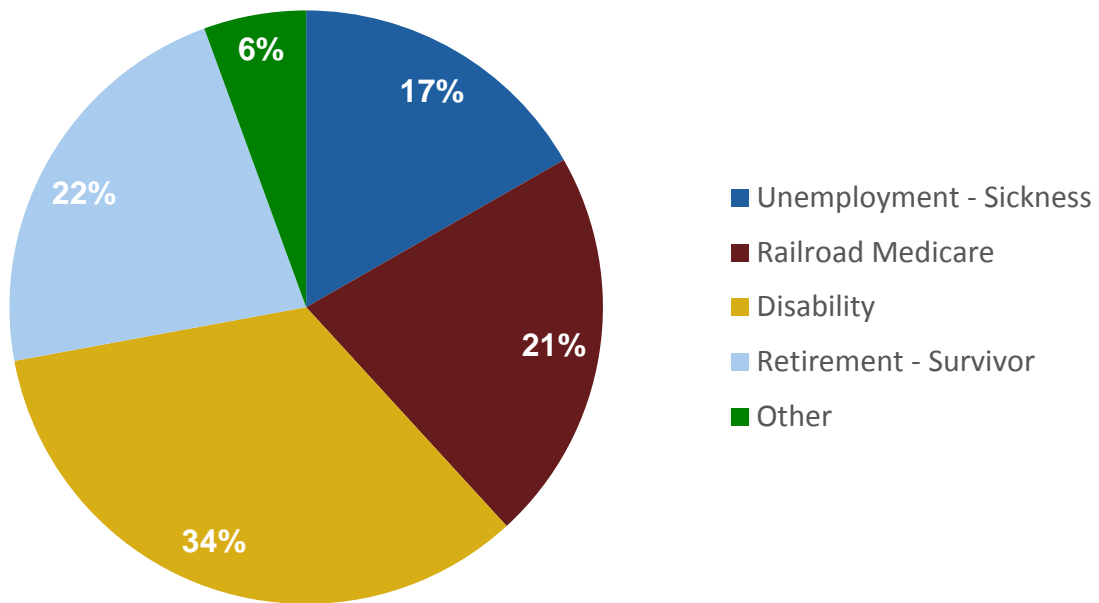
As of September 30, 2016, OI's investigative case load totaled 233 matters which represent more than \$595 million in potential fraud losses.⁸ The chart located on the next page reflects the distribution of OI cases open at the end of the reporting period.

⁸ 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.



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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.



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Investigative Accomplishments

Action	October 1, 2015 March 31, 2016	April 1, 2016 September 30, 2016	Fiscal Year Totals ⁹
Referrals to the Department of Justice	20	25	45
Indictments/Informations	10	22	32
Arrests	6	7	13
Convictions	23	13	36
Civil Complaints	4	2	6
Civil Judgments	9	6	15
Restitution and Fines ¹⁰	\$5.5 million	\$16.5 million	\$22 million
Civil Damages and Penalties ¹¹	\$2.9 million	\$871,000	\$3.7 million
Community Service Hours	180	150	330
Prison Years	Over 7	Over 6	Over 13
Probation Years	Over 64	Over 33	Over 97

⁹ Dollar amounts are rounded.

¹⁰ 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.

¹¹ See above footnote.



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April 1, 2016 – September 30, 2016 Investigative Case Highlights

Some of the matters investigated by OI are summarized below. Other significant investigations involving both large scale and smaller matters throughout the U.S. are under investigation. Federal indictments, informations, and ongoing investigations are not part of the below summary. Also, special projects regarding RRB programs and operations are being conducted.

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 may involve applicant fraud and sophisticated schemes to hide disqualifying work activities/earnings from the RRB.

During the reporting period, two individuals received convictions totaling six months of prison, three years of probation, and were ordered to pay more than \$293,000 in restitution and fines.

Descriptions of representative cases completed during this reporting period follow.

Disability Annuitant Concealed Work from the RRB

OI investigated allegations that a disability annuitant had concealed his employment with a construction company over a span of 15 years. The U.S. Attorney's Office for the Western District of Texas criminally prosecuted the defendant who was sentenced to six months of incarceration, three years of probation, and was ordered to repay more than \$260,000 in restitution to the RRB.

Vendor Defrauds RRB

OI investigated allegations that a disability annuitant had not provided accurate information regarding his employment and earnings information to the RRB. OI discovered that the subject owned and operated a vending business while receiving disability benefits from the RRB. The U.S. Attorney's Office for the Middle District of North Carolina entered into a Pre-Trial Diversion Agreement with the subject for 18



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months in which he was required to pay over \$24,000 in restitution to the RRB.

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 case referrals from the RRB's Sickness, and Unemployment Benefits Division.

Since the enactment of the American Recovery and Reinvestment Act of 2009 and various other benefit extending legislation, OI has seen an increase of UI fraud referrals. Almost 42% of OI's current UI fraud cases involve extended UI benefits.

During this reporting period, OI obtained five convictions and three civil judgments for UI-SI fraud cases. Defendants in these cases received 16 years of probation and were ordered to pay more than \$100,000 in restitution, fines, and civil damages/penalties.

