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**SERIOUS MANAGEMENT CHALLENGES
IDENTIFIED BY THE RAILROAD RETIREMENT BOARD'S
OFFICE OF INSPECTOR GENERAL**

The Railroad Retirement Board (RRB), as a Federal agency in the 21st century, faces many challenges. These challenges may arise through internal management processes or be the result of external influences.

The most readily identifiable challenges are those that management has set for themselves through internal processes. The RRB has identified its organizational objectives in its annual performance report. Meeting and sustaining these goals is a challenge that management has set for itself. Less obvious, are the challenges posed by changes in the environment in which management must operate to meet its organizational objectives. These challenges may arise from legislative and regulatory mandates as well as advances in technology and the economic environment.

The RRB faces the greatest challenge from this latter category. The U.S. Government, through the standards and guidance of the Office of Management and Budget (OMB), Government Accountability Office (GAO) and the National Institute of Standards and Technology (NIST) have set high goals for Federal managers in performance reporting, financial accountability and in the way that we use information technology to accomplish organizational goals. The OIG has identified areas in which the RRB's control structure needs to be strengthened in order to respond to these external challenges.

Statement of Social Insurance

During FY 2006 the first-time audit of the statement of social insurance has put the RRB's actuarial projection and reporting process in the spotlight of government accountability.

The RRB's FY 2006 basic financial statements must include a statement of social insurance. Unique to the four Federal reporting entities with responsibility for social insurance programs, statements of social insurance have never been included in the auditor's opinion although the statement has been presented as supplementary information since FY 2000.

The OIG's FY 2005 assessment of controls over the actuarial projection process that serves as the basis for the statement of social insurance disclosed that the agency had not implemented a comprehensive system of internal control for actuarial services, and that its management control review program had not been effective in disclosing the system's deficiencies.

During FY 2006, agency management began the process of addressing the OIG's recommendations to strengthen internal control by preparing a more fully developed assessment of risk and more detailed description of controls. In addition, process improvements implemented this year now provide for the capture and retention of evidence of the operation controls.

However, much remains to be accomplished. Corrective action to date has not addressed key parts of the OIG's original finding which included development of formal policies and procedures, documentation to support the actuarial model and a quality assurance program. The RRB's management control review committee expects to work with responsible managers to strengthen controls in this area.

Performance Measures

As emphasis is placed on implementation of a performance based budget, increasing emphasis will be directed to the quality of performance reporting. We have noted before that the RRB needs to be proactive in ensuring the credibility of its performance measures. This can only be accomplished through a strong system of management controls within an agencywide framework.

During FY 2005, the OIG recommended corrective action to strengthen controls over the preparation of performance data. During FY 2006, the most affected organizational unit took action to improve the quality of its performance data while the agency developed a strategy designed to strengthen the internal control process for performance indicators throughout the agency.

If the new strategy is adopted and implemented during FY 2007, the previously identified control weakness could be fully addressed during the next reporting cycle.

Information Technology Security

Information security remains a major challenge to the RRB. The RRB continues to experience difficulty in achieving an effective security program that complies with requirements of the Federal Information Security Management Act (FISMA).

During FY 2006, the agency completed corrective action to eliminate the previously reported significant deficiency in training. Previously identified significant deficiencies in access controls, risk assessments, and periodic

testing and evaluation continue to exist, as well as other observed weaknesses in the agency's implementation of requirements for risk based policies and procedures, a remedial action process, continuity of operations, and inventory of systems.

The agency is addressing their significant deficiencies in the previously reported areas of access controls, risk assessments, and periodic testing and evaluation. However, much work remains to be completed.

The agency is also in the process of forming an agency-wide Security and Privacy Committee. The committee is expected to include employee representatives from each major application and general support system. They will be responsible for providing direction, issuing guidance, compiling certifications, and providing specific oversight for agency-wide implementation of FISMA requirements including risk assessments, annual evaluations, and testing of controls including certification and accreditation. The RRB's three-member Board has not yet formally approved this committee.

As we have observed in the past, the RRB's response to OMB and NIST requirements for certification and accreditation of information systems has been adversely impacted by the existence of deficiencies in the FISMA mandated security program. In general, responsible agency management have agreed with OIG recommendations for corrective action but are experiencing difficulties in developing timeframes for implementation.



Martin J. Dickman
Inspector General

October 6, 2006

Management's Comments

These are Management's comments on the Serious Management Challenges identified by the Railroad Retirement Board Inspector General. The three challenges identified by the Inspector General are: 1) Statement of Social Insurance, specifically, management controls over the actuarial projection process; 2) Performance Measures; and 3) Information Technology Security.

