



Future Plans/Objectives

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Program Improvements

- **Medicare Modernization Act (MMA)** Beginning in November 2005, qualified railroad retirement beneficiaries (QRRB's) were able to enroll in prescription drug plans (PDP) under Medicare Part D. Benefits under Part D were available beginning January 1, 2006. Low income beneficiaries are eligible for extra help in paying for monthly premiums, deductibles and co-payments under Part D. SSA is responsible for determining eligibility for low-income Part D subsidies.

The RRB is working with the Centers for Medicare & Medicaid Services (CMS) and SSA to implement Medicare Part D and other provisions of the Medicare Prescription Drug, Improvement, and Modernization Act of 2003, also known as the Medicare Modernization Act. To date, we have:

1. Prepared a one-time file for use by SSA in identifying railroad retirement beneficiaries potentially eligible for prescription drug subsidy assistance. The file was transmitted to SSA on April 28, 2005.
2. Revised the record layout and programming for an existing daily file transmitted to SSA. The revised file is used by SSA to identify newly eligible Medicare beneficiaries potentially eligible for prescription drug subsidies.
3. Developed programming to prepare and transmit a monthly file to SSA to report address changes and information about subsidy changing events. The first file was transmitted on November 29, 2005.
4. Completed programming to receive and edit Daily Enrollment Files from CMS. The Daily Enrollment Files include records of new enrollments and changes to enrollments in PDP's and Medicare Advantage plans.
5. Developed programs to process Daily Enrollment File records for beneficiaries enrolled in Medicare Advantage Plans with Part B premium reductions.
6. Developed programs to prepare and transmit Daily Premium Notification Files to CMS. The Daily Premium Notification Files are used to advise CMS of the disposition of the Daily Enrollment File records.
7. Completed program changes necessary to generate notices to beneficiaries who enroll in PDP's and elect to have premiums withheld from RRB benefits.
8. Developed temporary programming to automatically calculate and refund excess premiums withheld from payments made to beneficiaries enrolled in Medicare Advantage Plans with Part B premium reductions.
9. Completed programs to support the mailing of notices on November 14, 2005, to approximately 530,000 beneficiaries. We mailed the notices to ensure that the beneficiaries were aware that they were eligible to enroll in Medicare PDP's, and to explain the options available for paying monthly Part D premiums.

As of June 2006, a total of 317,500 railroad retirement beneficiaries were enrolled in Medicare PDP's. The percentage of railroad retirement beneficiaries enrolled in Medicare PDP's is consistent with the overall percentage of Medicare beneficiaries enrolled in Part D plans.

We have not yet completed work on automated systems changes that will allow beneficiaries to have Part D premiums withheld from the monthly benefits paid by the RRB. (Railroad retirement beneficiaries who have monthly Part D premiums pay their premiums

by direct bill arrangements with their plans.) Work on the system changes to allow Part D premium withholding from monthly benefit payments has been temporarily suspended while we focus available resources on implementing the provision of MMA that requires beneficiaries with annual incomes over \$80,000 (\$160,000 for couples) to pay higher Part B premiums beginning January 2007. SSA will make determinations as to the amount of an individual's Part B premium. RRB will process determination transactions to ensure that proper Part B premiums are deducted or billed each month.

- **Medicare Contracting Reform** Section 911 of the Medicare Prescription Drug, Improvement, and Modernization Act establishes Medicare Contracting Reform (MCR) that will be implemented over the next several years. Under this provision, CMS is to replace the current Part A Medicare Fiscal Intermediaries and Part B Carriers, using competitive procedures with new Medicare Administrative Contractors (MAC's) by 2011. The MAC's will handle both Part A and Part B Medicare claims.

The RRB is authorized to contract with a carrier or carriers to provide supplemental medical insurance benefits (Medicare Part B, only) by the Social Security Act, subsection 1842(g). We currently have a nationwide contract with Palmetto GBA to act as the carrier for the RRB's Part B Medicare program. Consequently, the RRB will need to work closely with CMS to meet the new legal contract reform requirements and, at the same time, ensure that our railroad Medicare beneficiaries are not disadvantaged by the implementation of the new MAC's.

- **RRB HelpLine Improvements** We implemented several enhancements in January 2005, to the services available to customers who call our toll-free interactive voice response (IVR) system (i.e., the RRB HelpLine). Those enhancements included:
 - Revised call flows to incorporate new service options and simplify access to services;
 - Added an option to allow callers to request duplicate RRA tax statements; and,
 - Expanded general information about a variety of subjects, and a new "urgent" announcement service.