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

Theft Prosecution for Working while Receiving Unemployment

OI investigated claims that an unemployment claimant was working while receiving unemployment benefits from the RRB. The subject was criminally prosecuted by the State of Georgia and ordered to repay the RRB more than \$26,000 in restitution as well as serve 10 years of probation. It was further ordered by the Court that the subject pay a fine of \$5,000 and court costs exceeding \$1,000.

Double Dipping Fraudulent Activity yields Double Digit Restitution

OI investigated claims that an unemployment annuitant was working for two employers while receiving unemployment benefits from the RRB. The subject subsequently pled guilty to Theft of Government Funds, was sentenced to three year's of probation, and ordered to repay more than \$14,000 in restitution to the RRB.



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UI Claimant Enters into Pre-Trial Diversion Agreement

OI investigated allegations that an unemployment claimant was employed with multiple businesses while receiving unemployment benefits from the RRB. The United States Attorney's Office for the District of South Carolina entered into a Pre-Trial Diversion Agreement with the subject wherein it was agreed that more than \$11,000 in restitution would be paid to the RRB.

UI Claimant Sentenced for Fraud

OI investigated allegations that an unemployment claimant was working for a technology company. The subject was sentenced to one year probation and ordered to repay the RRB more than \$11,000 as restitution. The case was prosecuted by the Northern District of New York.

UI Claimant Sentenced to Probation and Fined for Fraud

OI investigated allegations that an unemployment claimant was working for an automobile company while receiving unemployment benefits from the RRB. The subject pled guilty to Theft of Government Property and was sentenced to one year of probation, fined \$500 in addition to being required to repay the RRB more than \$10,000 in restitution.

UI Claimant Charged with Theft of Unemployment Benefits

OI investigated claims that an unemployment beneficiary was working while receiving unemployment benefits. The U.S. Attorney's Office for the Middle District of Florida reached a Consent Judgement with the subject wherein it was agreed that the subject would repay over \$8,000 to the RRB.

UI Claimant Prosecuted for Theft of Government Property

OI investigated allegations that an unemployment beneficiary was collecting unemployment benefits from the RRB while working. The subject pled guilty to Theft of Government Property and was sentenced to 18 months of probation. The Court further ordered the subject to repay more than \$9,000 as restitution to the RRB.



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UI Claimant Civilly Prosecuted

OI investigated allegations that an unemployment beneficiary was collecting unemployment benefits from the RRB while working for a trucking company. The U.S. Attorney's Office for the Eastern District of Michigan reached a settlement agreement with the subject who was ordered to pay more than \$8,000 as restitution to the RRB.

RETIREMENT-SURVIVOR 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 three convictions and one civil judgment related to Retirement-Survivor Benefit fraud.

The following is a summary of some of the retirement-survivor and representative payee cases completed during this reporting period:

Representative Payee Pled Guilty to Misappropriating Funds

OI investigated allegations that a representative payee for an annuitant receiving survivor benefits was misappropriating funds intended for the annuitant. The defendant pled guilty and was ordered to repay more than \$80,000 in restitution. In addition, the defendant was ordered to serve five years of probation and perform 150 hours of community service. This case was handled by the District of Nebraska.

Failure to Report Marriage to the RRB

OI investigated allegations that a disabled child/survivor beneficiary failed to provide the RRB with information that she had married. The defendant pled guilty and was ordered to repay the RRB restitution exceeding \$247,000 and serve two years of probation. This case was handled by the U.S. Attorney's Office for the Eastern District of Michigan.



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Remarriage Never Reported to RRB

OI investigated allegations that a survivor beneficiary had remarried. The subject never provided the RRB with this information which would have rendered her ineligible for a widow's annuity. The Northern District of Texas criminally prosecuted the subject who was ordered to serve five years of probation as well as pay over \$230,000 in restitution to the RRB.

RAILROAD MEDICARE INVESTIGATIONS

During this reporting period, OI obtained one conviction and two civil judgments in Railroad Medicare fraud cases. Defendants in these cases received, in the aggregate, more than six years of prison, over three years of probation, and were ordered to pay more than \$16.3 million in restitution, fines, and civil damages/penalties.¹²

All of OI's active Medicare cases are being worked jointly with either 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 committed against multiple Federal agencies.

Description of completed investigations during this reporting period follows.

Pain Management Facility Reaches Settlement Agreement

OI participated in a joint investigation of a pain management facility. The complaint alleged that the defendants fraudulently billed Medicare, Blue Cross/Blue Shield, and the Department of Labor's Office of Worker's Compensation Program for services not rendered. The U.S. Attorney's Office for the Eastern District of Pennsylvania reached a settlement agreement with the facility in which the medical provider agreed to pay the over \$690,000.

¹² 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.