Management appreciates the Inspector General's recognition of the progress that has been made in addressing these areas. The Inspector General notes that deficiencies identified concerning the agency's Performance Measures will likely be resolved during the next reporting cycle. We have worked diligently to address this area and have put into place an improved methodology for collecting, documenting, validating, certifying, reporting on, and retaining information on the agency's performance in meeting the goals and objectives set out in the agency's Annual Performance Budget and Performance and Accountability Report.

In the Information Technology Security area, the Inspector General states that the agency has completed corrective action to eliminate deficiencies identified in the past in providing training for employees. The Inspector General notes, however, that although progress has been made in addressing deficiencies in access controls, risk assessment, and periodic testing and evaluation of our systems, additional effort is needed to resolve these issues, as well as a few other observed weaknesses. Resolving areas of deficiency in the Information Technology Security area has been, and continues to be, a high priority of the agency. We have a plan in place to address the deficiencies identified by the Office of Inspector General and we will continue to emphasize resolving these issues. One issue that needs to be clarified somewhat is the agency's plan to establish an Information Security and Privacy Committee. The Inspector General states that the three-member Board has not yet approved establishment of this committee. A proposal to establish an Information Security and Privacy Committee was submitted to the Board Members on October 13, 2006, and was approved by the Board Members on October 17.

Finally, the Inspector General identifies management control deficiencies in connection with the actuarial projection process as a serious management challenge. The identified deficiencies concern documentation of the projection process, including the need for formal policies and procedures documentation to support the actuarial model. The Chief Actuary has agreed to take necessary action to address this issue and has already submitted a revised set of management controls covering the actuarial projection process to the agency's Management Control Review Committee (MCRC) for review. In addition, the Chief Actuary is currently drafting policies and procedures to cover the projection process. Once these policies and procedures are completed, the management control documentation will be updated to reflect that these controls are in place. We are confident that the Chief Actuary's actions will completely resolve this issue.

Improper Payments Information Act (IPIA) Reporting Details

I. Describe the risk assessment(s), performed subsequent to completing your full program inventory. List the risk-susceptible programs (i.e., programs that have a significant risk of improper payments based on OMB guidance thresholds) identified through your risk assessments. Be sure to include the programs previously identified in the former Section 57 of OMB Circular A-11.

The RRB's Office of Programs reviewed each of the two benefit payment programs our agency administers and calculated the amount of improper payments made in fiscal year 2005. The two benefit payment programs are listed in the former Section 57 of OMB Circular A-11: Retirement and Survivor Benefits (referred to as RRA) and Railroad Unemployment Insurance Benefits (referred to as RUIA).

Results of Fiscal Year 2005 Improper Payment Review (OMB Guidance M-03-13)

Program	Improper Payment Amt. >\$10 million	Improper Payment Rate >2.5%	Action Plan or Targets Needed?
RRA	Yes	No	No
RUIA	No	N/A	No

II. Describe the statistical sampling process conducted to estimate the improper payment rate for each program identified.

The agency has established and documented a methodology for identifying improper payments in the RRA and RUIA benefit payment programs. It is based on determining both the known overpayments and underpayments, which have since been recovered or paid out, and estimating those which result from adjudicative error, but have not been identified or corrected. It also uses information from quality assurance reviews. These reviews employ statistical sampling to study railroad retirement awards and unemployment and sickness insurance claims. We also included projections of improper payments from audits and special studies. This approach, although not based entirely on statistical sampling, is sufficient for making the determination that the improper payments in our programs do not exceed the OMB thresholds. The RRB's Office of General Counsel reviewed the methodology and concluded that overall, the approach used had merit. Furthermore, in May 2005, the RRB's General Counsel issued a legal opinion confirming that, since the levels of improper payments did not exceed the designated thresholds, the agency was not required to conduct statistical sampling.

III. Describe the Corrective Action Plans for:

A. Reducing the estimated rate of improper payments. Include in this discussion what is seen as the cause(s) of errors and the corresponding steps necessary to prevent future occurrences. If efforts are already underway, and/or have been ongoing for some length of time, it is appropriate to include that information in this section.

B. Grant-making agencies with risk susceptible grant programs, discuss what the agency has accomplished in the area of funds stewardship past the primary recipient. Include the status on projects and results of any reviews.

While we do not have a formal plan for targeting precise levels of improper payments, we do have several ongoing activities and projects aimed at improving the accuracy of our payments and reducing erroneous payments.

Improper payments in the RRA and RUIA programs typically fall into two categories: *adjudicative error* (i.e., benefit payment decisions that are inconsistent with the law or regulations) and *out-of-date information* that impacts benefit entitlement.

- To detect improper payments due to *adjudicative error*, we conduct our quality assurance programs and validation reviews, which identify activities that are susceptible to error and process improvements to prevent further errors.
- To detect improper payments due to *out-of-date information*, we conduct comprehensive monitoring and program integrity efforts which aim to validate continued entitlement to our benefits.

As outlined in the Management's Discussion and Analysis Section of this report, the RRB continues to improve its adjudication and payment systems and procedures to minimize specific types of improper payments in the RRA program. The RRB is also diligent in collecting its debts and is in full compliance with the Debt Collection Improvement Act of 1996.

Furthermore, the agency maintains an internal control review process for all benefit payment programs. Responsible officials identify and report weaknesses in annual certifications required under the Federal Managers' Financial Integrity Act.

Additionally, during fiscal years 1998 through 2005, the OIG presented RRB management with 99 recommendations for process improvement and corrective action pertaining to improper payments. Agency management has implemented or plans to implement 93 of the 99 recommendations. We will continue to work with the OIG to address the issue of improper payments in our benefit programs.

IV. The table below is required for each reporting agency:

**Improper Payment (IP) Reduction Outlook FY 2004 – FY 2009
(\$ in millions)**

<i>Program</i>	FY 04 \$ Outlays	FY 04 IP %	FY 04 IP \$	FY 05 \$ Outlays (actual)	FY 05 IP %	FY 05 IP \$	FY 06 \$ Outlays (estimated)	FY 06 IP %	FY 06 IP \$
<i>RRA</i>	9,008.0	1.64	147.9	9,197.9	1.65	151.8	9,513.8	1.65	157.0
<i>RUIA</i>	123.3	2.1	2.6	111.2	2.3	2.6	115.7	2.3	2.7

<i>Program</i>	FY 07 \$ Outlays (estimated)	FY 07 IP %	FY 07 IP \$	FY 08 \$ Outlays (estimated)	FY 08 IP %	FY 08 IP \$	FY 09 \$ Outlays (estimated)	FY 09 IP %	FY 09 IP \$
<i>RRA</i>	9,803.7	1.65	161.8	10,111.3	1.65	166.8	10,399.8	1.65	171.6
<i>RUIA</i>	123.4	2.3	2.9	129.3	2.3	3.0	135.7	2.3	3.2

At the time we prepared this report, the latest actual data available was for fiscal year 2005. The estimates for fiscal years 2006 through 2009 are based on the December 2005 OMB budget review estimates. We have applied our fiscal year 2005 percentage rate to estimated outlays to estimate improper payment amounts for future years.

V. Discuss recovery auditing effort, if applicable, including any contract types excluded from review and the justification for doing so; actions taken to recoup improper payments, and the business process changes and internal controls instituted and/or strengthened to prevent further occurrences.

This does not apply to our benefit programs.

VI. Describe the steps the agency has taken and plans to take (including time line) to ensure that agency managers (including the agency head) are held accountable for reducing and recovering improper payments.

Paying benefits accurately and timely, and providing prudent stewardship over agency trust funds are our two strategic goals. Agency managers have links to those goals in their performance plans.

- VII. A. Describe whether the agency has the information systems and other infrastructure it needs to reduce improper payments to the levels the agency has targeted.**
- B. If the agency does not have such systems and infrastructure, describe the resources the agency requested in its most recent budget submission to Congress to obtain the necessary information systems and infrastructure.**

The RRB's enterprise architecture addresses, among other performance goals, the accuracy of benefit payments.

We requested fiscal year 2007 funding for data optimization to reduce data redundancy and improve data efficiency. We also requested funding for:

- Support of our network operations,
- Replacement of a small portion of outdated information technology equipment,
- Expansion of our electronic services to the public, and
- Beginning OMB-mandated certification and accreditation of our major applications and general support systems.

These initiatives will contribute to the achievement of the agency's target architecture in order to meet its performance goals, including accuracy of benefit payments, and stewardship of the trust funds.

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

None have been identified.

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

As indicated in the Management's Discussion and Analysis Section, the RRB has made concerted efforts to reduce improper payments over the years. Our payment accuracy rates are at consistently high levels and our return on investment for program integrity activities has been high as well. Both have been set as annual performance goals and reported each year since the Government Performance and Results Act has been in effect. We monitor our progress on implementing recommendations from the quality assurance process, and we are vigilant about pursuing OIG recommendations which impact the quality and timeliness of payments. We have also worked closely with our OIG in referring potential fraud cases for investigation and prosecution. We hope to be able to maintain adequate staffing so that we can continue this important effort.