We are in the planning stage for additional enhancements, including changes to the process for verifying the identity of callers by either using the same PIN/password system developed for the RRB's Internet MainLine services or a similar PIN/password system. In connection with this change, we will provide callers with options to establish passwords, change passwords, and request new passwords. These enhancements will provide a higher level of system security, and allow for expansion of services into other areas.

Steps to improve the RRB HelpLine and add new services will be taken in conjunction with the agency's plans to support a nationwide 800-number service that would allow callers to either access an IVR system or connect to a field service claims representative.

- **Internet Unemployment and Sickness Insurance Benefit Services** In 2004, the RRB made applications and claims for unemployment insurance benefits available on-line at www.rrb.gov. In calendar year 2005, the RRB completed a project to automate the processing of unemployment insurance benefit claims that pass mechanical screening for eligibility. In 2005, the RRB also implemented a service enabling unemployment and sickness insurance beneficiaries to view their account statement on-line. The account statement lists recent forms filed and unemployment and sickness insurance benefit

payments. In 2007, the RRB plans to implement on-line biweekly claims for sickness insurance benefits.

- **Palmetto GBA Secure Change of Addresses and Death Notifications** Palmetto GBA, the RRB's Part B Medicare carrier, receives several thousand calls each month from railroad retirement beneficiaries who are either reporting an address change or death of another beneficiary, or requesting a replacement Medicare card. Palmetto receives these calls because of their regular communication with beneficiaries who file claims for payment of Part B medical services. Under current procedure, Palmetto must refer many of these callers to the RRB. The referral is an extra call for the beneficiary, and is a step that many beneficiaries fail to take.

We are now working with Palmetto to develop a secure web-based application that will enable authorized Palmetto customer service representatives to report address changes, deaths and requests for replacement Medicare cards directly to the RRB over the Internet. The application, which is now targeted for completion in late 2006, will also allow RRB personnel to view the transactions in order to process the reports through existing RRB systems.

- **Employer Reporting System (ERS) – Internet Site** We continue to add new forms and services to the employer site. In 2006, we are working to add the pre and post payment notices. These are two notices required under the RUIA related to the employer's experience-rated contribution rate. One is a notice to the employer of an employee's application or claim for benefits. The other is a notice to the employer of the amount of benefits the RRB paid to the employee. Following the addition of these two forms in fiscal year 2007, we will implement some security enhancements and coding standardization, and make some changes based on suggestions received from the system's users, and begin the process of converting the software from SAS-based technologies to .Net and DB2-Connect, using internal resources. This will allow for reduced costs of future application development in a more user friendly environment.

In fiscal year 2008, given our requested funding level, we will continue to move forward with the conversion of ERS and we plan to add a major application which consolidates and integrates 13 forms. The application includes the three annual reports: creditable compensation, gross earnings, and sick pay, as well as several related forms. This project will also incorporate changes the RRB is making to expand money amount fields on the service and compensation reports.

- **RRBVision** The RRB has a Windows-based web communications system called MediaSite Live that allows users to view video (RRBVision) presentations with accompanying training materials, such as PowerPoint presentations or on-line screens. Presentations can be viewed in real-time or saved to the server for later viewing. In fiscal year 2007, we will increase the number of internal training presentations available to RRB employees to over 100. In fiscal year 2008, or earlier if funding allows, we also plan on expanding RRBVision to be available to covered railroad employers and the general public on the RRB's website (www.rrb.gov). This would allow us to provide on-line training and assistance to employers at their convenience and in another training format. This would be beneficial in improving reporting accuracy and reducing initial phone calls to the RRB. Presentations made available to the general public would furnish information on benefits and forms to allow another option in assisting the public, providing better customer service and reducing the number of phone inquiries.

Improper Payments Information Act (IPIA)

The RRB's Office of Programs calculated the amount of improper payments made in fiscal year 2005 for each of the two programs our agency administers – as listed in the former Section 57 of OMB Circular A-11, the Retirement and Survivor Benefits (RRA) and Railroad Unemployment Insurance Benefits (RUIA). That information, which is provided in an appendix to this report, reveals that neither of the RRB's benefit payment programs exceeds the OMB threshold for improper payments. Therefore, the agency is not required to prepare and monitor a formal action plan for reducing or eliminating improper payments.