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Civil Judgment against Doctor for Prescribing Cancer Drug Manufactured Outside the United States

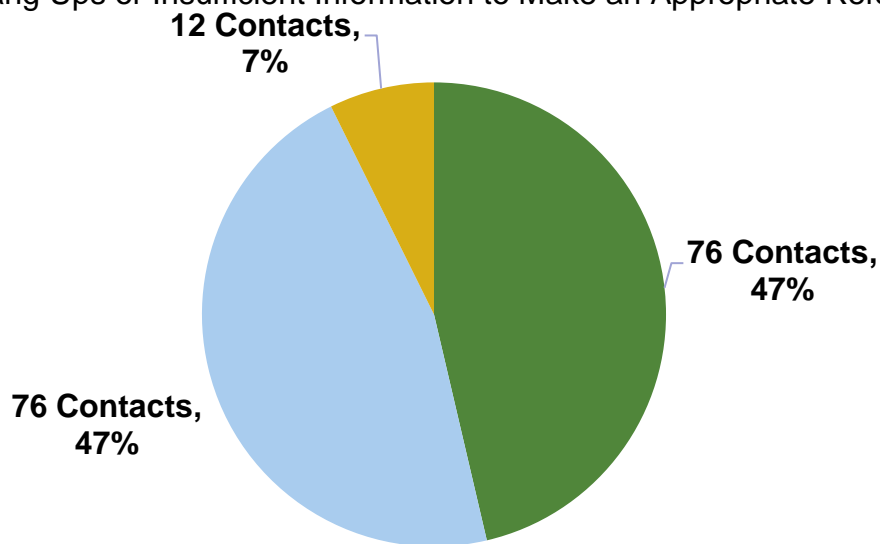
OIG participated in a joint investigation of a doctor who prescribed the cancer drug Avastin after purchasing it from outside of the country. The manufacturer had been known to sell vials of this drug containing water, saline, and/or mold. The doctor reached a settlement agreement with the U.S. Attorney's Office for the Northern District of West Virginia in which he agreed to pay over \$86,000 in restitution.

HOTLINE CONTACTS

The OIG's 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 164 contacts in the following manner: 57% by telephone, 15% by mail, and 28% by email. The following chart summarizes the disposition of these received hotline contacts.

Disposition of Received Hotline Contacts

- Referred to Another Agency or Company
- Referred to the Office of Investigations
- Hang Ups or Insufficient Information to Make an Appropriate Referral





OTHER OVERSIGHT ACTIVITIES

OIG ALERTS

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 reporting period, the Inspector General issued three OIG Alerts that addressed deficiencies within the RRB's disability program.

AMERICAN RECOVERY AND REINVESTMENT ACT OF 2009

During this reporting period, we continued our efforts to aid in a transparent American Recovery and Reinvestment Act process by preparing progress reports in formats developed by the Recovery Accountability and Transparency Board. These 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 an increase of UI fraud referrals. In fact, almost 42% 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 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.¹³ RRSIA requires that the

¹³ As of September 30, 2016, the RRB's investments in the NRRIT were valued at approximately \$25.1 billion.



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NRRIT report to the RRB but does not provide the OIG with oversight authority to conduct audits and investigations of the NRRIT. We have, however, monitored the NRRIT since 2001 and have continually expressed concerns regarding lack of meaningful oversight. Despite these concerns the RRB continues to maintain a passive relationship with the NRRIT. A lack of NRRIT investment fund management accountability, transparency, and stringent financial oversight can be precursors to fraud, waste, or abuse. Yet, 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. To ensure the integrity, economy, and long-term viability of the NRRIT, RRB management must establish and implement independent performance audit requirements that will strengthen administrative and financial oversight and ensure fund transparency.

Additionally, as discussed on page 34, the OIG is not able to comply with the AICPA auditing standards (section 600) and will disclaim on the RRB's financial statements this year and in future years until legislative changes are made regarding the relationship between the OIG, the NRRIT, and its auditors.

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. The agency did not submit any legislative proposals for OIG review during this reporting period.



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APPENDICES

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

- Fiscal Year 2015 Audit of Information Security at the Railroad Retirement Board - Abstract (OA Report 16-06)
- Audit of the Railroad Retirement Board's Compliance with the Improper Payments Elimination and Recovery Act of 2010 in the Fiscal Year 2015 Performance and Accountability Report (OA Report 16-07)
- Management Information Report - The Railroad Retirement Board's Method for Recording and Reporting Overpayments Identified by Death Matches Can be Improved (OA Report 16-08)
- Report on Cybersecurity Information For Covered Systems at the Railroad Retirement Board - Abstract (OA Report 16-09)
- Railroad Retirement Board Did Not Calculate Reimbursed Medicare Costs in Accordance With Federal Requirements (OA Report 16-10)

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, 2016	1	\$3,800,000	\$3,800,000
B. Which were issued from April 1, 2016 through September 30, 2016	2	\$77,104,000	\$65,104,000
Subtotal (A + B)	3	\$80,904,000	\$68,904,000
C. For which a management decision was made between April 1, 2016 through September 30, 2016	2	\$77,104,000	\$65,104,000
(i) dollar value of disallowed costs (agreed to by management)		\$12,904,000	\$904,000
(ii) dollar value of costs not disallowed (not agreed to by management)		\$64,200,000	\$64,200,000
D. For which no management decision had been made by September 30, 2016	1	\$3,800,000	\$3,800,000
E. Report for which no management decision was made within six months of issuance	1	\$3,800,000	\$3,800,000

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

	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, 2016	1	\$11,900,000
B. Which were issued from April 1, 2016 through September 30, 2016	1	\$19,500
Subtotal (A + B)	2	\$11,919,500
C. For which a management decision was made between April 1, 2016 through September 30, 2016	1	\$19,500
(i) dollar value of recommendations agreed to by management		\$0
(ii) dollar value of recommendations not agreed to by management		\$19,500
D. For which no management decision had been made by September 30, 2016	1	\$11,900,000
E. Report for which no management decision was made within six months of issuance	1	\$11,900,000

Appendix C – Report on Receivables, Waivers, and Recoveries

The fiscal year 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 the OIG's activities.

Office of Investigations

Recoveries realized by the RRB resulting from court-ordered restitution and civil damages			
Fiscal Year	Amount Recovered	Fiscal Year	Amount Recovered
1999	\$ 855,655	2015	\$ 904,400
2000	\$1,038,134	2016	\$1,121,313
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		
2014	\$1,021,544		

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	\$25,800,000
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	\$4,455,247	\$339,244	\$3,234,373
05-06	\$10,000	\$10,000	\$0	\$0	\$42,915
05-07	\$1,070,000	\$1,070,000	\$49,943	\$0	\$95,376
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	\$31,455	\$0	\$39,375
09-02	\$600,000	\$600,000	\$320	\$0	\$2,125,389
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	\$112,600	\$0	\$0	\$0
13-08	\$2,440	\$2,440	\$0	\$2,440	\$0
13-09	\$9,927 ¹⁵	\$9,927	\$4,330 ¹⁶	\$0	\$10,004
14-04	\$866,000	\$866,000	\$51,490	\$51,490	\$0
14-08	\$11,900,000 ¹⁷	\$0	\$0	\$0	\$0
15-03	\$11,148	\$11,148	\$0	\$0	\$0
16-02	\$6,914	\$6,914	\$0	\$0	\$210
16-10	\$19,500	\$0	\$0	\$0	\$0

¹⁴ Both overpayments and underpayments are included in this column.

¹⁵ Amount includes additional monies reported by the RRB.

¹⁶ Amount reflects correction of previously reported receivables by the RRB.

¹⁷ Amount is associated with an unresolved audit recommendation.

Appendix D – Significant Matters

The OIG has identified deficiencies in RRB management controls as a significant matter. A summary of the issues and related recommendations for corrective action follow.

Occupational Disability Program

In 2007, the OIG initiated a joint investigation with the Federal Bureau of Investigation that unraveled a complex occupational disability fraud scheme perpetrated by a number of Long Island Rail Road (LIRR) retirees, doctors, and disability facilitators. This case was prosecuted by the U.S. Attorney's Office for the Southern District of New York and all 33 people charged have either pled guilty (28 individuals) or been convicted at trial (5 individuals). As a result of this large scale investigation and subsequent audits, OIG identified significant deficiencies within the RRB's occupational disability program including foundational flaws which leave the program susceptible to fraud and abuse. In addition to continued disability program integrity issues, the OIG remains concerned regarding the RRB's handling of LIRR disability annuitants associated with the LIRR fraud scheme specifically the RRB's lack of action regarding the recovery of potential fraudulent annuity payments.

On February 10, 2014, pursuant to Section 5(d) of the Inspector General Act, the Inspector General issued a seven-day letter alerting the Congress and the RRB to serious deficiencies within the RRB's occupational disability program. In response to the Inspector General's seven-day letter, the U.S. House of Representatives Committee on Oversight and Government Reform Subcommittee on Government Operations convened a May 2015 hearing to examine whether the RRB was doing enough to prevent fraud in its occupational disability program. In his testimony, the Inspector General detailed systemic deficiencies within the RRB's occupational disability program, as well as several key OIG recommendations aimed at addressing these deficiencies. RRB Chairman Michael J. Schwartz and Daniel Bertoni of the GAO also testified at the hearing.

In response to Congressional pressure and continued oversight by OMB, GAO, and OIG, RRB released their Disability Program Improvement Plan (DPIP), which outlines 18 initiatives aimed at improving disability program integrity. On the surface, it appears the RRB has made progress towards improving disability program integrity and implementing DPIP initiatives; however, closer examination reveals little meaningful improvement or change.

OIG remains dedicated to improving occupational disability program integrity despite the RRB's resistance to their targeted recommendations. The RRB's continued failure to implement meaningful change, including legislative change, unnecessarily exposes their trust funds to fraud and increases the likelihood of improper payments.

Financial Controls and Reporting

Ineffective Controls

In fiscal year 2016, we reported that selective financial management business process controls need improvement to ensure proper access, segregation of duties, appropriate approvals, proper payments, vendor data, and processing overrides.

In fiscal year 2015, we reported that internal controls were not adequate to ensure that obligations were recorded and reported in accordance with applicable laws and regulations and were inadequately documented to support open obligations. During this semiannual period, management took corrective action for two recommendations by revising (1) data provided on standard forms to comply with OMB guidance and (2) management control documentation to include quarterly quality assurance tests. Corrective actions for the remaining recommendations remain in progress.

In fiscal year 2014, we reported ineffective controls as part of an overall material weakness in financial reporting and made recommendations for improvements. During this semiannual period, management took corrective action for four recommendations by (1) automating preparation of the Statement of Budgetary Resources, (2) developing and implementing procedures for the redesigned payroll reconciliation process, and (3) revising procedures for accrual and reversal of expenses. Although management took actions to address the remaining recommendations regarding controls for adequate supporting documentation and development of new controls for financial reporting, we determined that their corrective actions were not sufficient, so corrective actions for three recommendations remain in progress.

Communication with the NRRIT's Auditor

This portion of the overall material weakness in financial reporting continues to exist. Communication between OIG and National Railroad Retirement Investment Trust (NRRIT) auditors is required to achieve compliance with American Institute of Certified Public Accountants standards. RRB management continues to cite statutory limitations as the basis for not permitting OIG auditors to communicate with NRRIT auditors, and therefore, did not concur with the recommendation for corrective action. We continue to look for resolution of this issue.

Financial Controls and Reporting Issue Area	Date of Report	Audit Report and Recommendations
Ineffective Controls	August 1, 2014 March 31, 2015 August 14, 2015 November 30, 2015	OIG Report 14-10, 1-2 OIG Report 15-05, 2 OIG Report 15-08, 1-4, 6, 9-12, 16 OIG Report 16-02, 4, 6, 8-11
Communication with the NRRIT's Auditor	March 31, 2015	OIG Report 15-05, 8

Program Integrity Activities

During this semiannual period ending September 30, 2016, we reported that the RRB does not record receivables for returned payments because they do not consider them outstanding debts. Our testing identified certain death match cases with overpayments where a receivable had not been recorded and the payments had been returned before RRB systems recognized them as overpayments. Because the RRB uses the accounts receivable system to estimate improper payments, improper payment estimates may have been understated. In addition, other studies and reports that rely on information from the RRB's accounts receivable system could be impacted. Returned payments are overpayments that should be recorded as receivables and subsequently offset. They meet the definition of improper payments and should be reported as improper payments.

Previously in 2007, the OIG initiated a joint investigation with the Federal Bureau of Investigation that unraveled a complex occupational disability fraud scheme perpetrated by a number of Long Island Rail Road (LIRR) retirees, doctors, and disability facilitators. Foundational flaws which leave the RRB's occupational disability program susceptible to fraud and abuse remain, including an agency culture that focuses on paying benefits quickly; thereby increasing the likelihood of erroneous payments.

In fiscal year 2016, we reported that medical opinions used in the decision to award disability annuities added limited value to the disability determination process. Medical opinions used by the RRB were found to be inaccurate and incorrectly presumed to have been based on all medical evidence in the file when the opinion did not support that assumption. Controls were also ineffective in ensuring that contract requirements were met, and that medical licenses, insurance requirements, and timeliness was effectively monitored by the RRB.

In fiscal year 2014, we reported that a provision of the Railroad Retirement Act allows railroad employees to purchase their service eligibility for an occupational disability annuity through injury settlements with their railroad employer, and without the RRB as a party to the settlement. The RRB is then obligated to pay the annuity from the Railroad Retirement Act trust fund, which could potentially impact the trust fund by as much as \$2.2 billion if all annuitants who barely qualified for an occupational disability had purchased some of the qualifying service months through an injury settlement.

Additionally, under the law, such settlements are not always taxable as railroad compensation.

In fiscal year 2013, we reported that the RRB did not always verify job duty information before granting occupational disability annuities, and RRB policies and procedures were inadequate to ensure such verifications were obtained. Job duty information is used to determine the applicant’s job duties normally performed and to consider impairment-related restrictions. Such information is used to support whether the applicant is unable to perform his or her railroad occupation, a requirement for the awarding of occupational disability benefits.

Program Integrity Issue Area	Date of Report	Audit Report and Recommendations
Death Matches with SSA and CMS	August 4, 2016	OIG Report 16-08, 1 & 2
Medical Opinions	March 9, 2016	OIG Report 16-05, 1-18
Injury Settlements	July 18, 2014	OIG Report 14-08, 1-2
Job Duty Verifications	January 15, 2013	OIG Report 13-02, 1-5

Oversight of Railroad Medicare

In fiscal year 2016, we determined that controls were not adequate to ensure the RRB’s cost allocation plans and Medicare reimbursement calculations were accurate and supported in accordance with Federal requirements. Further, the RRB’s Medicare cost allocation policies and procedures were not effective in preventing errors. Labor costs were reimbursed based on management’s professional judgment and indirect costs had not been formally approved by the Centers for Medicare and Medicaid Services (CMS).

RRB management concurred with 10 recommendations and did not concur with 16 recommendations. Management’s response raises concerns and increases the risk of inaccurate future reimbursements from CMS. Generally, RRB and RRB OIG disagree on the applicability of and the RRB’s compliance with the Office of Management and Budget’s Circular A-87 (A-87) which provides the Federal requirements for preparation of the cost allocation plan. The RRB nonconcurred with recommendations that would require retroactive assessment of the accuracy of reimbursements received from CMS in compliance with the applicable interagency agreement or address the examples of noncompliance with A-87.

The weaknesses resulted in unsupported Medicare direct costs totaling approximately \$30.4 million and unsupported indirect costs ranging from \$9.5 million to \$33.8 million for fiscal years 2010 through 2014. Final determination of the accurate reimbursable Medicare costs may result in violations of the Purpose Statute and Antideficiency Act.

In fiscal year 2015, we determined that controls were not sufficient to ensure that payments for Railroad Medicare chiropractic services complied with Medicare requirements. Inadequate contract oversight resulted in vulnerabilities exposing approximately \$14 million in payments for unnecessary and improper chiropractic services from 2009 through 2013. In addition, the reviews performed by the RRB's Medicare contractor did not validate the medical necessity for billed chiropractic services, nor did the contractor's procedures adequately identify ongoing risks associated with chiropractic service claim payments. Such risks include the frequency of chiropractic visits, the use of dual modifiers, commonly upcoded chiropractic services, and high risk chiropractic services.

Oversight of Railroad Medicare Issue Area	Date of Report	Audit Report and Recommendations
Reimbursed Medicare Costs	August 22, 2016	OIG Report 16-10, 1-16, 21-24
Chiropractic Services	June 4, 2015	OIG Report 15-07, 1-4, 6-11

Information Technology

As with all Federal agencies, the RRB faces the challenge of how to modernize its information technology and safeguard sensitive data, while accomplishing the agency's mission. In fiscal year 2016, we reported on the information security at the RRB as mandated by the Federal Information Security Modernization Act of 2014 (FISMA). Our audit determined that the RRB continues to make progress in implementing an information security program that meets the requirements of FISMA, yet a fully effective security program has not been achieved. With the issuance of our report, the RRB had 119 open audit recommendations from OIG audit reports issued since 2002, and another 357 open recommendations from other evaluators.

Information Technology Issue Area	Date of Report	Audit Report
Information Security	April 26, 2016	OIG Report 16-06

For more information on major management challenges identified by our office, see *Management and Performance Challenges Facing the Railroad Retirement Board*, OIG Management Information Report No. 16-03, January 11, 2016.

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 recently completed peer review for the period ending March 31, 2015, was transmitted on September 23, 2015. OA received a peer review rating of pass. This peer review did not contain any recommendations.

During this reporting period, OA conducted their peer review of the audit organization for the Federal Deposit Insurance Corporation. The results of the peer review will be reported during the next semiannual period.

Office of Investigations

A rating of Compliant conveys that the review OIG has adequate internal safeguards and management procedures to ensure that the Council of the Inspector General has adequate internal safeguards and management procedures to ensure that the Council of Inspectors General on Integrity and Efficiency standards are followed and that law enforcement powers conferred by Inspector General Act are properly exercised.

During this reporting period, OI completed a review of the Tennessee Valley Authority Office of Investigations (TVA). TVA's rating of Compliant was issued on May 25, 2016.

The results of OI's most recent peer review of the period ending January 14, 2014 was transmitted on June 23, 2014. OI received a rating of Compliant. This peer review did not contain any recommendations.

Appendix F – Reports Prepared by Management Final Action on Audits with Disallowed Costs

For the 6-Month Period Ending	Number of	Disallowed ¹⁸
September 30, 2016	<u>Audit Reports</u>	<u>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

¹⁸ Office of Management and Budget (OMB) Circular A-50 defines a Disallowed Costs as “an incurred cost questioned by the audit organization that management has agreed should not be charged to the Government.”

Previously cited reports don't demonstrate “*incurred cost*.” Therefore, the dollar amounts previously included don't meet OMB's definition of *Disallowed Cost*.

	(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

Management Report on Final Action on Audits with Recommendations to Put Funds to Better Use for the 6-Month Period Ending September 30, 2016

	Number of <u>Audit Reports</u>	Funds to be Put <u>to Better Use</u>
A. Audit reports, with management decisions, on which final action had not been taken at the beginning of the period.	3	\$ 1,666,000 ¹⁹
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)	3	\$ 1,666,000

¹⁹ Comprised of the following amounts: \$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*, \$866,000 from Audit Report 14-04, *Audit of Railroad Retirement Act Dual Spouse Annuity Adjustments*.

D. Audit reports on which final action was taken during the period.

1. Value of recommendations implemented (completed).

2 \$ 18,098²⁰

2. Value of recommendations that management concluded should not or could not be implemented (completed).

0 \$ 0

3. Total of 1 and 2.

2 \$ 18,098

E. Audit reports needing final action at the end of the period.

3 \$ 1,666,000

²⁰ Comprised of the following amounts: \$11,184 from Audit Rep15-03, *The Railroad Retirement Board Lacks Adequate Controls over Creditable Compensation Related to Injury Settlements* and \$6,914 from Audit Report 16-02, *Select Financial Management Integrated System Business Process Controls Need Improvement*.

**Management Statement on Resolved Audit Reports Over
12 Months Old with Final Action Pending as of
September 30, 2016**

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 continues to review work plan prior to submission to OIG.
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	No change in status. Resources diverted to higher priority project.
Review of Incident Handling and Reporting at the Railroad Retirement Board (06-09)	08/24/06	NONE	NONE	Agency currently reviewing documentation, and will submit to OIG for closeout in FY15.
Audit of the DAISY/CHICO Component Application of the RRA Benefit Payment Major Application System (07-02)	03/9/07	NONE	NONE	Resources were diverted to higher priority projects on one recommendation. On the other, contract was awarded with work underway on requirement definitions and project plan.
Audit of Federal Income Taxes Withheld from Railroad Retirement Annuities (07-07)	07/30/07	NONE	NONE	Coordination is required with another organization. Five of the six recommendations have been closed, with the remaining one targeted for completion in FY15.

**Management Statement on Resolved Audit Reports Over
12 Months Old with Final Action Pending as of
September 30, 2016**

Report	Date	Disallowed Costs	Funds to be Put to Better Use	Reason Action Not Completed
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 FY15.
Audit of Controls to Safeguard Sensitive Personally Identifiable Information (07-09)	09/27/07	NONE	NONE	Work and coordination continues with outside contractor. Target for completion is FY15.
Evaluation of Information Security for the RRB's Financial Interchange Major Application (08-03)	09/26/08	NONE	NONE	Work continues on work plans, policy and/or procedures.
Fiscal Year 2008 Evaluation of Information Security at the RRB (08-05)	09/26/08	NONE	NONE	Documentation is currently being reviewed prior to submission to OIG.
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 the Railroad Medicare Integrity Program at Palmetto Government Benefits Administrators (09-04)	09/25/09	NONE	NONE	Coordination continues with outside agency.
Fiscal Year 2009 Evaluation of Information Security (10-01)	11/12/09	NONE	NONE	Documentation currently being reviewed for submission to OIG. Target completion in FY15.

**Management Statement on Resolved Audit Reports Over
12 Months Old with Final Action Pending as of
September 30, 2016**

Report	Date	Disallowed Costs	Funds to be Put to Better Use	Reason Action Not Completed
Review of Statistical Methods Employed in the Financial Interchange Determination (10-06m)	05/04/10	NONE	NONE	The Bureau of Actuary is reviewing documentation and will take the necessary action(s). They will 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	Work continues. Target completion in FY15.
Audit of the Account Benefits Ratio (10-12)	09/29/10	NONE	NONE	The Bureau of Actuary is reviewing and will take the necessary action(s).
Audit of Controls Over Railroad Medicare Contract Costs (11-06)	04/20/11	NONE	NONE	Coordination with outside organization is required.

**Management Statement on Resolved Audit Reports Over
12 Months Old with Final Action Pending as of
September 30, 2016**

Report	Date	Disallowed Costs	Funds to be Put to Better Use	Reason Action Not Completed
Audit of Railroad Retirement Act Benefits Overpayments and Internal Controls (11-07)	06/29/11	NONE	NONE	Chart of controls for RBD and SBD to be updated and tested prior to submission to OIG for closeout on one recommendation, and on the other, a review of planned changes is required to address recommendation.
Review of the Railroad Retirement Board's Security Patch Management Process (11-08)	07/07/11	NONE	NONE	Work continues on five recommendations, and documentation was submitted to OIG for implementation on the other.
Inspection of the Railroad Retirement Board's Agency Enterprise General Information Support System Certification and Accreditation (11-10)	09/28/11	NONE	NONE	Documentation is currently being reviewed and finalized for submission to OIG.
Fiscal Year 2011 Evaluation of Information Security at the Railroad Retirement Board (12-02)	01/05/12	NONE	NONE	Documentation is currently being reviewed and finalized for submission to OIG.
Fiscal Year 2011 Financial Statement Audit Letter to Management (12-04)	02/31/12	NONE	NONE	Work continues on review of procedures.
Inspection of the Railroad Retirement Board's Representative Payee Monitoring (12-07)	07/27/12	NONE	NONE	Work continues on five recommendations, and documentation will be submitted to OIG for closeout on two other recommendations.

**Management Statement on Resolved Audit Reports Over
12 Months Old with Final Action Pending as of
September 30, 2016**

Report	Date	Disallowed Costs	Funds to be Put to Better Use	Reason Action Not 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 Job Duty Verification Procedures for Long Island Rail Road Occupational Disability Applicants (13-02)	01/15/13	NONE	NONE	Currently reviewing policies and procedures.
Fiscal Year 2012 Audit of Information Security at the Railroad Retirement Board (13-04)	02/12/13	NONE	NONE	Documentation is being reviewed and finalized for seven recommendations, and work continues on remaining.
Audit of the Railroad Retirement Board's Internal Controls over Widow(er) Annuities (13-09)	07/31/2013	NONE	NONE	Currently reviewing information required to address recommendation, and finalizing outline to conduct refresher training.
Audit of the Railroad Retirement Board's Compliance with the Government Charge Card Abuse Prevention Act of 2012 (13-10)	09/19/2013	NONE	NONE	In the process of reviewing policies and procedures to develop control for when and how often for reviews of charge card holders.
Audit of the Railroad Retirement Board's Privacy Program (13-11)	09/20/2013	NONE	NONE	Documentation is currently being reviewed and finalized for submission to OIG.
Fiscal Year 2013 Financial Statement Audit Letter to Management (14-02)	02/20/2014	NONE	NONE	Bureau of Fiscal Operations staff updating Accounting Procedures Guide and developing training.

**Management Statement on Resolved Audit Reports Over
12 Months Old with Final Action Pending as of
September 30, 2016**

Report	Date	Disallowed Costs	Funds to be Put to Better Use	Reason Action Not Completed
Fiscal Year 2013 Audit of Information Security at the Railroad Retirement Board (14-03)	03/04/2014	NONE	NONE	Corrective action underway, Bureau of Information Services is coordinating internally to review procedures and identify resources to address necessary corrective action.
Audit of Railroad Retirement Act Dual Spouse Annuity Adjustments (14-04)	3/20/2014	NONE	\$866,000	Office of Programs reviewing procedures related to final open recommendation in order to determine further corrective action.
Audit of the General and Application Controls in the Railroad Retirement Board's Financial Management Information System (14-06)	05/06/2014	NONE	NONE	Office of Administration and the Bureau of Information Services are working to implement corrective action and have submitted close out requests to the OIG
Audit of Payment Controls over Railroad Medicare Claims Submitted by Physical Therapists (14-07)	05/16/2014	NONE	NONE	Office of Programs working to implement corrective action and have submitted close out requests to the OIG
Management Information Report Financial Impact of Injury Settlements Awarding Service Months to Qualify Railroad Employees for Occupational Disability Benefits (14-08)	07/18/2014	NONE	NONE	Management non-concurred, no action intended.
Management Information Report - Railroad Medicare Progress and Challenges (14-09)	07/25/2014	NONE	NONE	Coordination with external organization is required.

**Management Statement on Resolved Audit Reports Over
12 Months Old with Final Action Pending as of
September 30, 2016**

Report	Date	Disallowed Costs	Funds to be Put to Better Use	Reason Action Not Completed
Audit of Business Process Controls in the Financial Management Integrated System (14-10)	08/01/2014	NONE	NONE	Bureau of Fiscal Operations staff have re-written Accounting Procedures Guide and are coordinating close-out of recommendations.
Audit of the Data Management Application Controls and Selected General Controls in the Financial Management Integrated System (14-12)	09/30/2014	NONE	NONE	Bureau of Information Services staff currently reviewing and revising policy and procedures.
The Railroad Retirement Board Lacks Adequate Controls over Creditable Compensation Related to Injury Settlements (15-03)	01/29/2015	NONE	NONE	Office of Programs reviewed cases cited in the audit report, coordinated with industry to request corrections to employee records and determined adjudicative actions.
Fiscal Year 2014 Audit of Information Security at the Railroad Retirement Board (15-04)	03/16/2015	NONE	NONE	Corrective action underway, Bureau of Information Services is coordinating internally to review procedures and identify resources to address corrective action.
Fiscal Year 2014 Financial Statement Audit Letter to Management (15-05)	03/31/2015	NONE	NONE	Concurred with two of three open recommendations. Took corrective action and submitted close-out requests. OIG determined corrective actions were not sufficient. Will work with the OIG to identify appropriate corrective action.

Management Statement on Resolved Audit Reports Over 12 Months Old with Final Action Pending as of September 30, 2016

Report	Date	Disallowed Costs	Funds to be Put to Better Use	Reason Action Not Completed
Railroad Retirement Board's Compliance with the Improper Payments Elimination and Recovery Act of 2010 in the Fiscal Year 2014 Performance and Accountability Report (15-06)	05/15/2015	NONE	NONE	Took corrective action to coordinate preparation of risk assessment for agency programs, prepared and submitted risk assessments, developed policy and procedure. OIG determined corrective actions were not sufficient. Will continue to work with the OIG to identify appropriate corrective action.
Railroad Retirement Board Medicare Contract Oversight Did Not Effectively Mitigate Chiropractic Service Risks (15-07)	06/04/2015	NONE	NONE	RRB concurred with eight of ten open recommendations. RRB submitted close-out requests for five, pending OIG review. Coordinating with multiple stakeholders for remaining three.
Audit of the Internal Controls Over Obligations at the Railroad Retirement Board (15-08)	08/14/2015	NONE	NONE	RRB concurred with seven of ten open recommendations. RRB submitted a close-out request for one, pending OIG review. Coordinating with multiple stakeholders for remaining six.

Appendix G – Reporting Requirements

Act Reference	Inspector General Reporting Requirements	Page(s)
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Section 5(a) (1)	Significant Problems, Abuses, and Deficiencies	25-26, 33-37
Section 5(a) (2)	Recommendations With Respect to Significant Problems, Abuses, and Deficiencies	25-26, 33-37
Section 5(a) (3)	Prior Significant Recommendations Not Yet Implemented	33-37
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Section 5(a) (5)	Instances Where Information Was Refused	none
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Section 5(a) (8)	Statistical Tables on Management Decisions on Questioned Costs	29
Section 5(a) (9)	Statistical Tables on Management Decisions on Recommendations That Funds be Put to Better Use	30
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	25-26, 33-37
Section 5(b) (1)	Management Comments	Management's Transmittal
Section 5(b) (2)	Statistical Table on Final Action on Disallowed Costs	39-40
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Appendix H – Acronyms

Acronym	Explanation
AICPA	American Institute of Certified Public Accountants
CIGIE	Council of Inspectors General on Integrity and Efficiency
CMS	Centers for Medicare and Medicaid Services
FISMA	Federal Information Security Modernization Act of 2014
FY	Fiscal Year
IPERA	Improper Payments Elimination and Recovery Act
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
RRA	Railroad Retirement Act
RRB	Railroad Retirement Board
RRSIA	Railroad Retirement and Survivors' Improvement Act of 2001
RUIA	Railroad Unemployment Insurance Act
SFFAS	Statement of Federal Financial Accounting Standards
SI	Sickness Insurance
UI	Unemployment Insurance

Appendix I – Legal References

American Recovery and Reinvestment Act of 2009 – P.L. 111–5

Dodd-Frank Wall Street Reform and Consumer Protection Act – P.L. 111-203

Improper Payments Elimination and Recovery Act of 2010 – P.L. 111-204

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

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