Although it does not require the RRB to have a formal plan for targeting precise levels of improper payments, the IPIA continues to have a real impact on the agency by ensuring a continued high priority for ongoing activities and initiatives designed to reduce specific categories of improper payments.

We have ongoing activities and projects aimed at improving the accuracy of payments and reducing erroneous payments which include:

- quality assurance programs which identify activities that are susceptible to error and process improvements to prevent further errors,
- program integrity efforts which aim to validate continued entitlement to RRA and RUIA benefits, and
- an internal control review process for all benefit payment processes, which identifies and addresses potential weaknesses that may create improper payments.

In addition, we continue to improve adjudication and payment systems and procedures to minimize errors. We are also pursuing various initiatives which will minimize specific types of improper payments in the RRA program:

- We have developed a system that expands on our process of evaluating adjustments received from employers to our employee service and compensation records and adjust annuities, if needed. This initiative identifies specific RRA improper underpayments and pays out additional benefits due. The initial implementation of this process (called RESCUE) was in fiscal year 2006 – to handle adjustments and reports posted in January 2006, and later. In fiscal year 2007, RESCUE will evaluate adjustments posted prior to January 2006, and pay out additional benefits due. This will resolve many of the improper payments that have been included in the estimates.
- We are working on a special project to resolve unverified SSN's of railroad employees. This will ensure that the correct earnings are recorded to the correct SSN which serves as a basis of our calculation of benefits.
- We are developing ways to identify earnings of our auxiliary beneficiaries (spouse, children, and widow(er)s) when inconsistencies related to their SSN on record do not allow us to match to the SSA earnings database or "death match" files.

- We have implemented a multi-phase process which allows users to enter any annuitant's earnings information on-line, and store the information in a database. This system now allows the RRB to adjust ongoing payments for earnings on a much more timely basis, which minimizes any underpayments or overpayments that may result from changes in earnings.
- We are in the process of developing better procedures to identify unreported last pre-retirement employment earnings after the annuity beginning date.
- We have initiated a new monitoring program for annuitants who are over age 105. Our review of this category allows us to detect overpayments as a result of fraud or death, and gives us the opportunity to encourage the establishment of representative payees if we determine that annuitants are having difficulty managing their funds.

Despite all our best efforts to prevent improper payments, some will always occur, due to lack of timely information, etc. In overpayment situations, the agency is diligent in its recovery efforts. The RRB's account receivable balance for the RRA program at the end of fiscal year 2005 was \$36,341,790. This balance includes \$9,564,863 classified as Currently Not Collectible. We estimate that approximately 81.2 percent of these receivables will be collected and that the remaining 18.8 percent will eventually be closed as uncollectible. The RRB's collection program is in full compliance with the Debt Collection Improvement Act of 1996. Recoveries are made through offset of future benefits, reclamation from the financial institution of benefits erroneously paid after the death of a beneficiary, and direct payment from debtors. Fraudulent payments are referred to the Office of Inspector General for prosecution through the Department of Justice. Delinquent accounts are referred to the Department of the Treasury for cross-servicing and offset of Federal payments.

Systems and Controls

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

Under the direction of a Management Control Review Committee (MCRC) composed of senior managers from its program, information services, administrative, and financial operations, the RRB has divided these operations functionally into 43 assessable units. The number of assessable units varies from year to year as operations are restructured to accommodate changes precipitated by such factors as new and revised missions, reduced resources, and increased automation.

The mission, key performance indicators, workflow, control objectives and techniques, guidance, automated systems support, impact, and vulnerability of each assessable unit are documented. The RRB maintains and annually updates a 5-year plan for review of the assessable units. The official responsible for each assessable unit prepares an annual assessment of key indicators and open or new issues requiring management's attention. High impact and vulnerable assessable units are scheduled for periodic, in-depth reviews as deemed necessary by the MCRC in consultation with senior management. During fiscal year 2006, responsible officials performed in-depth reviews of 3 assessable units, assessed all 43, and certified 42.

The RRB reported a material weakness relating to deficiencies in the Information Technology Security Program in fiscal year 2002; the remaining actions needed to close out the deficiencies are implementation of two access control recommendations and completion of a management control review.

In fiscal year 2005, the OIG identified significant deficiencies in three areas, which it reported as material weaknesses in the fiscal year 2005 Performance and Accountability Report. They are:

1. Information Technology Security – previously reported deficiencies in access controls and training continued, and two new deficiencies in meeting FISMA requirements for risk assessments, and testing and evaluation;
2. Performance Measures – the lack of procedures on data validation and retention of supporting documentation; and,
3. Actuarial Projection Process – inadequate internal control over the projections and related reports.

The agency is committed to resolving these deficiencies. Responsible Official and Organization Head certifications for fiscal year 2006 include information about actions underway to address each of these. We will continue to monitor progress during fiscal year 2007.

Management Assurances

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

1. In accordance with Office of Management and Budget Circular No. A-123, Section VI (B), we are issuing a qualified statement of assurance considering the OIG-identified material weaknesses indicated under paragraph (4). Except as indicated under (4), the system of internal control of this agency is functioning and provides reasonable assurance as to the: efficiency and effectiveness of programs and operations; reliability of financial and performance information; and compliance with laws and regulations. These controls satisfy the requirements of the Federal Managers' Financial Integrity Act §2.
2. The financial management systems of this agency maintain accountability for assets and provide reasonable assurance that obligations and costs are in compliance with applicable law, and that performance data and proprietary and budgetary accounting transactions applicable to the agency are properly recorded and accounted for to permit the timely preparation of accounts and reliable performance information. The financial management systems at this agency satisfy the requirements of the Federal Managers' Financial Integrity Act §4.
3. The financial management systems of this agency provide the agency with reliable, timely, complete, and consistent performance and other financial information to make decisions and efficiently operate and evaluate programs and substantially satisfy the requirements of the Federal Financial Management Improvement Act §803(a), the Government Performance and Results Act, and OMB Circular No. A-11.
4. The RRB's Inspector General, in his auditor's report, identifies Information Technology Security, Performance Measures and the Actuarial Projection Process, as material weaknesses.

Description of OIG-Identified Material Weaknesses

1. The information technology security program is weakened by deficiencies in risk assessment, testing and evaluation, and access controls in both the general support and major application systems.

The fiscal year 2007 plan is to complete the management control review using controls structured for certification and accreditation testing. In fiscal year 2008, the plan is to resolve the two remaining audit recommendations associated with logical access controls; 23 related recommendations have been resolved to date. We will then evaluate the Information Technology Security material weakness to determine whether it has been eliminated.

2. The agency performance measurement program is weakened by deficiencies in data validation and the retention of supporting documentation.

The fiscal year 2007 plan is to adopt and implement procedures on data validation and retention of supporting documentation processes. We expect to complete corrective action on this matter in fiscal year 2007.

3. The actuarial projection process is weakened because it is not supported by formal written policies, procedures and model documentation, and does not provide for a periodic evaluation of compliance with internal requirements.

The fiscal year 2007 plan is to prepare formal written policy and procedures documentation, and provide for a periodic evaluation of compliance with internal requirements. We expect to complete corrective action on this matter in fiscal year 2007.

Originally signed by:

Michael S. Schwartz, Chairman of the Board
V. M. Speakman, Jr., Labor Member
Jerome F. Kever, Management Member

Summary of Actuarial Forecast

The Statement of Social Insurance presents an actuarial analysis of the financial position of the railroad retirement system as of January 1, 2006. Our intermediate employment assumption is used for the Statement of Social Insurance. The Required Supplementary Information presents sensitivity analyses showing the impact of changes in employment and investment return assumptions. Although under our intermediate assumption no cash flow problems arise over the period 2006-2080, the sensitivity analyses show that, under the current financing structure, actual levels of railroad employment and investment return over the coming years will determine whether additional corrective action is necessary.

Section 7105 of the Technical and Miscellaneous Revenue Act of 1988 requires the RRB to submit an annual report to the Congress on the financial status of the railroad unemployment insurance system. Projections were made for the various components of income and outgo under each of 3 employment assumptions for the 11 fiscal years 2006-2016. The results indicate that the Railroad Unemployment Insurance (RUI) Account will be solvent during the 11-year projection period except for small, short-term cash flow problems in 2008 and 2009 under the pessimistic assumption.

Limitations of the Financial Statements

The limitations of the principal financial statements are as follows:

1. The principal financial statements have been prepared to report the financial position and results of operations of the entity, pursuant to the requirements of 31 U.S.C. 3515(b).
2. While the statements have been prepared from the books and records of the entity in accordance with U.S. generally accepted accounting principles for Federal entities and the formats prescribed by OMB, the statements are in addition to the financial reports used to monitor and control budgetary resources which are prepared from the same books and records.
3. The statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity.