RAILROAD RETIREMENT BOARD

PERFORMANCE AND ACCOUNTABILITY REPORT

FISCAL YEAR 2007

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Railroad Retirement Board
Performance and Accountability Report
Fiscal Year 2007

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RRB's fiscal year 2007 Performance and Accountability Report is available on the Internet at: www.rrb.gov

MESSAGE FROM THE BOARD MEMBERS

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Message from the Board Members

This fiscal year 2007 Performance and Accountability Report highlights the goals and accomplishments of the Railroad Retirement Board (RRB) in achieving its mission of administering the retirement, disability, and survivor benefit program provided under the Railroad Retirement Act (RRA) and the unemployment and sickness insurance benefit program provided under the Railroad Unemployment Insurance Act (RUIA). This report describes our continuing efforts to provide timely and useful information to RRB managers, the Office of Management and Budget (OMB), the Congress, and our constituents. We are proud of the agency's dedicated employees whose achievements are reflected in this report.

The RRB has a long and distinguished tradition of excellence in serving our customers and safeguarding the agency's trust funds. In recent years, we have achieved high levels of accuracy and timeliness in the benefit programs we administer. In fiscal year 2007, the RRB's two benefit programs (the RRA and RUIA) were evaluated for the first time under the Program Assessment and Rating Tool (PART) process. Each program earned an overall performance rating of "Effective", which is the highest rating a program can achieve. According to OMB, "Programs rated Effective set ambitious goals, achieve results, are well-managed and improve efficiency."

We believe the performance and financial data presented in this report are complete and reliable in accordance with OMB guidance. The adequacy and effectiveness of our management controls and the compliance of our financial management systems with governmentwide requirements is delineated in the Systems and Controls part of the Management's Discussion and Analysis section. That part also provides the status of the actions we are taking and progress we are making to correct Office of Inspector General identified material weaknesses in information technology security and the actuarial projection process–fund balance.

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

Original signed by:

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

November 2, 2007

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MANAGEMENT'S DISCUSSION AND ANALYSIS

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Management's Discussion and Analysis

Overview of the Railroad Retirement Board **(RRB)**

Mission

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

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

Major Program Areas

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

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

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

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

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

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

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

Railroad Retirement Act

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

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

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

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

Revenues in excess of benefit payments are invested to provide additional trust fund income, and legislation enacted in 2001 allows for the investment of railroad retirement funds in non-governmental assets, as well as in governmental securities. This legislation also established the National Railroad Retirement Investment Trust (NRRIT), whose Board of seven trustees oversees these investments. The Board of Trustees is comprised of three members selected by rail labor to represent the interests of labor; three members likewise selected by rail management to represent management interests; and one independent member selected by a majority of the other six members.

Another major source of income to the railroad retirement and survivor benefit program consists of transfers from the social security trust funds under a financial interchange between the two systems. The financial interchange is intended to place the social security trust funds in the same position in which they would have been had railroad employment been covered by the Social Security Act and Federal Insurance Contributions Act (FICA). In fiscal year 2007, the RRB trust funds realized a net of $3.6 billion, representing 39 percent of RRB financing sources (excluding transfers to/from the NRRIT and the increase in NRRIT net assets), through the financial interchange.

Other sources of income currently include revenue resulting from Federal income taxes on railroad retirement benefits, and appropriations from general Treasury revenues provided after 1974 as part of a phase-out of certain vested dual benefits.

Railroad Unemployment Insurance Act

Under the RUIA, unemployment insurance benefits are paid to qualified railroad workers who are unemployed but ready, willing, and able to work and sickness insurance benefits to railroad workers who are unable to work because of illness, injury, or pregnancy. The RRB also operates a placement service to assist unemployed railroad workers in securing employment.

A new unemployment and sickness insurance benefit year begins every July 1, with eligibility generally based on railroad service and earnings in the preceding calendar year. Up to 26 weeks of normal unemployment and 26 weeks of sickness insurance benefits are payable to an individual in a benefit year. Additional extended benefits are payable for up to 13 weeks to persons with 10 or more years of service.

The railroad unemployment and sickness insurance benefit program is financed by taxes on railroad employers under an experience rating system initiated in 1991. Each employer's payroll tax rate is determined annually by the RRB on the basis of benefit payments to the railroad's employees.

Reporting Components

The RRB, as an independent agency in the executive branch of the U.S. Government, is responsible for administering the RRA and the RUIA. The financial statements include the accounts of all funds under the control of the RRB and the Office of Inspector General (OIG). These funds consist of two administrative funds, three trust funds, two general funds and two deposit funds.

RRB Organizational Structure

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

The primary function of the RRB is the determination and payment of benefits under the railroad retirement and survivor and the unemployment and sickness insurance programs. To this end, the RRB employs field representatives to assist railroad personnel and their families in filing claims for benefits, examiners to adjudicate the claims, and information technology staff, equipment, and programs to maintain earnings records, calculate benefits, and process payments. The RRB also employs actuaries to predict the future income and outlays of the agency's trust funds and accounts, statisticians and economists to provide vital data, and attorneys to interpret legislation and represent the RRB in litigation. Internal administration requires a procurement staff, a budget and accounting staff, quality assurance staff, and personnel specialists. The Inspector General employs auditors and investigators to detect waste, fraud, or abuse in the benefit programs.

The RRB's headquarters is located at 844 North Rush Street in Chicago, Illinois. As of September 30, 2007, the RRB field structure was comprised of 3 regional offices and 53 local offices located throughout the United States as shown on page 12.

U.S. RAILROAD RETIREMENT BOARD

THE BOARD
Chairman, Michael S. Schwartz
Labor Member, V.M. Speakman, Jr.
Management Member, Jerome F. Kever

OFFICE OF EQUAL OPPORTUNITY
Lynn E. Cousins

OFFICE OF INSPECTOR GENERAL
Martin J. Dickman

CHIEF ACTUARY *
BUREAU OF THE ACTUARY
Frank J. Buzzi

EXECUTIVE COMMITTEE

- **MEMBER** Kenneth P. Boehne
- **MEMBER** Steven A. Bartholow
- **SENIOR EXECUTIVE OFFICER** Henry M. Valiulis
- **MEMBER** Dorothy A. Isherwood
- **MEMBER** Terri S. Morgan

CHIEF FINANCIAL OFFICER
BUREAU OF FISCAL OPERATIONS
Kenneth P. Boehne

OFFICE OF GENERAL COUNSEL
Steven A. Bartholow

- **OFFICE OF LEGISLATIVE AFFAIRS** Margaret S. Lindsley
- **BUREAU OF HEARING AND APPEALS** Arthur A. Arfa
- **SECRETARY TO THE BOARD** Beatrice E. Ezerski

OFFICE OF ADMINISTRATION
Henry M. Valiulis

- **ACQUISITION MANAGEMENT** Paul T. Ahern
- **REAL PROPERTY MANAGEMENT** Scott Rush
- **PUBLIC AFFAIRS** Bruce A. Rodman
- **BUREAU OF HUMAN RESOURCES** Keith B. Earley

OFFICE OF PROGRAMS
Dorothy A. Isherwood

- **OPERATIONS** Robert J. Duda
- **POLICY AND SYSTEMS** Ronald Russo
- **RESOURCE MANAGEMENT CENTER** Vacant
- **ASSESSMENT AND TRAINING** Catherine A. Leyser
- **FIELD SERVICE** Martha M. Barringer

CHIEF INFORMATION OFFICER
BUREAU OF INFORMATION SERVICES
Terri S. Morgan

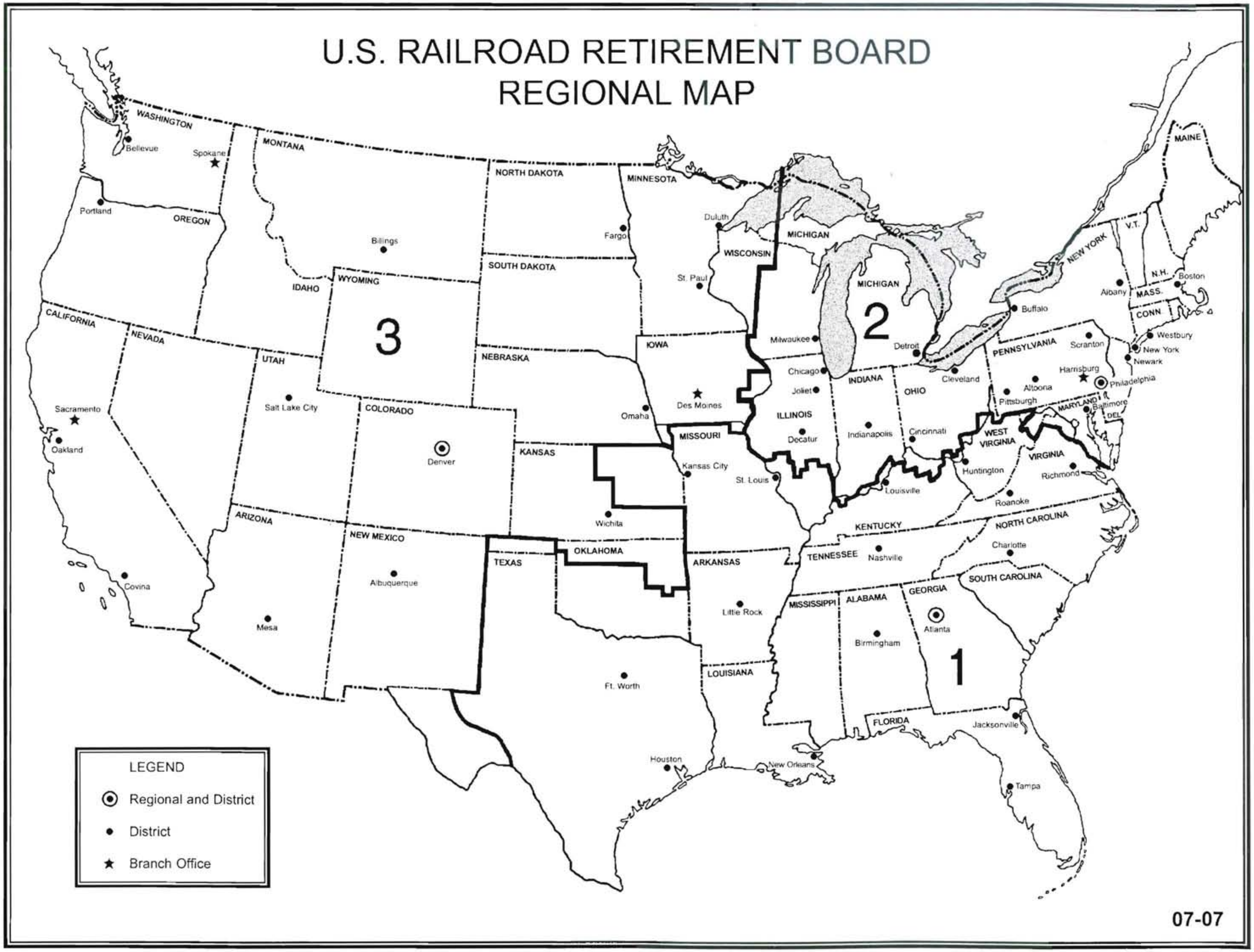
.... The Inspector General reports administratively to the Chairman.

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

* Non-voting member of the Executive Committee.

October 2007

U.S. RAILROAD RETIREMENT BOARD
REGIONAL MAP



Financial Highlights

Amounts in the Railroad Retirement (RR) Account not needed to pay current benefits and administrative expenses are transferred to the NRRIT whose Board of seven trustees is empowered to invest NRRIT assets in non-governmental assets, such as equities and debt, as well as in governmental securities. Amounts in the Social Security Equivalent Benefit (SSEB) Account not needed to pay current benefits and administrative expenses are transferred to either the RR Account or the NRRIT. Amounts transferred from the SSEB Account to the NRRIT may be used only to pay benefits or to purchase obligations that are backed by the full faith and credit of the United States.

Shown below are snapshots of the net position, financing sources, and benefit payments (before elimination of inter-fund transactions) for the RRB accounts. All dollar amounts are in millions.

Net Position, Financing Sources, and Benefit Payments
(In millions)

	2007	2006
NET POSITION AT SEPTEMBER 30		
Social Security Equivalent Benefit Account	$ 450.4	$ 321.1
Railroad Retirement Account 1/	32,954.2	29,443.8
Railroad Retirement Administration Fund	6.2	5.6
Railroad Unemployment Insurance Trust Fund --		
Benefit Payments	100.7	97.3
Administrative Expenses	9.1	9.4
Limitation on the Office of Inspector General	.2	.1
Dual Benefits Payments Account	6.1	8.4
Federal Payments to the Railroad Retirement Accounts	.5	.4
Total	$33,527.4	$29,886.1
FINANCING SOURCES FOR FISCAL YEAR		
Social Security Equivalent Benefit Account	$ 6,010.8	$ 5,909.0
Railroad Retirement Account 2/	7,544.7	5,325.6
Railroad Retirement Administration Fund	111.4	108.9
Railroad Unemployment Insurance Trust Fund --		
Benefit Payments	78.0	75.7
Administrative Expenses	(.3)	1.9
Limitation on the Office of Inspector General	7.5	7.5
Dual Benefits Payments Account	86.5	96.0
Federal Payments to the Railroad Retirement Accounts 3/	460.1	466.1
Total	$14,298.7	$11,990.7
BENEFIT PAYMENTS FOR FISCAL YEAR 4/		
Social Security Equivalent Benefit Account	$5,701.6	$ 5,632.1
Railroad Retirement Account	4,034.4	3,733.1
Railroad Unemployment Insurance Trust Fund --		
Unemployment Insurance	28.5	30.7
Sickness Insurance	46.1	42.5
Dual Benefits Payments Account	86.5	96.0
Total	$9,897.1	$ 9,534.4

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

The RRB's financial statements are comprised of: Balance Sheet and Statements of Net Cost, Changes in Net Position, Budgetary Resources, and Social Insurance and notes which are an integral part of the statements. We also present as required supplementary information a discussion of the actuarial outlook for the railroad retirement program and the Disaggregate of Budgetary Resources.

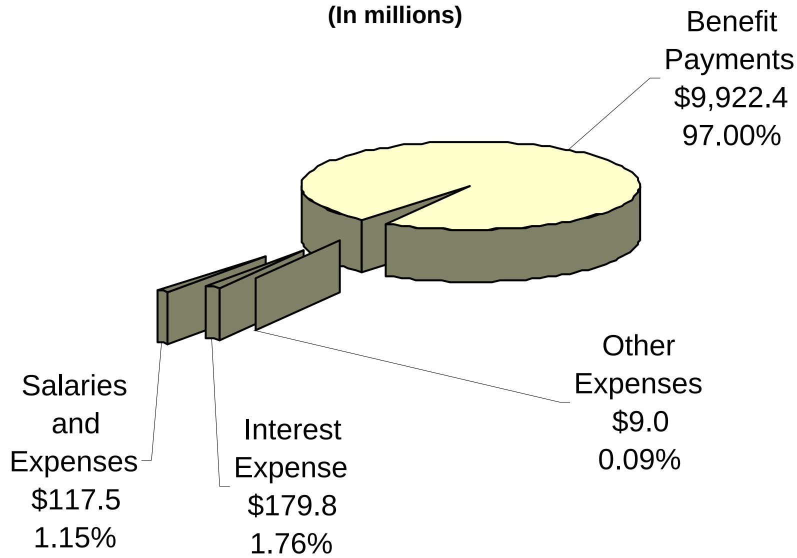
Comparison of Net Cost of Operations and Financing Sources

The net cost of operations for fiscal years 2007 and 2006 were $10,195.1 million and $9,823.0 million, respectively. The details of the net cost of operations by type, amount, increase or decrease, and percentage change from fiscal year 2006 to fiscal year 2007 are shown below. Additional information regarding the net cost of operations and financing sources for fiscal years 2007 and 2006 is shown on the following pages.

NET COST OF OPERATIONS
(In millions)

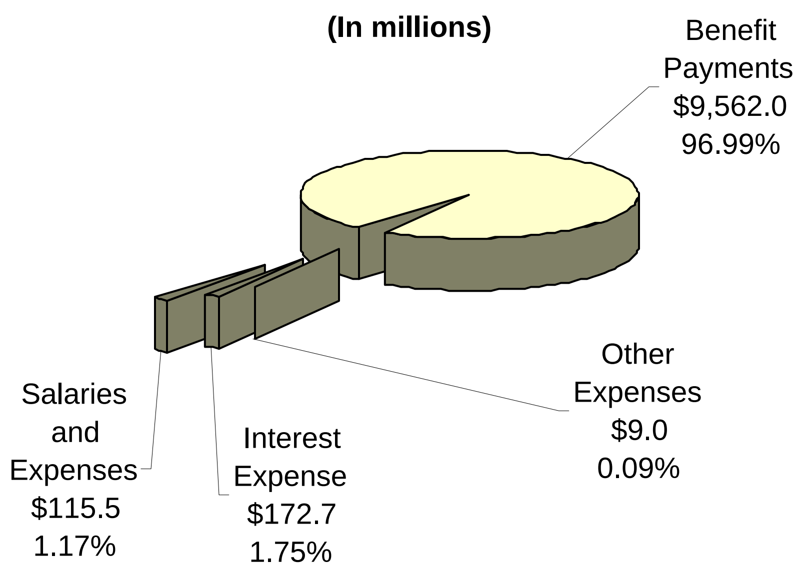
	FY 2007	FY 2006	Amount of Increase (Decrease)	Percent of Increase (Decrease)
Interest expense – Treasury borrowing	$ 179.8	$ 172.7	$7.1	4.1%
Salaries and expenses	117.5	115.5	2.0	1.7%
Benefit payments – RRB	9,922.4	9,562.0	360.4	3.8%
Other expenses	9.0	9.0	0	0%
Subtotal	10,228.7	9,859.2	369.5	3.7%
Less: Earned revenues	33.6	36.2	(2.6)	(7.2)%
Net cost of operations	$10,195.1	$9,823.0	$372.1	3.8%

FY2007
NET COST OF OPERATIONS
(In millions)



Totals $10,228.7 million, excluding reimbursements and earned revenues of $33.6 million.

FY2006
NET COST OF OPERATIONS
(In millions)



Totals $9,859.2 million, excluding reimbursements and earned revenues of $36.2 million.

The following table shows financing sources (excluding changes in unexpended appropriations) by type, amount, increase or decrease, and percentage change from fiscal year 2006 to fiscal year 2007.

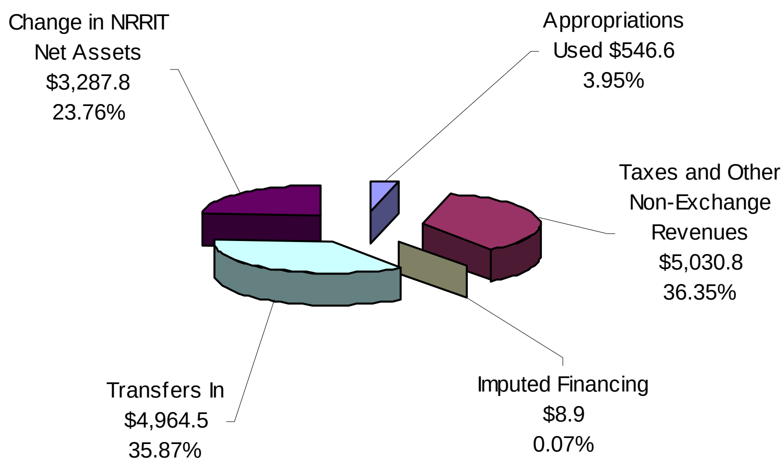
FINANCING SOURCES
(In millions)

	FY 2007	FY 2006	AMOUNT OF INCREASE (DECREASE)	PERCENT OF INCREASE (DECREASE)
Appropriations used	$ 546.6	$ 562.1	$ (15.5)	(2.8)
Taxes and other non-exchange revenues:				
Payroll taxes	4,717.9	4,673.5	44.4	1.0
Interest revenue and other income	58.3	58.9	(0.6)	(1.0)
Carriers refunds – principal*	164.3	12.9	151.4	1,173.6
RUI revenue	90.3	87.4	2.9	3.3
Subtotal	$ 5,030.8	$ 4,832.7	$ 198.1	4.1
Imputed financing (amount to be provided by the Office of Personnel Management to pay future retirement benefits to RRB employees)	8.9	8.8	0.1	1.1
Transfers in:				
Financial Interchange, net	3,573.5	3,467.8	105.7	3.0
NRRIT	1,391.0	947.0	444.0	46.9
Subtotal	$ 4,964.5	$ 4,414.8	$ 549.7	12.5
Other:				
Change in NRRIT net assets	3,287.8	1,706.2	1,581.6	92.7
Subtotal	$13,838.6	$11,524.6	$2,314.0	20.1
Less: Transfers out to NRRIT	0.0	0.0	0.0	0.0
Total	$13,838.6	$11,524.6	$2,314.0	20.1

* Carriers refunds include the reversal of a contingent liability.

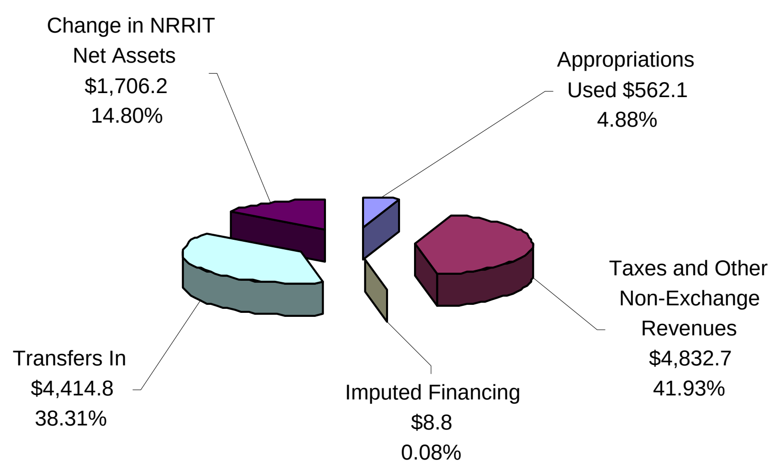
FINANCING SOURCES
(In millions)

FY 2007



Total Financing Sources $13,838.6 million.

FY 2006



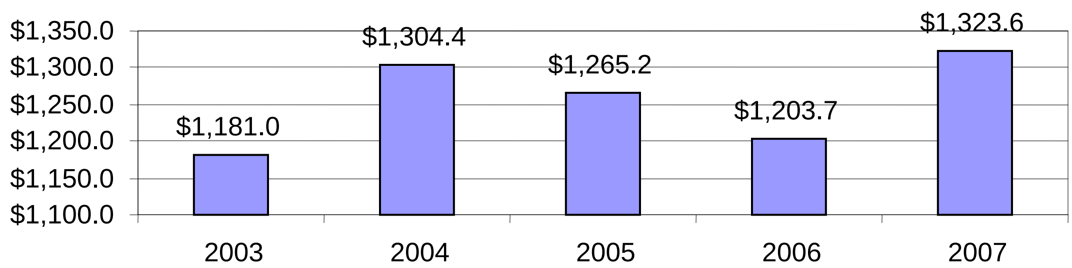
Total Financing Sources $11,524.6 million.

Railroad Retirement Investments at Treasury

The book value of all railroad retirement investments, including accrued interest, increased to $1,323.6 million as of September 30, 2007, from $1,203.7 million on September 30, 2006 (excludes NRRIT net assets). The graph below reflects the book value of the railroad retirement investments from September 30, 2003, through September 30, 2007.

INVESTMENT BALANCES HELD AT TREASURY (AT BOOK VALUE)

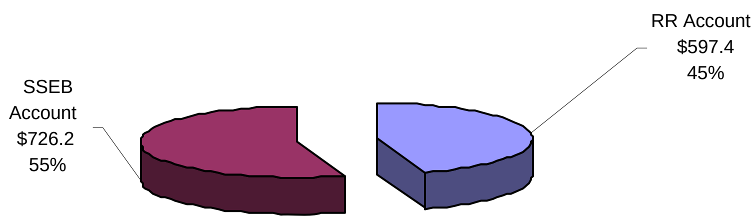
AT SEPTEMBER 30, 2003 - 2007
(In millions, excluding NRRIT net assets)



The following chart shows the portfolio of the railroad retirement investments as of September 30, 2007.

RAILROAD RETIREMENT INVESTMENTS HELD AT TREASURY
AS OF SEPTEMBER 30, 2007

(In millions, excluding NRRIT net assets)



AT BOOK VALUE
Total $1,323.6

Railroad Retirement Account

On September 30, 2007 and 2006, the book values of the RR Account investments, excluding NRRIT assets, including accrued interest, totaled $597,361,803 and $478,075,635, respectively. The balance on September 30, 2007, consisted of $596,181,000 in 4.375 percent par value specials (with market value equal to face value) maturing on October 1, 2007, and $1,180,803 in accrued interest. The balance on September 30, 2006, consisted of $476,712,000 in 4.750 percent par value specials (with market value equal to face value) maturing on October 2, 2006, and $1,363,635 in accrued interest. Par value specials mature on the first working day of the month following the month of issue and have a yield based on the average yield of marketable Treasury notes with maturity dates at least 3 years away.

Social Security Equivalent Benefit Account

On September 30, 2007 and 2006, the book values of the SSEB Account investments, including accrued interest, totaled $726,234,578 and $725,637,871, respectively. The balance on September 30, 2007, consisted of $724,734,000 in 4.375 percent par value specials maturing on October 1, 2007, and $1,500,578 in accrued interest. The balance on September 30, 2006, consisted of $723,754,000 in 4.750 percent par value specials maturing on October 2, 2006, and $1,883,871 in accrued interest.

National Railroad Retirement Investment Trust

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

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

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

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

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

Program, Operations, and Financial Performance and Results

During fiscal year 2007 (ended September 30, 2007), railroad retirement and survivor benefit payments totaled $9.8 billion, net of recoveries. Unemployment and sickness insurance benefit payments totaled $74.6 million in fiscal year 2007, net of recoveries. During fiscal year 2007, the RRB also paid benefits on behalf of SSA (for which the RRB is reimbursed) amounting to almost $1.2 billion to about 121,000 beneficiaries.

In fiscal year 2007, the RRB continued to focus its efforts on providing excellent customer service to current and former railroad workers and their family members. Our regular workloads in fiscal year 2007 included:

- Providing payments to 616,000 retirement and survivor beneficiaries.
- Providing payments to 10,000 unemployment insurance beneficiaries.
- Providing payments to 19,000 sickness insurance beneficiaries.
- Processing 29,741 (through May 2007) retirement, survivor, and disability applications for benefits and then determining eligibility.
- Processing 173,267 (through May 2007) applications and claims for unemployment and sickness insurance benefits.
- Issuing 275,732 (as of June 8, 2007) certificates of employee railroad service and compensation.

During fiscal year 2007, the RRB used 46 specific program performance objectives, including several with multiple indicators, to manage and track progress in meeting its long-term strategic plan goals. These objectives were accomplished with direct appropriations of $103.694 million for administration of the RRB. (A breakdown of administrative expenses by strategic goal is not available at the time of this report.) Agency performance with respect to the key performance indicators is covered in the following section. For most performance measures, actual full-year performance results for fiscal year 2007 were not available at the time this report was published. For those objectives, we reported part-year performance information for fiscal year 2007, if available. We also reported actual results from prior years, as applicable.

Summary of Achievement by Strategic Goal

Strategic Goal I: Provide Excellent Customer Service. We aim to satisfy our customers' expectations for quality service both in terms of service delivery options and levels and manner of performance. For fiscal year 2007, we expect that benefit payment accuracy rates will exceed 98 percent and that nearly all timeliness goals will be met.

Strategic Goal II: Serve as Responsible Stewards for Our Customers' Trust Funds and Agency Resources. The RRB is committed to fulfilling its fiduciary responsibilities to the rail community. For fiscal year 2007, we expect to meet or exceed our performance goals.

Strategic Goals and Objectives

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

The two overriding strategic issues for the upcoming planning period relate to customer service and trust fund stewardship. The **service issue** involves our ability to continue to meet our customers' expectations for personal, high quality service, and our ability to position the agency to meet rising customer expectations for new and improved services in the future. The **stewardship issue** has multiple aspects, some of which arise from legislative changes and others which relate to our ongoing ability to meet our program integrity responsibilities and to maintain effective, efficient and secure agency operations. To effectively address these issues, we have established two strategic goals on which we will focus our efforts. These goals form the basis of our Strategic Plan for 2006-2011.

Provide excellent customer service

We aim to satisfy our customers' expectations for quality service both in terms of service delivery options and levels and manner of performance. We have established four strategic objectives that focus on the specifics of achieving this goal.

- Pay benefits accurately and timely.
- Provide relevant, timely, and accurate information which is easy to understand.
- Provide a range of choices in service delivery methods.
- Ensure efficient and effective business interactions with covered railroad employers.

Serve as responsible stewards for our customers' trust funds and agency resources

The RRB is committed to fulfilling its fiduciary responsibilities to the rail community. We have established four objectives that direct our focus on this goal.

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

The RRB has committed to a number of management strategies that will guide our efforts to accomplish our stated strategic goals and objectives. These strategies, which will encompass many areas, also reflect the President's Management Agenda, which is designed to promote management improvements throughout the Federal government in six key areas:

- Expanded E-Government
- Budget and Performance Integration
- Financial Management Improvements
- Strategic Management of Human Capital
- Competitive Sourcing and Partnerships
- Freedom of Information Act Planning, Processing and Reporting

Additional information on the President's Management Agenda is available on the Internet at www.results.gov.

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

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

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

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

Validation of Performance Information. In fiscal year 2007, RRB implemented comprehensive new administrative procedures to ensure that reported performance information is accurate and valid. Administrative Circular RRB-2 establishes standards and assigns responsibility for collecting, documenting, validating, certifying, reporting and retaining information related to the actual performance data reported for objectives in RRB's Annual Performance Budget and Government Performance and Results Act Report.

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

- collecting data related to each objective,
- testing and validating performance data to ensure accuracy,
- retaining source documents for future reference, and
- attesting to the accuracy of performance information reported.

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

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

The following begins a discussion of our key performance indicators.

Discussion of Key Performance Indicators

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

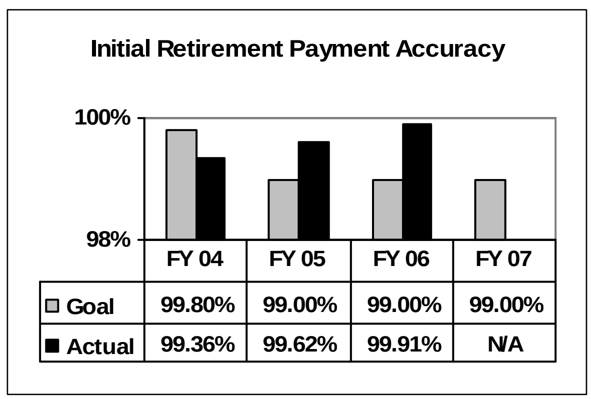
<u>Key performance indicator 1:</u> Initial recurring retirement payment accuracy (Objective I-A-1a)

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

FY 2007 goal: 99.00%
Our FY 2007 performance: Not available

Full-year data will be available in fiscal year 2008.

FY 2006 goal: 99.00%
Our FY 2006 performance: 99.91%



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

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

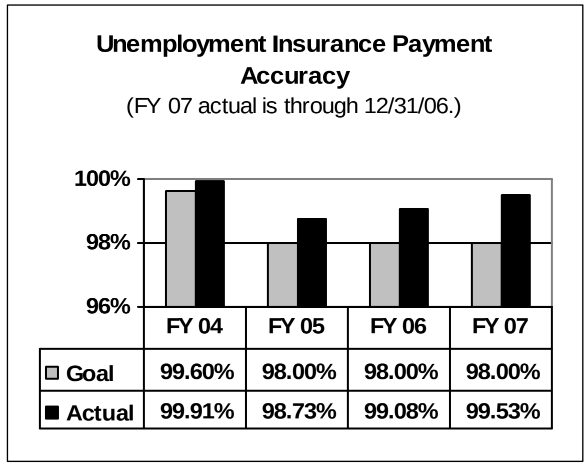
Key performance indicator 2: Unemployment insurance payment accuracy (Objective I-A-2a)

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

FY 2007 goal: 98.00%
Our FY 2007 performance: 99.53% through the 1st quarter

We are exceeding our goal. Automation plays a key role in assuring benefit payment accuracy by reducing the number of erroneous payments. The performance data shown is through the first quarter of fiscal year 2007. Full-year data will be available in fiscal year 2008.

FY 2006 goal: 98.00%
Our FY 2006 performance: 99.08%



	FY 04	FY 05	FY 06	FY 07
Goal	99.60%	98.00%	98.00%	98.00%
Actual	99.91%	98.73%	99.08%	99.53%

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

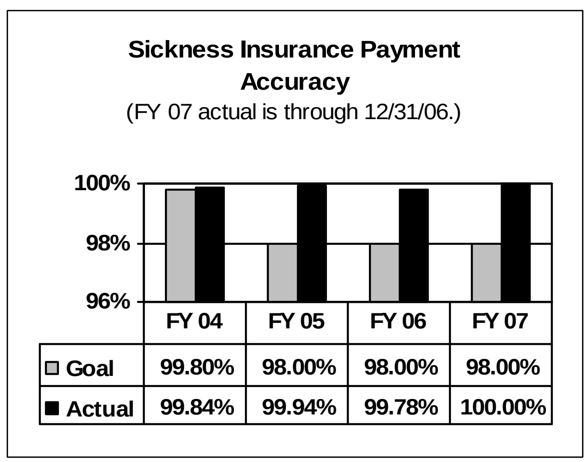
Key performance indicator 3: Sickness insurance payment accuracy (Objective I-A-2b)

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

FY 2007 goal: 98.00%
Our FY 2007 performance: 100% through the 1st quarter

We are exceeding our goal. Automation plays a key role in assuring benefit payment accuracy by reducing the number of erroneous payments. The performance data shown is through the first quarter of fiscal year 2007. Full-year data will be available in fiscal year 2008.

FY 2006 goal: 98.00%
Our FY 2006 performance: 99.78%



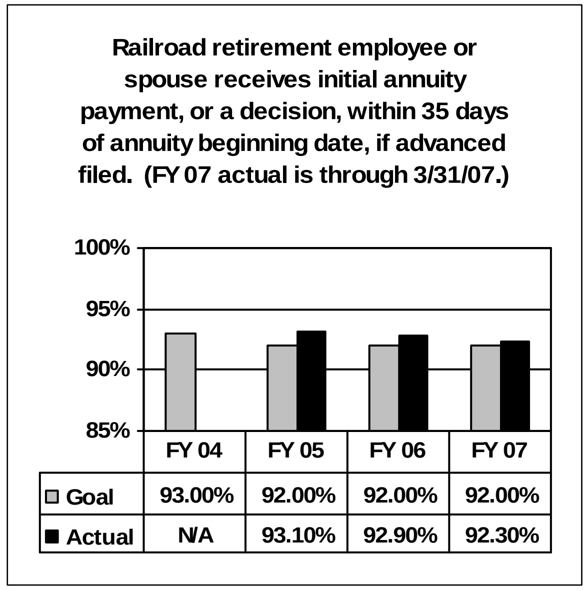
	FY 04	FY 05	FY 06	FY 07
Goal	99.80%	98.00%	98.00%	98.00%
Actual	99.84%	99.94%	99.78%	100.00%

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

Key performance indicator 4: Timeliness of initial Railroad Retirement annuity payments, when advanced filed (Objective I-A-5)

FY 2007 goal: 92.00%
Our FY 2007 performance: 92.30% through the 2nd quarter

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



FY 2006 goal: 92.00%
Our FY 2006 performance: 92.90%

Data definition: This goal is included in the RRB Customer Service Plan and is stated from the customer's perspective. Nevertheless, we have historically reported our performance as the percent of retirement age and service applications for which all RRB processing is completed within 30 days, allowing 5 days to account for handling by the Department of the Treasury (Treasury) or U.S. Postal Service (USPS). An audit by the RRB's Office of Inspector General (OIG) (05-05, dated May 17, 2005), however, found technical problems with the data. Beginning in fiscal year 2005, we clarified the description of the measure to clearly indicate that, due to system limitations, our tracking does not include all internal processing time, but only measures the retirement adjudicative processing time. There are usually several days between the end of the retirement adjudicative process and the point where the payment is certified to the Treasury, or the letter is released to the USPS. We believe that the impact of this flaw is mitigated by the fact that while we allow 5 days for Treasury and USPS handling, within the 35-day customer service standard, in fact, the Treasury actually deposits funds within 2 business days of receipt of the RRB's authorization for payment. Similarly, the USPS standard is to deliver first class mail within 3 business days. Agency review of the same sample data the OIG used in the audit found that 92.93% of the advanced filed cases were authorized for payment within 32 days of the annuity beginning date. The percentage goes up to 93.7% at 33 days. Thus, it is reasonable to assume that the customer would have received payment or a letter within the 35-day published standard.

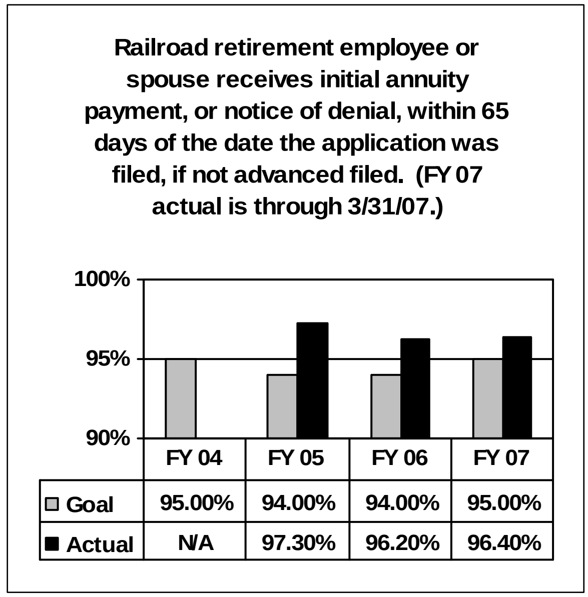
We plan to replace our retirement adjudicative system, which will allow us to track our performance for the entire internal processing time. Until the new system is implemented, we will continue to annotate our performance data to reflect that our tracking includes only adjudicative processing time. Overall, though, we believe that the data reported remains a fair representation of the basic service our customers receive.

The OIG also found faults in the prior year reports, the most significant of which improperly categorized cases and understated the number of advanced filing cases. As a result, we have excluded performance data for years prior to fiscal year 2005.

In addition, the RRB's OIG found a reporting flaw in our measurement process for 3rd party payment cases which affected 2 out of 150 cases in the sample. We are working on the correction of this system problem. Until then, the performance level reported is inaccurate for the few cases of this type processed during the reporting period.

<u>Key performance indicator 5:</u> Timeliness of initial Railroad Retirement annuity payments, if not advanced filed (Objective I-A-6)

FY 2007 goal: 95.00%
Our FY 2007 performance: 96.40% through the 2nd quarter



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

FY 2006 goal: 94.00%
Our FY 2006 performance: 96.20%

Data definition: This goal is included in the RRB Customer Service Plan and is stated from the customer's perspective. However, we base our performance calculation on the percent of retirement age and service applications where RRB processing is completed within 60 days, allowing 5 days to account for Treasury or USPS handling. An audit by our OIG (05-05, dated May 17, 2005) found several technical problems with the data which are described in the discussion of the previous key indicator. For fiscal year 2005, we clarified the description of the measure to clearly indicate that, due to system limitations, our tracking does not include all internal processing time but only measures the retirement adjudicative processing time. We believe, however, that the results remain a fair representation of the service our customers receive. Using sample data for July 2004, the OIG found that 95.19% of the non-advanced filed applications were processed within the stated 60-day measure. The agency would have reported that 98.65% for the same sample period. Thus, actual performance still exceeded the targeted level. Note that, while the issues described in detail for Key Indicator 4 above apply to these non-advanced filed cases as well, the net impact on actual performance levels was not as significant.

We plan to replace our retirement adjudicative system, which will allow us to track our performance for the entire internal processing time. Until the new system is implemented, we will continue to annotate our performance data to reflect that our tracking includes only adjudicative processing time.

The OIG also found faults in the prior year reports, the most significant of which improperly categorized cases. As a result, we have excluded performance data for years prior to fiscal year 2005.

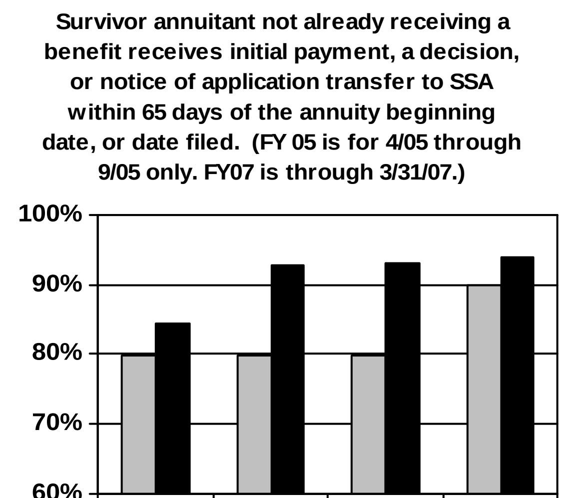
<u>Key performance indicator 6:</u> Timeliness of new survivor benefit payments (Objective I-A-7)

FY 2007 goal: 90.00%
Our FY 2007 performance: 94.10% through the 2nd quarter

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

FY 2006 goal: 80.00%
Our FY 2006 performance: 93.20%

Data definition: This goal is included in the RRB Customer Service Plan and is stated from the customer's perspective. However, we base our performance calculation on the percent of applications where all RRB processing is completed within 60 days, allowing 5 days to account for Treasury or USPS handling.



	FY 04	FY 05	FY 06	FY 07
Goal	80.00%	80.00%	80.00%	90.00%
Actual	84.50%	92.80%	93.20%	94.10%

In fiscal year 2005, measurement and reporting inconsistencies, which resulted in a net understatement of actual performance, were identified by the RRB's OIG. These inconsistencies were corrected effective with April 2005 data. Results reported for fiscal year 2005 represent the last 6 months of the year only.

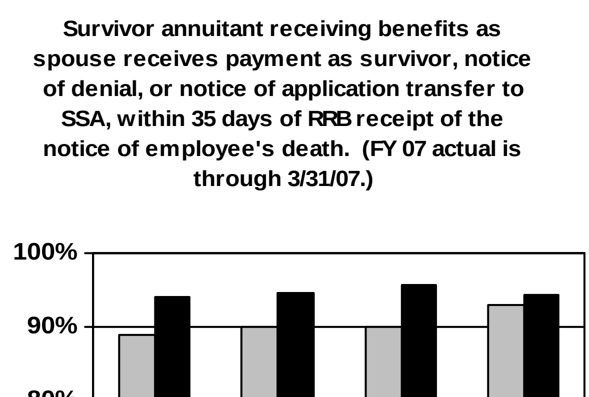
<u>Key performance indicator 7:</u> Timeliness of spouse to survivor benefit payment conversions (Objective I-A-8)

FY 2007 goal: 93.00%
Our FY 2007 performance: 94.20% through the 2nd quarter

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

FY 2006 goal: 90.00%
Our FY 2006 performance: 95.70%

Data definition: This goal is included in the RRB Customer Service Plan and is stated from the customer's perspective. However, we base our performance calculation on the percent of applications where all RRB processing is completed within 30 days, allowing 5 days to account for Treasury or USPS handling.



	FY 04	FY 05	FY 06	FY 07
Goal	89.00%	90.00%	90.00%	93.00%
Actual	94.10%	94.60%	95.70%	94.20%

<u>Key performance indicator 8:</u> Timeliness of unemployment or sickness insurance payments (Objective I-A-12)

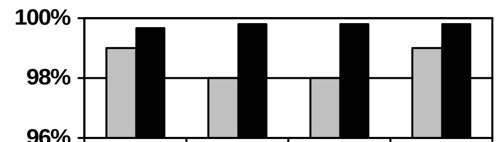
FY 2007 goal: 99.00%
Our FY 2007 performance: 99.80% through the 2nd quarter

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

FY 2006 goal: 98.00%
Our FY 2006 performance: 99.80%

Data definition: This goal is included in the RRB Customer Service Plan and is stated from the customer's perspective. However, we base our performance calculation on the percent of claims where all RRB processing is completed within 10 days, allowing 5 days to account for Treasury or USPS handling.

Railroad employee, unemployed or unable to work due to temporary illness or injury, receives a payment for unemployment or sickness insurance benefits, or a decision, within 15 days of claim receipt. (FY 07 actual is through 3/31/07.)



	FY 04	FY 05	FY 06	FY 07
Goal	99.00%	98.00%	98.00%	99.00%
Actual	99.70%	99.80%	99.80%	99.80%

<u>Key performance indicator 9:</u> Timeliness of disability decisions (Objective I-A-13)

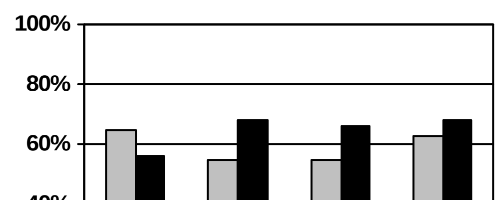
FY 2007 goal: 63.00%
Our FY 2007 performance: 68.30% through the 2nd quarter

We are exceeding our goal. We have been able to exceed our goal due to an increase in the number of staff resources dedicated to the disability workload and the timely performance by the contractor for consultative medical examinations needed to make disability decisions.

FY 2006 goal: 55.00%
Our FY 2006 performance: 65.90%

Data Definition: This goal is included in the RRB Customer Service Plan and is stated from the customer's perspective. However, we base our performance calculation on the percent of applications where all RRB processing is completed within 100 days, allowing 5 days to account for USPS handling.

Disabled applicant or family member receives notice of decision to pay or deny within 105 days of the date application for disability is filed. (FY 07 actual is through 3/31/07.)



	FY 04	FY 05	FY 06	FY 07
Goal	65.00%	55.00%	55.00%	63.00%
Actual	55.90%	67.90%	65.90%	68.30%

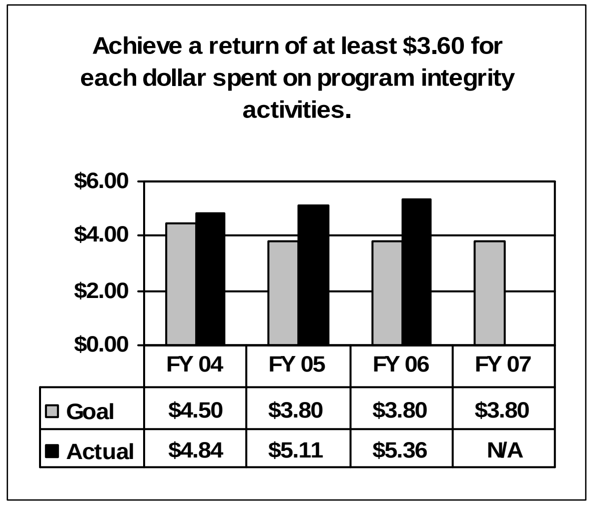
<u>Key performance indicator 10:</u> Return on investment in program integrity activities (Objective II-B-1)

FY 2007 goal: $3.80 : $1
Our FY 2007 performance: Not available

FY 2007 data will be available in FY 2008.

FY 2006 goal: $3.80 : $1
Our FY 2006 performance: $5.36 : $1

We exceeded our goal. Our fiscal year 2006 goal was to achieve a return of $3.80 for each dollar spent on program integrity activities. We achieved a rate of return of $5.36 for each dollar spent.



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

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

Future Plans/Objectives

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. However, 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 was temporarily suspended while we focused 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.

  We advised CMS in January 2007 that we were ready to resume work with them on the data exchange needed to support Part D premium withholding from RRB benefits. In June 2007, we provided CMS proposed processing rules and record layouts for the data exchange. We expect to work with CMS through fiscal year 2008 on this project, with possible implementation coming in January 2009.

- **Nationwide Toll-Free Service and RRB HelpLine Improvements** The agency awarded a contract in fiscal year 2007 for a managed nationwide toll-free telephone service to provide a single toll-free number, automatic call distribution, and interactive voice response (IVR) functionality. The toll-free number will provide a single access point to claims representatives in the agency's field service offices and to IVR services.

  The design of the national toll-free service will support all of the existing self-service options and features of the current RRB HelpLine, and facilitate a number of 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. Callers will also have the option to establish, change, and request new passwords. These enhancements will provide a higher level of system security, and allow for expansion of services into other areas.

- **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 2008, 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 targeted for completion in late 2007, 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**   In fiscal year 2007, the current ERS Forms BA-4, BA-6a and GL-129a were revised to access the DB-2 database. In fiscal year 2008, they will also be modified to accommodate earnings above $100,000. These expanded fields are part of the mandatory database expansion that will become effective in January 2008.

  In fiscal year 2008, using a staff augmentation contract, we plan to 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. Following that conversion, we will resume our efforts to add the pre and post-payment notices. The ID-4K, pre-payment notice informs the employer of an employee's application or claim for benefits; and the ID-4E post-payment notice informs the employer of the amount of benefits the RRB paid to the employee.

  During fiscal year 2008, we will also continue to move forward with the 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 awarded a contract to host RRBVision on the Internet. This will allow the agency to make presentations and training available to covered railroad employers and the general public via a link from the RRB's website (www.rrb.gov). The agency will implement the new service in fiscal year 2008.

Improper Payments Information Act (IPIA)

During fiscal year 2007, the RRB calculated the amount of improper payments made in fiscal year 2006 for each of the two programs it administers: Retirement and Survivor Benefits and Railroad Unemployment Insurance Benefits. This review determined that neither of the RRB's benefit payment programs exceeds the OMB threshold for improper payments and, therefore, the agency is not required to prepare and monitor a formal action plan for reducing or eliminating improper payments. The IPIA has, however, continued to have a significant impact on the agency by ensuring a continued high priority for ongoing activities and initiatives designed to improve overall payment accuracy and to reduce specific categories of improper payments. See the IPIA Reporting Details, located in the *Other Accompanying Information* section, for additional information on these efforts.

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 42 assessable units. The number of assessable units can vary from year to year as operations are restructured to accommodate changes precipitated by such factors as new and revised missions, reduced resources, and increased automation.

The mission, key performance indicators, workflow, control objectives and techniques, guidance, automated systems support, impact, and vulnerability of each assessable unit are documented. The RRB maintains and annually updates a 5-year plan for review of the assessable units. The official responsible for each assessable unit prepares an annual assessment of key indicators and open or new issues requiring management's attention. High impact and vulnerable assessable units are scheduled for more frequent, in-depth reviews as deemed necessary by the MCRC in consultation with senior management. During fiscal year 2007, responsible officials performed in-depth reviews of 10 assessable units, assessed all 42, and certified 41.

In fiscal year 2007, two control weaknesses regarding performance measurement and the actuarial projection process–formal policies were corrected and are no longer classified as material weaknesses.

The RRB reported a material weakness relating to deficiencies in Information Technology Security in fiscal year 2002; the remaining action needed to close out the deficiencies is implementation of access control recommendations.

In fiscal year 2005, the OIG identified Information Technology Security as a significant deficiency, which it reported as a material weakness in the fiscal year 2005 Performance and Accountability Report. This included two new deficiencies in meeting FISMA requirements for risk assessments, and testing and evaluation.

In fiscal year 2007, the OIG identified a significant deficiency in the actuarial projection process for lack of a consistent theory for preparing the fund balance and lack of complete reliable information about the NRRIT's financial position as of the social insurance valuation date.

The agency is committed to resolving these deficiencies. Responsible Official and Organization Head certifications for fiscal year 2007 include information about actions underway to address each of these. We will continue to monitor progress during fiscal year 2008.

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 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 and Actuarial Projection Process–Fund Balance, as material weaknesses. Previously reported material weaknesses in Performance Reporting and in Actuarial Projection Process–Formal Policies have been addressed and closed out in fiscal year 2007.

Description of OIG-Identified Material Weaknesses

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

   In fiscal year 2008, the plan is to resolve the remaining audit recommendations. We will then evaluate the Information Technology Security material weakness to determine whether it has been eliminated.

2. The actuarial projection process is weakened by the lack of a consistent theory for preparing the fund balance and the lack of complete, reliable information about the NRRIT's financial position as of the social insurance valuation date.

   The Bureau of the Actuary will work with the Bureau of Fiscal Operations and the NRRIT to obtain more complete, reliable information about the NRRIT's financial position in order to have a consistent theory for preparing the fund balance.

Original signed by:

Michael S. Schwartz, Chairman
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, 2007. 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 2007-2081, 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 2007-2017. The results indicate that the Railroad Unemployment Insurance (RUI) Account will be solvent during the 11-year projection period.

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.

PERFORMANCE SECTION –

GOVERNMENT PERFORMANCE AND RESULTS ACT (GPRA) REPORT

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

The following performance report is based on the major goals and objectives from the RRB's Strategic Plan for 2006 – 2011. The indicators we developed support our mission and communicate our intentions to meet challenges and seek opportunities for greater efficiency, effectiveness, and economy.

To achieve our performance goals, the RRB holds managers accountable for achieving program results and improving program effectiveness by focusing on results, service quality, and customer satisfaction. In addition, the annual performance budget is used to help managers improve service delivery by requiring that they plan for meeting program objectives and by providing them with information about program results and service quality. To provide reasonable assurance that the reported performance information is relevant and reliable, performance goals are incorporated into performance standards for managers and supervisors, and monitored on an agency-wide basis. We have also implemented an initiative to conduct validation studies on selected indicators, and developed an administrative circular regarding documentation, validation and retention of performance data.

e-Government initiatives

Over the last several years, the RRB has implemented significant automation initiatives and other improvements. Because of these accomplishments, the RRB is able to operate with reduced resources and is continuing to streamline its operations with the assistance of information technology. We believe that significant new investments in information technology and further management improvements will help us to meet or exceed our customer service goals efficiently.

We are continuing to make services available over the Internet to railroad and rail labor employers. The RRB has developed a secure Internet-based Employer Reporting System (ERS) to accept reports from covered railroad and rail labor employers concerning employee service and compensation data.

In February 2006, the RRB added a secure e-mail service enabling railroad employers to communicate with the RRB about reimbursements due the RRB under sections 2(f) and 12(o) of the RUIA. The service provides secure messaging to protect beneficiary privacy and expedites information employers need to complete actions on pay-for-time lost and personal-injury settlements. As of May 2007, approximately 20 employer claims agents have initiated the service and about 60 additional agents are scheduled to do so later this year.

In November 2005, RRB’s Debt Recovery Division began using Treasury’s Pay.gov for collection of debts incurred under the Railroad Retirement Act and Railroad Unemployment Insurance Act. Pay.gov uses Internet technologies to provide railroad employers, employees, retirees and the general public with the ability to electronically make payments to the RRB 24 hours a day. Pay.gov is accessible from any computer with Internet access by going through a link on RRB.gov or directly to the Pay.gov site.

On March 5, 2007, the RRB’s Debt Recovery Division launched the Rail Employer Settlement Bill. This bill is available to registered users for payment of section 12(o) and 2(f) bills through Pay.gov. In addition, for those employers who register, there is an on-line report generated.

This report provides detailed information on all payments made through Pay.gov in the previous 3 months.

The RRB HelpLine received 372,450 calls in fiscal year 2006. We released 797 Railroad Retirement Act rate letters, 2,389 replacement Medicare cards, 1,505 service and compensation statements, and 492 replacement tax statements as a result of customer calls. A total of 108,394 callers made requests for information about local field office addresses and telephone numbers.

In 2006, we created an on-line beneficiary name lookup system for use by agency staff. The purpose of the lookup is to assist staff in associating claims material with beneficiary records when the RRB claim number is not available. This not only streamlines our process, but supports current initiatives to eliminate or reduce the non-essential use of social security numbers.

Service and administrative improvements

The implementation of the Health Insurance Portability and Accountability Act (HIPAA) required that all claims for reimbursement, except for small providers under the Medicare programs, be submitted electronically beginning on October 16, 2003. Since that time, the electronic media claims submitted to Palmetto GBA, our Part B Medicare carrier, in HIPAA-compliant format has grown steadily from less than 10 percent at its inception to approximately 100 percent at the end of December 2005. In addition, the percentage of claims that are submitted electronically to Palmetto GBA has also increased from 49.9 percent in October 2005, to 71.3 percent in December 2006.

In 2007, the Bureau of Hearings and Appeals started using video conferencing to hold in-person disability hearings. In accordance with the RRB's regulations, hearings officers are now permitted to use video conferencing in lieu of traveling to a city near the appellant's place of residence. This should increase the productivity of the hearings officers by reducing travel time. In addition, the capability to hold hearings as soon as cases are ready, rather than batching them to reduce travel costs, will improve the time in which a decision is issued.

Systems security

Information security is a critical consideration for government agencies where maintaining the public's trust is essential. The RRB relies extensively on computerized systems to support its mission operations and store the sensitive information that it collects. The RRB's information security program is established and maintained to reasonably protect systems data and resources against internal failures, human errors, attacks and natural catastrophes that might cause improper disclosure, modification, destruction, or denial of services. To ensure mission continuity and connect with the agency's overall business processes, we have a comprehensive training program that utilizes the Office of Personnel Management sponsored USALearning's Karta computer security curriculum. For the third consecutive year, all employees with computer security responsibilities are enrolled in this role-based training program that is based on Federal guidelines and mapped to National Institute of Standards and Technology (NIST) SP800-16 "Information Technology Security Training Requirements." Additional specialized technical education is also provided as necessary for the computer analysts and engineers to maintain their skills and enhance proficiency.

Federal agencies are required to provide annual computer security awareness training for employees and contractors. Security awareness efforts are designed to change behavior or reinforce good security practices by simply focusing attention on security. We continue to develop new approaches for refreshing the awareness initiative by providing new and innovative presentations for the agency staff. This year the new “Rules of Behavior for General Support Systems” pamphlet was used as part of the awareness program. Supplementing the computer security awareness training, the Security News feature story on the Intranet home page is refreshed weekly, and in April, a separate broadcast e-mail “Reminder about the Board's policy on Peer-To Peer applications” was sent to all employees. The pamphlet entitled “Information Systems Security Awareness Training for the Railroad Retirement Board,” a key document in the computer security program, has been updated and expanded with additional information. Every year, the RRB awareness program has experienced exemplary levels of participation measures by employees and contractors.

Faced with an increasingly dangerous threat environment, the RRB relies on a sophisticated hardware and software defense that utilizes carefully monitored and maintained firewall technology, anti-virus software and intrusion detection systems to prevent viruses, worms, spam and malicious content from infiltrating the network, as well as to ensure that critical data and sensitive information are not compromised. To buttress these proactive threat management resources in the event of a successful malware attack, the agency has implemented a robust incident response capability. With the fully operational forensic analysis workstation, the RRB Computer Emergency Response Team has the ability to conduct forensic collection and analysis of electronic evidence from almost any type of digital media in use today (USB drives, desktop, notebook and server hard drives, flash media cards, etc.). The recent addition of the network access control intrusion prevention system further strengthens the agency’s systems defenses by early detection of malicious activity, keeping the RRB internal network free of network based threats such as worms and peer-to-peer file sharing programs.

Standards and policy are key components to the security management strategy. The “RRB Information Systems Security Policy, Standards and Guidelines Handbook” has been drafted to support the mission of the agency. In response to OMB requirements to implement e-authentication within e-Government business applications, Chapter 21 – Online Transactions e-Authentication was recently added to the draft handbook. The new Chapter 22 – Protecting Sensitive Information emphasizes the agency’s responsibility to protect personally identifiable information, and the latest addition to the draft handbook, Chapter 23 –Service Provider Oversight describes how to perform and document information security site assessments of information technology service providers.

A training test and exercise of the Continuity of Operations Plan (COOP) was performed during March 2007. A training pamphlet describing the scheduling phases of the Business Continuity Plan, and the various teams with their composition and duties, was published on the Intranet and used as a training component for all COOP emergency, recovery and reconstitution teams. Evaluation forms were completed and returned to the Information Resources Management Center for evaluation and assessment, and they will be retained as documentation of completion of the actions accomplished.

Program Evaluations

Program Evaluation	Results in Fiscal Year 2007
Federal Managers' Financial Integrity Act Reports	See "Systems and Controls" in the "Management's Discussion and Analysis" section.
Annual actuarial report required by the Railroad Retirement Act of 1974 and the Railroad Retirement Solvency Act of 1983	The report, which was completed in June 2007, addresses the 25-year period 2007-2031, and contains generally favorable information concerning railroad retirement financing. It indicates that no cash flow problems arise over the 25-year projection period. The report recommends no change in the rate of tax imposed on employers and employees.
Railroad Unemployment Insurance System, annual report required by section 7105 of the Technical and Miscellaneous Revenue Act of 1988	The report, which was released in June 2007, contains generally favorable information. Experience-based contribution rates are expected to maintain solvency, and no new loans are expected even under our most pessimistic assumption. The report did not include any recommendations for financing changes.
Program Assessment and Rating Tool (PART) Review	In fiscal year 2007, the Office of Management and Budget conducted a comprehensive assessment of RRB programs and operations through the PART review. The PART review resulted in a rating of "effective" for both the railroad retirement/survivor program and the unemployment/ sickness insurance program.
Customer service performance reports	The RRB continuously monitors the timeliness and accuracy of our performance in managing program workloads. These results are reflected in the performance objectives shown in the chart on the following pages.
Program integrity report	The RRB's program integrity report for fiscal year 2006, released in October 2006, showed that program integrity activities resulted in the establishment of about $14.4 million in recoverables, recovery of $9.7 million, benefit savings of $810,000, and referral of 175 cases to the Office of Inspector General.
Quality assurance reviews and special studies	RRA adjudicative and payment accuracy is measured in regular reviews conducted by quality assurance staff within the RRB's Assessment and Training (A&T) component. A&T also evaluates policies and processes through special studies, as needed. A&T reports directly to the Director of Programs.
Occupational disability reviews	Advisory doctors, representing the rail industry (labor and management), are authorized by law to review agency medical decisions. An audit was done in 2000; another audit is underway during 2007. In addition, consulting physicians from Consultative Examinations, Ltd. perform a quarterly quality review of disability documentation to ensure it is adequate to support medical decisions.
RRB Office of Inspector General audits	See "Inspector General's Statement on Management and Performance Challenges" and "Management's Comments" in the "Other Accompanying Information" section.

Program Evaluation	Results in Fiscal Year 2007
Performance budget monitoring	Results of performance budget monitoring are shown in the chart of performance objectives on the following pages.
Enterprise architecture assessment	The RRB completed an enterprise architecture assessment in February 2007, reporting a total assessment value of 2.00 out of a possible 5.00.
Computer security and privacy assessment	See performance goals II-C-2, II-C-3 and II-C-4 in the chart of performance objectives on the following pages.
Electronic government (E-Gov) activities	See "e-Government initiatives" in the Performance Section – GPRA Report.
Improper payment evaluation	See "Improper Payments Information Act (IPIA)" in the "Management's Discussion and Analysis" section.

The next page begins a consolidated presentation of our actual performance in fiscal year 2004 through March 31, 2007 (except as noted), followed by a discussion of our unmet performance goals and objectives for fiscal year 2006. At the time this report was prepared, we had incomplete information on our fiscal year 2007 performance. The discussion of any unmet fiscal year 2007 performance goals and indicators will be presented in next year's report. This performance report was prepared by RRB employees.

RAILROAD RETIREMENT BOARD FY 2007 ANNUAL PERFORMANCE REPORT	2004 Actual (At $100.7m) [1/]	2005 Actual (At $102.5m) [1/]	2006 Actual (At $101.5m) [1/]	2007 Projected (At $101.5m) [1/]	2007 Actual (At $103.7m) [1/]
Strategic Goal I: Provide Excellent Customer Service					
Performance Goal I-A: Pay benefits accurately and timely.					
I-A-1. Achieve a railroad retirement benefit payment accuracy rate [2/] of at least 99%. (Measure: % accuracy rate) — a) Initial recurring payments:	99.36%	99.62%	99.91%	99.00%	Data not available
recurring payments:	99.92%	99.89%	99.94%	99.00%	Data not available
I-A-2. Achieve a railroad unemployment/sickness insurance benefit payment accuracy rate [2/] of at least 99%. (Measure: % accuracy rate) — b) Sample post a) Unemployment:	99.91%	98.73%	99.08%	98.00%	99.53% through 12/31/06
b) Sickness:	99.84%	99.94%	99.78%	98.00%	100% through 12/31/06
I-A-3. Achieve a railroad retirement case accuracy rate [2/] of at least 94%. (Measure: % of case accuracy) — a) Initial	94.7%	95.5%	94.5%	91.0%	Data not available
b) Post	97.8%	95.8%	96.3%	94.0%	Data not available
I-A-4. Achieve a railroad unemployment/sickness insurance case accuracy rate [2/] of at least 97%. (Measure: % of case accuracy) — cases: a) Unemployment:	99.75%	98.01%	97.5%	97.0%	97.96% through 12/31/06
b) Sickness:	99.25%	99.51%	99.03%	97.0%	100% through 12/31/06
I-A-5. Railroad retirement employee or spouse receives initial annuity payment, or a decision, within 35 days of annuity beginning date, if advanced filed. (Measure: % ≤ 30 adjudicative processing days [3/] [4/])	N/A	93.1%	92.9%	92.0%	92.3%
I-A-6. Railroad retirement employee or spouse receives initial annuity payment, or notice of denial, cases: within 65 days of the date the application was filed, if not advanced filed. (Measure: % ≤ 60 adjudicative processing days [3/] [4/])	N/A	97.3%	96.2%	95.0%	96.4%

RAILROAD RETIREMENT BOARD FY 2007 ANNUAL PERFORMANCE REPORT	2004 Actual (At $100.7m) [1/]	2005 Actual (At $102.5m) [1/]	2006 Actual (At $101.5m) [1/]	2007 Projected (At $101.5m) [1/]	2007 Actual (At $103.7m) [1/]
I-A-7. Survivor annuitant not already receiving a benefit receives initial payment, a decision, or notice of transfer to SSA within 65 days of the annuity beginning date, or date filed (whichever is later). (Measure: % ≤ 60 processing days [4/])	84.5%	92.8% [5/]	93.2%	90.0%	94.1%
I-A-8. Survivor annuitant receiving benefits as spouse receives payment as survivor, notice of denial, or notice of application transfer to SSA, within 35 days of RRB receipt of the notice of employee's death. (Measure: % ≤ 30 processing days [4/])	94.1%	94.6%	95.7%	93.0%	94.2%
I-A-9. Applicant for any railroad retirement death benefit receives payment, or notice of denial, within 65 days of date filed. (Measure: % ≤ 60 processing days [4/])	95.4%	96.9%	97.5%	95.0%	97.9%
I-A-10. Unemployed railroad worker receives UI claim form, or notice of denial, within 15 days of the date application filed. (Measure: % ≤ 10 processing days [4/])	99.25% of cases sampled	99.8%	99.5%	99.0%	100%
I-A-11. Railroad employee unable to work due to temporary illness or injury receives SI claim form, or notice of denial, within 15 days of the date application filed. (Measure: % ≤ 10 processing days [4/])	99.4%	99.6%	99.5%	99.0%	99.3%
I-A-12. Railroad employee, unemployed or unable to work due to temporary illness or injury, receives a payment for unemployment or sickness insurance benefits, or a decision, within 15 days of claim receipt. (Measure: % ≤ 10 processing days [4/])	99.7%	99.8%	99.8%	99. 0%	99.8%
I-A-13. Disabled applicant or family member receives notice of decision to pay or deny within 105 days of the date application for disability is filed. (Measure: % ≤ 100 processing days [4/])	55.9%	67.9%	65.9%	63.0%	68.3%
I-A-14. Disabled applicant receives payment within 25 days of decision or earliest payment date (whichever is later). (Measure: % ≤ 20 processing days [4/] [6/])	94.8%	94.4%	95.2%	92.0%	96.0%

RAILROAD RETIREMENT BOARD FY 2007 ANNUAL PERFORMANCE REPORT	2004 Actual (At $100.7m) 1/	2005 Actual (At $102.5m) 1/	2006 Actual (At $101.5m) 1/	2007 Projected (At $101.5m) 1/	2007 Actual (At $103.7m) 1/
I-A-15. Reduce the number of days elapsed between the date the appeal is filed and a decision is rendered. (Measure: average elapsed days)	194	207	206	190	159
Performance Goal I-B: Provide relevant, timely, and accurate information which is easy to understand.					
I-B-1. Achieve quality and accuracy of correspondence, publications, and voice communications. (Measure: surveys and reviews; number of valid challenges to published data)	ACSI survey deferred	The final report on the widow(er)s survey was completed in August 2005. RRB's score of 90 was highest of Federal agencies.	Completed a survey of initial disability decisions. RRB's score was 85.	ACSI survey deferred	ACSI survey deferred
	No valid challenges to published data	No valid challenges to published data	No valid challenges to published data	No more than two valid challenges to published data	No valid challenges to published data
Performance Goal I-C: Provide a range of choices in service delivery methods.					
I-C-1. Offer electronic options to our customers, allowing them alternative ways to perform primary services via the Internet or interactive voice response systems. (Measure: # of services available through electronic media)	12 services available	14 services available	16 services available	17 services available	16 services available as of May 2007. The 17th service is on target for completion in FY 2007.
Performance Goal I-D: Ensure efficient and effective business interactions with covered railroad employers.					
I-D-1. Improve timeliness and efficiency in posting service and compensation data to agency records. (Measure: % of service and compensation records posted by April 15)	New indicator for FY 2005	99.7%	99.6%	99.0%	99.92% (through 4/15/07)
I-D-2. Improve accuracy in posting service and compensation data to agency records. (Measure: % of service and compensation records posted accurately)	New indicator for FY 2005	99.0%	99.9%	99.0%	99.67%
I-D-3. Covered employer annual reports of employees filed electronically, or on magnetic media. (Measure: % of employee records filed electronically, or on magnetic media)	97.0%	98.0%	97.8%	97.0%	98.2% (through 4/15/07)

RAILROAD RETIREMENT BOARD FY 2007 ANNUAL PERFORMANCE REPORT	2004 Actual (At $100.7m) 1/	2005 Actual (At $102.5m) 1/	2006 Actual (At $101.5m) 1/	2007 Projected (At $101.5m) 1/	2007 Actual (At $103.7m) 1/
I-D-4. Enable employers to use the Internet to conduct business with the RRB, in support of the Government Paperwork Elimination Act. (Measure: % of employers who use the new online reporting process; # of services available through electronic media)	52.0% 4 Internet services available	55.0% 4 Internet services available	58.0% 6 Internet services available	60.0% 6 Internet services available	61.0% 6 Internet services available
Strategic Goal II: Serve as Responsible Stewards for Our Customers' Trust Funds and Agency Resources					
Performance Goal II-A: Ensure that trust fund assets are projected, collected, recorded and reported appropriately.					
II-A-1. Debts will be collected through billing, offset, reclamation, referral to outside collection programs and a variety of other collection efforts. (Measure: funds collected vs. total debts outstanding)	69%	66%	62%	55%	42%
II-A-2. Release quarterly and annual notices accurately and timely to employers regarding their experience rating-based contributions. (Measure: Yes/No)	New indicator for FY 2005	Yes	Yes	Yes	Yes
II-A-3. Complete compensation reconciliations at least 1 year before the statute of limitations expires. (Compensation reconciliations involve a comparison of compensation reported by railroad employers to the RRB for benefit calculation purposes with compensation reported to the IRS for tax purposes.) (Measure: % completed)	100% of the 2001 reconciliations by 2/20/04	100% of the 2002 reconciliations by 12/17/04	100% of the 2003 reconciliations by 2/15/05	100% of the 2004 reconciliations by 2/28/07	100% of the 2004 reconciliations were completed by 12/11/06.
II-A-4. Perform monthly reasonableness tests comparing railroad retirement taxes deposited electronically, which represent over 99 percent of all railroad retirement taxes, against tax receipts transferred to the RRB trust funds by the Department of the Treasury (Treasury) to provide reasonable assurance the RRB trust funds are receiving appropriate tax funds. (Measure: reasonableness test performed and anomalies reconciled with Treasury (Yes/No))	Yes	Yes	Yes	Yes	As of 7/02/07, tests were completed through May 2007.
II-A-5. Prepare annual Performance and Accountability Report (including audited financial statements and other financial and performance reports) by the required due dates. (Measure: Yes/No)	The FY 2003 Performance and Accountability Report was released in January 2004.	The FY 2004 Performance and Accountability Report was released on 11/10/04.	The FY 2005 Performance and Accountability Report was released on 11/10/05.	Yes	The FY 2006 Performance and Accountability Report was released on 11/15/06.

RAILROAD RETIREMENT BOARD FY 2007 ANNUAL PERFORMANCE REPORT	2004 Actual (At $100.7m) [1/]	2005 Actual (At $102.5m) [1/]	2006 Actual (At $101.5m) [1/]	2007 Projected (At $101.5m) [1/]	2007 Actual (At $103.7m) [1/]
II-A-6. Take prompt corrective action on audit recommendations. (Measure: % of audit recommendations implemented by target date)	95.7%	90.3% [7/]	97.2%	95.0%	88.9%
Performance Goal II-B: Ensure the integrity of benefit programs.					
II-B-1. Achieve a return of at least $3.60 for each dollar spent on program integrity activities. (Measure: $ recoveries & savings per $ spent)	$4.84 : $1.00	$5.11 : $1.00	$5.36 : $1.00	$3.80 : $1.00	Data will be not be available until November 2007.
Performance Goal II-C: Ensure effectiveness, efficiency, and security of operations.					
II-C-1. Continue succession planning by ensuring there is a cadre of highly skilled employees available for key positions. (Measure: Number of position types (descriptions) for which core competencies have been defined. Number of employees whose skills have been assessed. Number of employees involved with skills-enhancement programs.) (Measure for FY 2006 and later: Structured succession planning activities are continuing. (Yes/No))	1 position 39 employees 18 employees	6 positions 73 employees 31 employees			
			Yes	Yes	Yes

RAILROAD RETIREMENT BOARD FY 2007 ANNUAL PERFORMANCE REPORT	2004 Actual (At $100.7m) 1/	2005 Actual (At $102.5m) 1/	2006 Actual (At $101.5m) 1/	2007 Projected (At $101.5m) 1/	2007 Actual (At $103.7m) 1/
II-C-2. Annually assess/update all computer security, disaster recovery, and business resumption plans for the agency. (Measure: Yes/No)	Assessment and updates of all scheduled plans completed.	Yes. The agency completed a Business Impact Analysis and a Business Continuity Plan (BCP).	No. The BCP was updated with alternate non-IT site information in January 2006, and Appendix H of the BCP, the Emergency Management Organization, was updated in February 2006. An IT Disaster Recovery Plan was in draft status at the end of the fiscal year.	The agency will contract with a third party for assistance in performing the certification and accreditation of at least one general support system. The other general support system and major applications will proceed as budgetary considerations allow. The agency will also fill an Information Availability Analyst position whose primary responsibility will be in the area of contingency planning, assessment and training.	Yes. As of June 2007, the RRB has acquired contractor assistance to certify and accredit the general support and major applications systems. The agency is in the process of filling an information availability analyst position. The RRB has completed a training test and exercise of the Continuity of Operations Plan.
II-C-3. Develop and implement new procedures for responding to and reporting computer security incidents. (Measure: Yes/No)	Procedures have been developed, and reports of identified incidents are documented. The RRB also purchased an Intrusion Detection System (IDS).	The IDS was installed on 11/19/04, and was placed in operation on 02/12/05. The IDS tuning phase was completed by 06/30/05. Computer security incident procedures are in place and reports of incidents are documented.	The Department of Energy's Computer Incident Advisory Center began vulnerability assessment testing in January 2006, and completed testing of the RRB's LAN general support system.	The intrusion detection system (IDS) is in full operation. A Computer Security Incident Response Team is established. Procedures are in place and will be updated as necessary. Reports of incidents will continue to be documented.	The IDS was recently upgraded to Intrusion Prevention. A network access control device was installed on the agency LAN/WAN general support system to provide increased security management capabilities.

RAILROAD RETIREMENT BOARD FY 2007 ANNUAL PERFORMANCE REPORT	2004 Actual (At $100.7m) 1/	2005 Actual (At $102.5m) 1/	2006 Actual (At $101.5m) 1/	2007 Projected (At $101.5m) 1/	2007 Actual (At $103.7m) 1/
II-C-4. Assess computer security training requirements and implement an ongoing training program for agency staff. (Measure: Yes/No)	Yes. Training needs were assessed and a security curriculum was developed based on audit findings. An ongoing awareness training program for computer users at the agency was completed with 100% participation by agency personnel.	Yes. The agency has established two training tracks. Track one provides technical expertise and functional skills for IT technical staff, and track two focuses on knowledge of security assessments, planning, policy development and safeguard controls. All employees requiring IT security education participate in track two; however, technical employees use both tracks.	Yes. A total of 181 RRB employees with computer security responsibilities received Web-based training at the OPM USALearning site, with a second training track for specialized technical education. All RRB staff annually complete a computer security awareness program.	The agency will continue with two training tracks. All agency staff will also complete a computer security awareness program.	All staff with computer security responsibilities are registered in role-based security training to be completed by the end of August 2007 at OPM's GoLearn.gov. In addition, technical IT specialists participate in a second track that requires security-specific technical education associated with their job. The annual computer security awareness program for all employees began on 1/22/07. As of June 2007, all RRB staff and contractors with network access have completed the annual computer security awareness program.
II-C-5. Implement a methodology to successfully estimate, track and monitor total costs and time schedules for information technology investments through the project life cycle, incorporating both web and mainframe investments. (Measure: Yes/No)	New indicator for FY 2005	The pilot portion of this multi-phase project was completed at the end of FY 2005. All projects are now being entered and tracked in MS Project.	A post-implementation review was completed in FY 2006 to tune the system to ensure that project measures were working in the IT environment. Some best practices were developed.	We will evaluate expanding the use of the project management system to track non-IT related projects.	This objective has been completed with full implementation of the project management system in the Bureau of Information Systems.
II-C-6. Assemble and publicize an annual inventory of RRB commercial activities on the RRB Website. (Measure: Yes/No)	Yes	Yes	Yes	Yes	Yes
II-C-7. Complete public-private competitions on the required activities listed on the Federal Activities Inventory Reform (FAIR) Act inventory. (Measure: % of the FTE's listed on the FAIR Act inventory for which competitions completed)	5% (cumulative)	5% (cumulative)	5% (cumulative)	Meet target level established by OMB	OMB did not establish a target for FY 2007. RRB has competed about 5% of the FTEs on the FAIR Act inventory.

RAILROAD RETIREMENT BOARD FY 2007 ANNUAL PERFORMANCE REPORT	2004 Actual (At $100.7m) 1/	2005 Actual (At $102.5m) 1/	2006 Actual (At $101.5m) 1/	2007 Projected (At $101.5m) 1/	2007 Actual (At $103.7m) 1/
II-C-8. Meet government percentage goal for use of performance-based contracting techniques for eligible service contract funds. (Measure: Yes/No)	New indicator for FY 2005	Yes	Yes	Yes	Yes
II-C-9. Support government-wide procurement of e-Government initiatives using the point of entry vehicle of www.FedBizOpps.gov for all eligible actions. (Measure: Yes/No)	New indicator for FY 2005	Yes	Yes	Yes	Yes
II-C-10. Complete migration from the agency's current mainframe database management system (IDMS) to DB2, and initiate efforts to optimize the performance of those databases and further reduce data redundancy. (Measure: Meet target dates for the migration. Yes/No)	New indicator for FY 2007	New indicator for FY 2007	New indicator for FY 2007	Yes	As of July 2007, the IDMS/DB2 database conversion is on schedule for completion in fiscal year 2007.
Performance Goal II-D: Effectively carry out the responsibilities of the Railroad Retirement Board under the Railroad Retirement and Survivors' Improvement Act of 2001 with respect to the activities of the National Railroad Retirement Investment Trust.					
II-D-1. Review monthly reports submitted by the Trust. (Measure: Yes/No)	Yes	Yes	Yes	Yes	Yes
II-D-2. Review annual management reports submitted by the Trust. (Measure: Yes/No)	Yes	Yes	Yes	Yes	Yes
II-D-3. Review annual audit reports of the Trust's financial statements. (Measure: Yes/No)	Yes	Yes	Yes	Yes	Yes

1/ Dollar amounts shown are funds obligated or appropriated for the fiscal year. Actual results for fiscal year 2007 represent status as of 3/31/07 unless otherwise noted.

2/ Payment Accuracy Rate – the percentage of **dollars** paid correctly as a result of adjudication actions performed. Case Accuracy Rate – the percentage of **cases** that do not contain a material payment error. Case accuracy rates reflect only those errors that are detected as a result of reviewing award actions performed during the fiscal year being studied. (A material error is (1) an incorrect payment of $5.00 or more at the point the error is identified, (2) an incorrect payment of less than $5.00 totaling 1 percent or more of the monthly rate, or (3) any situation in which a non-entitled benefit is paid.)

3/ In audit report 05-05, dated May 17, 2005, the OIG found problems with the performance data for these indicators. One significant problem has been resolved, allowing us to report performance for fiscal year 2005, and later. However, there are still some system limitations that prevent inclusion of all internal processing time in the performance data. We are addressing them. Until the system changes are in place, performance will be calculated as the percent of cases adjudicated within the time specified in the measure. Another program error causes a small number (less than 1 percent) of spouse applications to be calculated incorrectly. The performance data includes these cases.

4/ Measure does not include the time for customer receipt (from U.S. Treasury or Postal Service).

5/ Measurement and reporting inconsistencies, which resulted in a net understatement of actual performance, were identified during this reporting period. These inconsistencies have been corrected effective with April 2005 data. Therefore, the fiscal year 2005 performance is for the last 6 months only.

6/ This indicator includes both retirement and survivor disability payments. The retirement payments are impacted by the system limitations identified in footnote 3 above. When the system limitations for retirement cases are corrected, this inconsistency will be eliminated.

7/ The percentage has been adjusted from 88.4% to reflect two audit recommendations implemented at the end of the fiscal year.

Discussion of Unmet Performance Goals and Indicators for Fiscal Year 2006

Performance Indicator I-A-15. Reduce the number of days elapsed between the date the appeal is filed and a decision is rendered. (Measure: average elapsed days.) Our goal for fiscal year 2006 was 200 days. We achieved a level of 206 days.	During fiscal year 2006, the Bureau of Hearings and Appeals diverted resources to continue updating the RRB's regulations. In addition, two hearings officers retired, but due to funding constraints, only one position was filled. Effective May 2007, the Bureau of Hearings and Appeals has started using video conferencing to hold disability hearings. This should reduce the timeframe for decisions to be issued.
Performance indicator I-C-1. Offer electronic options to our customers, allowing them alternative ways to perform primary services via the Internet or interactive voice response systems. (Measure: number of services available through electronic media.) Our goal for fiscal year 2006 was to provide 17 services. We provided 16 services.	This goal was not met because of limited and competing resources in the information technology area. The RRB implemented only two of three additional electronic services by the end of fiscal year 2006. The third new service is the Palmetto project, which will allow authorized Palmetto GBA customer service representatives to report address changes, deaths and requests for replacement Medicare cards directly to the RRB over the Internet. The Palmetto project is now scheduled to be finished in late fiscal year 2007.
Performance Indicator I-D-4. Enable employers to use the Internet to conduct business with the RRB, in support of the Government Paperwork Elimination Act. (Measures: percent of employers who use the new online reporting process and number of services available through electronic media.) Our goal for fiscal year 2006 was to provide 6 services, with 60 percent of employers using the online process. In fiscal year 2006, we provided 6 services to rail employers, but only 58 percent of employers used the online process.	The RRB did not achieve its objective for the Employer Reporting System to increase the percentage of users by 2 percent during fiscal year 2006, because plans for additional functionality were not implemented. Implementation is now expected in fiscal year 2008. This delay is the result of limited and competing resources in the information technology area.

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FINANCIAL SECTION

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Financial Section

Message from the Chief Financial Officer

I am pleased to present the RRB's Performance and Accountability Report for fiscal year 2007. This report incorporates the annual performance report under the Government Performance and Results Act of 1993, the internal control report under the Federal Managers' Financial Integrity Act, and audited consolidated financial statements under OMB guidance.

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

The RRB has continued high quality financial management and financial reporting during fiscal year 2007. During the year, the RRB:

- Achieved an unqualified, or clean, audit opinion on its consolidated financial statements for fiscal year 2007. We also continued to prepare unaudited quarterly financial statements and met the accelerated schedule of releasing these statements to OMB within 21 days of the end of the quarter.

- Continued our planning for the transition to a new financial management system. Initial efforts have focused on evaluating the potential costs and monitoring the progress of other Federal agencies that are migrating to a Financial Management Line of Business Shared Service Provider. During fiscal year 2008, we intend to evaluate various migration options.

- Implemented audit recommendations as follows:

  At the beginning of fiscal year 2007, there were 136 open audit recommendations in the agency's audit follow-up tracking system. In addition, during the fiscal year, audit reports containing another 104 recommendations were issued. As a result, the total number of open recommendations during the year was 240. At the same time, final action was completed on 51 audit recommendations, resulting in a balance at the end of the year of 189 open recommendations. Many of the open recommendations deal with information technology, including several security-related recommendations, and require ongoing, long-term corrective actions to bring them to closure. Additionally, the status of the OIG-identified material weaknesses and planned corrective action are presented in the Management's Discussion and Analysis' Management Assurance section.

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

Original signed by:

Kenneth P. Boehne
Chief Financial Officer

RAILROAD RETIREMENT BOARD
CONSOLIDATED BALANCE SHEET
AS OF SEPTEMBER 30, 2007 AND 2006
(in dollars)

	FY 2007	FY 2006
ASSETS		
Intragovernmental:		
Fund Balances with Treasury (Note 3)	$61,178,489	$24,469,861
Investments (Note 4)	1,323,596,381	1,203,713,506
Accounts Receivable (Note 6)	3,911,000,908	3,855,266,651
Total Intragovernmental	**5,295,775,778**	**5,083,450,018**
NRRIT Net Assets (Note 5)	32,660,594,000	29,372,752,000
Accounts Receivable, Net (Note 6)	32,521,516	30,350,971
Inventory and Related Property, Net (Note 7)	101,517	97,070
General Property, Plant and Equipment, Net (Note 8)	1,371,309	1,471,016
Other	29,660	31,691
TOTAL ASSETS	**$37,990,393,780**	**$34,488,152,766**
LIABILITIES (Note 9)		
Intragovernmental:		
Accounts Payable	$484,330,000	$473,225,000
Debt	3,017,472,732	3,030,001,471
Other	992,347	987,950
Total Intragovernmental	**3,502,795,079**	**3,504,214,421**
Accounts Payable	883,223	746,703
Benefits Due and Payable	849,154,891	819,087,219
Other	110,158,446	278,020,074
TOTAL LIABILITIES	**4,462,991,639**	**4,602,068,417**
COMMITMENTS AND CONTINGENCIES (Note 10)		
NET POSITION		
Unexpended Appropriations - Earmarked Funds (Note 17)	495,477	434,877
Unexpended Appropriations - Other Funds	6,132,482	8,469,010
Cumulative Results of Operations - Earmarked Funds (Note 17)	33,520,774,182	29,877,180,462
TOTAL NET POSITION	**33,527,402,141**	**29,886,084,349**
TOTAL LIABILITIES AND NET POSITION	**$37,990,393,780**	**$34,488,152,766**

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

RAILROAD RETIREMENT BOARD
CONSOLIDATED STATEMENT OF NET COST
FOR THE YEARS ENDED SEPTEMBER 30, 2007 AND 2006
(in dollars)

	2007	2006
Program Costs		
Railroad Retirement Program		
Gross Costs (Note 11)	$10,111,342,675	$9,740,207,228
Less: Earned Revenue	8,536,491	7,698,032
Net Program Costs	10,102,806,184	9,732,509,196
Railroad Unemployment and Sickness Insurance Program		
Gross Costs (Note 11)	117,351,269	118,940,272
Less: Earned Revenue	24,854,898	28,259,164
Net Program Costs	92,496,371	90,681,108
Costs Not Assigned to Programs	0	0
Less: Earned Revenues Not Attributed to Programs	241,770	236,717
NET COST OF OPERATIONS	**$10,195,060,785**	**$9,822,953,587**

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

RAILROAD RETIREMENT BOARD
CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION
FOR THE YEAR ENDED SEPTEMBER 30, 2007
(in dollars)

	FY 2007			
	Earmarked Funds	All Other Funds	Eliminations	Consolidated Total
Cumulative Results of Operations				
Beginning Balances	$29,877,180,462			$29,877,180,462
Budgetary Financing Sources				
Appropriations Used	460,089,400	86,486,517		546,575,917
Non-exchange Revenue	5,490,878,777	2,460	(460,089,400)	5,030,791,837
Transfers In From NRRIT (Note 12)	1,391,000,000			1,391,000,000
Transfers In/Out Without Reimbursement	3,573,541,000			3,573,541,000
Other Financing Sources (Non-Exchange)				
Imputed Financing	8,904,879			8,904,879
Change in NRRIT Assets	3,287,842,000			3,287,842,000
Other	(1,128)			(1,128)
Total Financing Sources	14,212,254,928	86,488,977	(460,089,400)	13,838,654,505
Net Cost of Operations	10,568,661,208	86,488,977	(460,089,400)	10,195,060,785
Net Change	3,643,593,720			3,643,593,720
Cumulative Results of Operations	**33,520,774,182**			**33,520,774,182**
Unexpended Appropriations				
Beginning Balances	434,877	8,469,010		8,903,887
Budgetary Financing Sources				
Appropriations Received	460,150,000	88,000,000		548,150,000
Other Adjustments		(3,850,011)		(3,850,011)
Appropriations Used	(460,089,400)	(86,486,517)		(546,575,917)
Total Budgetary Financing Sources	60,600	(2,336,528)		(2,275,928)
Total Unexpended Appropriations	**495,477**	**6,132,482**		**6,627,959**
Net Position	**$33,521,269,659**	**$6,132,482**		**$33,527,402,141**

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

RAILROAD RETIREMENT BOARD
CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION
FOR THE YEAR ENDED SEPTEMBER 30, 2006
(in dollars)

	FY 2006			
	Earmarked Funds	All Other Funds	Eliminations	Consolidated Total
Cumulative Results of Operations				
Beginning Balances	$28,175,490,756			$28,175,490,756
Budgetary Financing Sources				
Appropriations Used	466,085,873	95,995,821		562,081,694
Non-Exchange Revenue	5,298,753,391	2,414	(466,085,874)	4,832,669,931
Transfers In From NRRIT (Note 12)	947,000,000			947,000,000
Transfers In/Out Without Reimbursement	3,467,814,000			3,467,814,000
Other Financing Sources (Non-Exchange)				
Imputed Financing	8,817,957			8,817,957
Change in NRRIT Assets	1,706,259,711			1,706,259,711
Total Financing Sources	11,894,730,932	95,998,235	(466,085,874)	11,524,643,293
Net Cost of Operations	10,193,041,226	95,998,235	(466,085,874)	9,822,953,587
Net Change	1,701,689,706			1,701,689,706
Cumulative Results of Operations	**29,877,180,462**			**29,877,180,462**
Unexpended Appropriations				
Beginning Balances	370,750	11,431,275		11,802,025
Budgetary Financing Sources				
Appropriations Received	466,150,000	97,970,000		564,120,000
Other Adjustments		(4,936,444)		(4,936,444)
Appropriations Used	(466,085,873)	(95,995,821)		(562,081,694)
Total Budgetary Financing Sources	64,127	(2,962,265)		(2,898,138)
Total Unexpended Appropriations	**434,877**	**8,469,010**		**8,903,887**
Net Position	**$29,877,615,339**	**$8,469,010**		**$29,886,084,349**

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

RAILROAD RETIREMENT BOARD
COMBINED STATEMENT OF BUDGETARY RESOURCES
FOR THE YEARS ENDED SEPTEMBER 30, 2007 AND 2006
(in dollars)

	2007	2006
BUDGETARY RESOURCES		
Unobligated balance, brought forward, October 1	$12,048,208	$15,323,716
Adjustment to beginning balance (Note 19)	0	(118,324)
Adjusted unobligated balance, brought forward, October 1	$12,048,208	$15,205,392
Recoveries of prior year unpaid obligations	1,497,036	933,937
Budget authority:		
Appropriation	11,234,210,880	10,730,700,185
Spending authority from offsetting collections:		
Earned:		
Collected	32,122,746	37,760,934
Change in receivables from Federal sources	19	97,565
Subtotal	11,266,333,645	10,768,558,684
Nonexpenditure transfers, net, anticipated and actual:	(7,693,059)	(8,961,274)
Temporarily not available pursuant to Public Law	(574,373,107)	(441,125,344)
Permanently not available	(3,850,011)	(4,936,444)
TOTAL BUDGETARY RESOURCES	**$10,693,962,712**	**$10,329,674,951**
STATUS OF BUDGETARY RESOURCES		
Obligations incurred: (Note 18)		
Direct	$10,674,573,992	$10,309,804,264
Reimbursable	8,695,131	7,822,479
Subtotal	10,683,269,123	10,317,626,743
Unobligated balance		
Apportioned	1,959,099	1,309,390
Unobligated balance not available	8,734,490	10,738,818
TOTAL STATUS OF BUDGETARY RESOURCES	**$10,693,962,712**	**$10,329,674,951**
CHANGE IN OBLIGATED BALANCE		
Obligated balance, net		
Unpaid obligations, brought forward, October 1	$873,687,793	$849,518,757
Adjustment to beginning balance (Note 19)	0	149,662
Adjusted unpaid obligations, brought forward, October 1	$873,687,793	$849,668,419
Uncollected customer payments from Federal sources, brought forward, October 1	(757)	96,809
Total unpaid obligated balance, net	**$873,687,036**	**$849,765,228**
Obligations incurred net (+/-)	$10,683,269,123	$10,317,626,743
Gross outlays	(10,650,634,370)	(10,292,673,433)
Recoveries of prior year unpaid obligations, actual	(1,497,036)	(933,937)
Change in uncollected customer payments from Federal sources	(19)	(97,565)
Obligated balance, net, end of period:		
Unpaid Obligations (Note 13)	$904,825,510	$873,687,793
Uncollected customer payments from Federal sources	(776)	(757)
Total, unpaid obligated balance, net, end of period	**$904,824,734**	**$873,687,036**
NET OUTLAYS (Note 14)		
Gross outlays	$10,650,634,370	$10,292,673,433
Offsetting collections	(32,122,746)	(37,760,934)
Distributed offsetting receipts	(4,033,541,000)	(3,933,814,000)
Net Outlays	**$6,584,970,624**	**$6,321,098,499**

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

Statement of Social Insurance (Note 15, Note 16)

Actuarial Surplus or (Deficiency)

75-year Projection as of January 1, 2007

(Present values in millions of dollars)

	1/1/2007	1/1/2006	Unaudited 1/1/2005	Unaudited 1/1/2004	Unaudited 1/1/2003
Estimated future income (excluding interest) received from or on behalf of:					
Current participants not yet having attained retirement age	$66,714	$64,980	$56,842	$55,778	$58,315
Current participants who have attained retirement age	63,356	62,480	56,859	54,882	54,491
Those expected to become participants	43,077	44,309	31,313	30,327	32,419
Subtotal - future income for the 75-year period	173,147	171,770	145,014	140,986	145,225
Estimated future expenditures:					
Current participants not yet having attained retirement age	85,958	84,068	72,927	71,803	72,976
Current participants who have attained retirement age	92,755	91,734	84,054	81,128	80,374
Those expected to become participants	25,518	24,966	15,783	13,912	13,789
Subtotal - future expenditures for the 75-year period	204,231	200,767	172,764	166,843	167,139
Estimated future excess of income over expenditures:	(31,084)	(28,997)	(27,750)	(25,857)	(21,914)
Fund balance:	31,991	29,976	28,570	26,616	22,679
Fund balance plus estimated future excess of income over expenditures:	907	979	820	759	765

Notes to the Financial Statements: Fiscal Years Ended September 30, 2007 and 2006

1. Summary of Significant Accounting Policies

A. Basis of Presentation

Public Law 107-289, the Accountability of Tax Dollars Act of 2002, added the Railroad Retirement Board (RRB) as an agency required to prepare audited financial statements for fiscal year 2003 and subsequent years. Office of Management and Budget (OMB) guidance requires that Performance and Accountability Reports (P&AR) for fiscal year 2007 are to be submitted to the President, the Congress, and the Director of OMB by November 15, 2007. As required by law, OMB has also prescribed the form and content of financial statements under OMB Circular A-136. The RRB's financial statements were prepared in accordance with the form and content prescribed by OMB and with generally accepted accounting principles and standards prescribed by the Federal Accounting Standards Advisory Board (FASAB).

The principal statements (prepared on a consolidated basis, except for the Statement of Budgetary Resources which was prepared on a combined basis, and eliminating all significant interfund balances and transactions) are comprised of the Balance Sheet and Statements of Net Cost, Changes in Net Position, Budgetary Resources, and Social Insurance. These statements are different from the financial reports, also prepared by the RRB pursuant to OMB directives, used to monitor and control the RRB's use of budgetary resources.

B. Reporting Entity

The railroad retirement and the railroad unemployment and sickness insurance programs are financed through the following accounts:

- Railroad Retirement (RR) Account (8011) funds retirement, survivor, and disability benefits in excess of social security equivalent benefits from payroll taxes on employers and employees and other income sources. Account 8011 is considered an earmarked fund. Our authority to use these collections is 45 United States Code (USC) §231(F)(c)(1).

- Social Security Equivalent Benefit (SSEB) Account (8010) funds the portion of railroad retirement benefits equivalent to a social security benefit from various income sources related to these benefits. Account 8010 is considered an earmarked fund. Our authority to use these collections is 45 USC §231N-1(c)(1).

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

- Federal Payments to the Railroad Retirement Accounts (0113) was established by OMB, not by legislation, and is used as a conduit for transferring certain income taxes on benefits and receiving credit for the interest portion of uncashed check transfers. Account 0113 is considered an earmarked fund. This account has no basis in law.

- Limitation on Administration Account (8237) pays salaries and expenses to administer the railroad retirement program and the railroad unemployment and sickness insurance program. This account is financed by the RR Account, the SSEB Account, and the Railroad

Unemployment Insurance Trust Fund, Administrative Expenses. Account 8237 is considered an earmarked fund. Our authority to use these collections is 45 USC §231N-1(c) and 45 USC §231N-(H).

- Railroad Unemployment Insurance Trust Fund, Benefit Payments (8051.001) funds railroad unemployment and sickness insurance benefits from contributions by railroad employers. Account 8051.001 is considered an earmarked fund. Our authority to use these collections is 45 USC §360.

- Railroad Unemployment Insurance Trust Fund, Administrative Expenses (8051.002) was established to pay salaries and expenses to administer the program. Account 8051.002 is considered an earmarked fund. This fund is financed by contributions from railroad employers. Monies are transferred from this fund, based on cost accounting estimates and records, to the Limitation on Administration Account (8237) from which salaries and expenses are paid for both the railroad retirement program and the railroad unemployment and sickness insurance program. Our authority to use these collections is 45 USC §361.

- Limitation on the Office of Inspector General (8018) was established to fund the administration of the Inspector General's Office. Account 8018 is considered an earmarked fund. Our authority to use these collections is Public Law 110-5.

- Savings Bonds Allotment (6050), and City and State Taxes (6275) were established as holding accounts for amounts withheld from employees' salaries but not yet paid to the appropriate institutions.

C. Budgets and Budgetary Accounting

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

D. Basis of Accounting

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

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

E. Concepts

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

2. <u>Related Parties</u>

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

- The Department of the Treasury (Treasury) collects payroll taxes from the railroads on behalf of the RRB. The taxes collected are credited by Treasury to the RRB's trust fund account via an appropriation warrant. In fiscal years 2007 and 2006, net payroll taxes transferred to the RRB by Treasury were $4.7 billion each year.

  Treasury provides payment services to Federal agencies and operates collections and deposit systems. The RRB invests in government account securities through BPD. In fiscal years 2007 and 2006, investments, including accrued interest, totaled $1.3 billion and $1.2 billion, respectively. In addition, Treasury advances funds to the RRB for the financial interchange which are repaid annually. The amount paid by the RRB to Treasury in fiscal year 2007 due to the financial interchange advances during fiscal year 2006 included principal of $3.2 billion and interest of $178.7 million. The amount paid by the RRB to Treasury in fiscal year 2006 due to the financial interchange advances during fiscal year 2005 included principal of $3.2 billion and interest of $170 million.

- The Social Security Administration (SSA) and RRB participate in an annual financial interchange. The financial interchange is intended to place the social security trust funds in the same position in which they would have been had railroad employment been covered by the Social Security Act and Federal Insurance Contributions Act (FICA). In fiscal year 2007, the RRB trust funds realized $4.0 billion through the financial interchange.

  Under Section 7(b)(2) of the Railroad Retirement Act of 1974, the RRB is required to pay certain individuals, described in this section, monthly social security benefits on behalf of SSA. SSA reimburses the RRB for benefits paid on behalf of SSA. The amounts reimbursed in fiscal years 2007 and 2006 were almost $1.2 billion, each year.

- The Centers for Medicare & Medicaid Services (CMS) participates in the annual financial interchange in the same manner as described for SSA. The RRB transferred $483 million and $471 million to CMS in fiscal years 2007 and 2006, respectively. In addition to the financial interchange transactions, CMS reimburses the RRB for certain expenses it incurs associated with administering the Medicare program. The amounts reimbursed in fiscal years 2007 and 2006 were $8.0 million and $7.2 million, respectively.

- The General Services Administration (GSA) provides payroll processing and human resources services to the RRB. In addition, the RRB paid rent to GSA in the amounts of $3.4 million and $3.6 million for fiscal years 2007 and 2006, respectively.

- The Department of Labor (DOL) invests Railroad Unemployment Insurance Act (RUIA) contributions. Accounts receivable with the DOL amounted to $109 million and $101.5 million for fiscal years 2007 and 2006, respectively.

- The National Railroad Retirement Investment Trust (NRRIT) transfers funds to the RRB for payment of railroad retirement benefits. During fiscal years 2007 and 2006, the NRRIT transferred $1,391 million and $947 million, respectively, to the RR Account. The NRRIT holds and invests funds not immediately needed to pay benefits under the RRA. The net assets of the NRRIT are reported on the RRB's balance sheet as a non-governmental investment. The RRB reports this information based on information provided by the NRRIT for that purpose.

3. Fund Balances with Treasury

Fund balances with Treasury at September 30 consisted of:

	2007	2006
A. Fund Balances:		
(1) Trust Funds	$54,540,225	$15,554,765
(2) General Funds	6,627,959	8,903,887
(3) Other Fund Types	10,305	11,209
Total	$61,178,489	$24,469,861
B. Status of Fund Balance with Treasury (FBWT)		
(1) Unobligated Balance		
(a) Available	$ 1,959,099	$ 1,309,655
(b) Unavailable	8,734,490	10,738,818
(2) Obligated Balance not yet Disbursed	50,474,595	12,410,179
(3) Non-Budgetary FBWT	10,305	11,209
Total	$61,178,489	$24,469,861

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

4. Investments

On September 30, 2007 and 2006, the book values of the RRB's investments held at the Treasury, including accrued interest, totaled $1,323,596,381 and $1,203,713,506, respectively. The balance on September 30, 2007, consisted of $1,320,915,000 in 4.375 percent par value specials (with market value equal to face value) maturing on October 1, 2007, and $2,681,381 in accrued interest. The balance on September 30, 2006, consisted of $1,200,466,000 in 4.750 percent par value specials (with market value equal to face value) maturing on October 2, 2006, and $3,247,506 in accrued interest. Par value specials mature on the first working day of the month following the month of issue and have a yield based on the average yield of marketable Treasury notes with maturity dates at least 3 years away.

The investments in Treasury securities represent the investments of two of the RRB's earmarked funds, the RR and the SSEB Accounts.

The Federal Government does not set aside assets to pay future benefits or other expenditures associated with the RR and SSEB Accounts. The cash receipts from the railroads for the RR and SSEB Accounts are deposited in the Treasury, which uses the cash for general government purposes. Treasury securities are issued to the RRB as evidence of its receipts. Treasury securities are an asset to the RRB and a liability to the Treasury. Because the RRB and the Treasury are both parts of the government, these assets and liabilities offset each other from the standpoint of the government as a whole. For this reason, they do not represent an asset or a liability in the U.S. government-wide financial statements.

Treasury securities provide the RRB with authority to draw upon the Treasury to make future benefit payments or other expenditures. When the RRB requires redemption of these securities to make expenditures, the government finances those expenditures out of accumulated cash balances, by raising taxes or other receipts, by borrowing from the public or repaying less debt, or by curtailing other expenditures. This is the same way that the government finances all other expenditures.

5. NRRIT Net Assets

The balance sheet amounts represent the net asset value of NRRIT assets, at market value, as of September 30, 2007 and 2006. These figures were provided to the RRB by the NRRIT for the fiscal year ended September 30, 2007.

6. Accounts Receivable

• *Intragovernmental*

Accounts receivable - Intragovernmental at September 30 consisted of:

	2007	2006
Financial Interchange – Principal	$3,688,700,000	$3,631,000,000
Financial Interchange – Interest	113,100,000	122,600,000
Department of Labor	108,973,750	101,538,678
Social Security Administration - OASI/DI Benefits (Old Age and Survivors Insurance/Disability Insurance)	227,158	127,973
Total	$3,911,000,908	$3,855,266,651

• *Accounts Receivable, Net*

Accounts receivable, net at September 30 consisted of:

	2007	2006
Accounts receivable - Benefit overpayments	$39,509,459	$36,638,586
Accounts receivable – Past due RUI contributions and taxes	68,352	96,788
Accounts receivable - Interest, penalty & administrative costs	252,460	254,498
Total	$39,830,271	$36,989,872
Less: Allowances for doubtful accounts	7,308,755	6,638,901
Net Total	$32,521,516	$30,350,971

The RRB's September 30, 2007, accounts receivable balance (after writing-off currently not collectible (CNC) receivables but prior to the application of the allowance for doubtful accounts) of $39,830,271 includes $35,707,135 (90%) in railroad retirement program receivables and $4,123,136 (10%) in railroad unemployment insurance program receivables. The total allowance for doubtful accounts is $7,308,755. This includes $6,502,269 (89%) for the railroad retirement program and $806,486 (11%) for the unemployment insurance program receivables.

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

7. Inventory and Related Property

Operating materials and supplies are valued on the cost basis. The recorded values are adjusted for the results of physical inventories taken periodically. Expenditures are recorded when inventories are consumed.

8. General Property, Plant and Equipment

These assets are stated at cost less accumulated depreciation/amortization. Acquisitions are capitalized if the cost is $5,000 or more and the service life is 2 years or greater. Depreciation/amortization is computed on the straight-line method. These assets consisted of:

		At September 30, 2007		
Classes of Fixed Assets	Service Lives	Cost	Accumulated Depreciation	Net Book Value
Structures, facilities and leasehold improvements	15 years	$ 2,651,787	$ 2,580,470	$ 71,317
ADP software	5 years	19,578,768	19,484,356	94,412
Equipment	5-10 years	5,538,068	5,292,068	246,000
Internal-Use Software in Development		959,580	0	959,580
		$28,728,203	$27,356,894	$1,371,309

Classes of Fixed Assets	Service Lives	At September 30, 2006 Cost	Accumulated Depreciation	Net Book Value
Structures, facilities and leasehold improvements	15 years	$ 2,651,787	$ 2,538,506	$ 113,281
ADP software	5 years	19,539,768	19,431,024	108,744
Equipment	5-10 years	5,465,009	5,175,598	289,411
Internal-Use Software in Development		959,580	0	959,580
		$28,616,144	$27,145,128	$1,471,016

9. Liabilities

Liabilities at September 30 consisted of:

	2007	2006
Intragovernmental:		
Other - Unfunded Federal Employees' Compensation Act Liability	$ 385,281	$ 391,040
Public:		
Other - Accrued Unfunded Leave	$ 6,756,781	$ 6,563,472
Total Liabilities Not Covered by Budgetary Resources	$ 7,142,062	$ 6,954,512
Total Liabilities Covered by Budgetary Resources	4,455,849,577	4,595,113,905
Total Liabilities	$4,462,991,639	$4,602,068,417

• *Debt*

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

	2007	2006
Beginning Balance, Principal	$2,958,200,000	$2,973,100,000
New Borrowing	3,226,400,000	3,235,200,000
Repayments	(3,240,000,000)	(3,250,100,000)
Ending Balance, Principal	2,944,600,000	2,958,200,000
Accrued Interest	72,872,732	71,801,471
Total	$3,017,472,732	$3,030,001,471

• *Benefits Due and Payable*

Benefits due and payable are accrued for all benefits to which recipients are entitled for the month of September, which, by statute, are not paid until October. Also, liabilities are accrued on benefits for past periods that have not completed processing, such as benefit payments due but not paid. The amounts include uncashed checks of $10,557,048 and $10,107,022, at September 30, 2007 and 2006, respectively. Under Public Law 100-86, the amount of RRB benefits represented by checks which remain uncashed for 12 months after the check issue date are credited (including interest thereon) to the accounts from which the checks were drawn. The principal amount of uncashed checks must remain in a liability account until the

RRB determines that entitlement no longer exists or another check is issued to the beneficiary. Finally, a special workload of approximately 17,000 benefit cases, estimated at $7 to $11 million, has been identified and will be processed over the next few years.

- *Other Liabilities*

Other liabilities at September 30 consisted of:

	2007	2006
Accrued Unfunded Liabilities	$ 6,756,782	$ 6,563,472
Accrued Payroll	2,867,018	2,835,839
Accrued RRB Contributions – Thrift Savings Plan	55,148	54,172
Withholdings Payable	29,719	26,020
Contingent Liability (see Note 10 for details)	100,000,000	268,000,000
Capital Lease Liability	4,132	112,578
Other	445,647	427,993
Total	$110,158,446	$278,020,074

10. Commitments and Contingencies

The RRB is involved in the following actions:

- A transportation company filed a claim for refund of Railroad Retirement Tax Act (RRTA) or FICA taxes paid on lump-sum separation payments on the theory that such payments were supplemental unemployment benefits. The RRB's legal counsel has determined that it is no longer probable but reasonably possible that the RR and SSEB Accounts are contingently liable for $86 million. Therefore the RRB fiscal year 2007 Balance Sheet no longer reflects the $86 million under other liabilities.

- Several Class 1 railroads are party to a suit claiming a refund of RRTA or FICA taxes paid on lump-sum separation payments on the theory that such payments are supplemental unemployment benefits. The suit has been pending the outcome of the above case and the RRB's legal counsel has determined that it is no longer probable but reasonably possible that the RR and SSEB Accounts are contingently liable for an estimated amount of $82 million. Therefore the RRB fiscal year 2007 Balance Sheet no longer reflects the $82 million under other liabilities.

- A transportation company has appealed a U.S. District Court judgment in the amount of $3.2 million and the RRB's legal counsel has determined that it is reasonably possible that the RR and SSEB Accounts are contingently liable for $3.2 million. No provision has been made in the accompanying financial statements regarding this judgment other than this disclosure.

- In fiscal year 2005, we recorded a contingent liability in the amount of $100,000,000, for an estimated forthcoming adjustment to the financial interchange for military service credits due SSA.

The total fiscal year 2007 contingent liability recorded is $100 million.

- Several Class 1 railroads have filed claims for refund of taxes with the Internal Revenue Service (IRS). Based on prior experience, it is remote that the RR Account and the SSEB Account are contingently liable for an estimated amount of $1.2 billion. Under the anti-disclosure provision of the IRS code, we are not permitted to disclose any details related to these claims. No provision has been made in the accompanying financial statements regarding these claims other than this disclosure.

11. Intragovernmental Costs and Exchange Revenue

	2007	2006
Railroad Retirement (RR) Program		
Intragovernmental Costs	$ 207,049,278	$ 200,262,640
Public Costs	9,904,293,397	9,539,944,588
Total RR Program Costs	$10,111,342,675	$9,740,207,228
Intragovernmental Earned Revenue	$ 8,015,913	$ 7,165,078
Public Earned Revenue	520,578	532,954
Total RR Program Earned Revenue	$ 8,536,491	$ 7,698,032
Railroad Unemployment and Sickness Insurance (RUIA) Program		
Intragovernmental Costs	$ 4,495,995	$ 4,663,731
Public Costs	112,855,274	114,276,541
Total RUIA Program Costs	$ 117,351,269	$ 118,940,272
Intragovernmental Earned Revenue	$ 0	$ 0
Public Earned Revenue	24,854,898	28,259,164
Total RUIA Program Earned Revenue	$ 24,854,898	$ 28,259,164

These totals do not include $241,770 and $236,717 of earned revenues not attributable to either program for fiscal years 2007 and 2006, respectively.

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

12. Transfers To/From NRRIT

The RRB received a total of $1,391 million and $947 million from the NRRIT during fiscal years 2007 and 2006, respectively. These funds were received into the Railroad Retirement (RR) Account. Transfers were to fund the payment of benefits.

13. Undelivered Orders at the End of the Period

	2007	2006
Undelivered Orders	$7,988,215	$7,915,076

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

A reconciliation was completed of budgetary resources, obligations incurred, distributed offsetting receipts, and outlays, as presented in the Statement of Budgetary Resources, to amounts included in the Budget of the United States Government for the year ended September 30, 2006. A reconciliation was not performed for the period ended September 30, 2007, since the RRB's Performance and Accountability Report is published in November 2007, and OMB's MAX system will not have actual budget data available until mid-December 2007.

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

		Fiscal Year 2006			
		Budgetary Resources (in millions)	Obligations Incurred (in millions)	Distributed Offsetting Receipts (in millions)	Net Outlays (in millions)
1.	Combined Statement of Budgetary Resources – September 30, 2006	$10,330	$10,318	$3,934	$6,321
2.	Unobligated Balance, Brought Forward October 1, 2005	(15)			
3.	Recoveries of Prior Year Unpaid Obligations	(1)			
4.	Sickness Insurance Benefit Recoveries	(29)			
5.	Administrative Expense Reimbursement	(8)			
6.	Cancelled Authority	4			
7.	Interfund Transfers: Federal Payment Obligations – Income Taxes Collected on Benefits (0113)	(466)		466	(466)
8.	Intrafund Transfers: Receipts from the Old-Age and Survivors Insurance (OASI) Trust Fund	(3,458)			
9.	Intrafund Transfers: Receipts from the Disability Insurance (DI) Trust Fund	(388)			
	Financial Interchange				
10.	Financial Interchange – Cash vs. Accrual Adjustment			(559)	559
11.	Financial Interchange Settlement			471	(471)
	NRRIT				
12.	NRRIT Obligations / Outlays	987	987		987
13.	Intrafund Transfers: NRRIT Transfer to RRA	(947)		947	(947)
14.	Proprietary Receipts: NRRIT – Gains and Losses	(2,176)		2,176	(2,176)
15.	Proprietary Receipts: NRRIT – Interest and Dividends	(485)		485	(485)
16.	Rounding		(1)		
17.	Budget of the United States Government FY 2006 Actuals	$3,348	$11,304	$7,920	$3,322

15. Social Insurance

- Actuarial Surplus or (Deficiency) represents combined values for the RR Account, SSEB Account, and NRRIT.

- Estimated future income (excluding interest) includes tier 1 taxes, tier 2 taxes, income taxes on benefits, financial interchange income, advances from general revenues, and repayments of advances from general revenues.

- Estimated future expenditures include benefit and administrative costs.

- A closed group estimate of the future excess of income over expenditures using the projected tax rates under employment assumption II may be obtained by subtracting future expenditures for current participants from future income for current participants.

- Detail may not add to totals due to rounding. Employee and beneficiary status are determined as of 1/1/2006, whereas present values are as of 1/1/2007.

Fund Balance

The fund balance appears on the face of the statement because the size of the balance directly affects projected future cash flows. Lower fund balances lead to higher future tier 2 tax rates and consequently higher tax income, while higher fund balances lead to lower tier 2 tax rates and lower tax income.

The tier 2 tax rate is based on the Average Account Benefits Ratio (AABR). At the end of each fiscal year (September 30), an Account Benefits Ratio (ABR) is calculated by dividing the fair market value of the assets in the RR Account and the NRRIT (and for years before 2002, the SSEB Account) as of the close of such fiscal year by the total benefits and administrative expenses paid from the RR Account and the NRRIT during such fiscal year. The AABR, with respect to any calendar year, is then calculated as the average of the account benefits ratios for the 10 most recent fiscal years ending before such calendar year.

The January 1, 2007, fund balance does not include approximately $50 million of accrued interest and dividends and $15 million in miscellaneous adjustments related primarily to operating expenses of the NRRIT. The January 1, 2006, fund balance was not reduced for certain payables of the NRRIT, which were estimated to be less than $1 billion.

Prior to 2006, certain accrual adjustments were included in the fund balances. In 2006, they were excluded to promote clarity and to be consistent with the account benefits ratio calculation, wherein the asset values do not include these accrual adjustments. If the accrual adjustments had been made as in prior years, the 1/1/2006 fund balance would have been $400 million higher.

As stated earlier, a higher fund balance results in lower tax rates and consequently lower future tax income and a lower balance results in higher rates and income. This self-adjusting tax rate mechanism mitigates the effects of changes in the fund balance on the program's net actuarial position.

16. <u>Significant Assumptions</u>

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

The estimates are also based on various economic, employment, and other actuarial assumptions. The ultimate economic assumptions are a 7.5 percent interest rate, a 3 percent annual increase in the cost of living, and a 4 percent annual wage increase.

The employment assumption for the Statement of Social Insurance is employment assumption II, the intermediate employment assumption, as used in the 2007 Section 502 Report. Under employment assumption II, starting with an average 2006 employment of 237,000, (1) railroad passenger employment is assumed to remain level at 43,000, and (2) the employment base, excluding passenger employment, is assumed to decline at a constant annual rate of 2.5 percent for 25 years, at a reducing rate over the next 25 years, and remain level thereafter.

Other actuarial assumptions are those published in the Technical Supplement to the "Twenty-Third Actuarial Valuation of the Assets and Liabilities Under the Railroad Retirement Acts as of December 31, 2004." This may be found on the RRB's website, www.rrb.gov.

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

Table S-1.	2004 RRB Annuitants Mortality Table
Table S-2.	2004 RRB Disabled Mortality Table for Annuitants with Disability Freeze
Table S-3.	2004 RRB Disabled Mortality Table for Annuitants without Disability Freeze
Table S-4.	1994 RRB Active Service Mortality Table
Table S-5.	2004 RRB Spouse Total Termination Table
Table S-6.	Probability of a retired employee having a spouse eligible for railroad retirement benefits
Table S-7.	1995 RRB Mortality Table for Widows
Table S-8.	1997 RRB Remarriage Table
Table S-9.	2004 RRB Total Termination Table for Disabled Children
Table S-10.	Calendar year rates of immediate age retirement
Table S-11.	Rates of immediate disability retirement and of eligibility for disability freeze
Table S-12.	Calendar year rates of final withdrawal
Table S-13.	Service months and salary scales
Table S-14.	Family characteristics of railroad employees assumed for the valuation of survivor benefits

Note 17 Earmarked Funds

	8010 SSEB	8011 RRA	8051.001 RUIA Benefit Payments	0113 Federal Payments to RR Accounts	8237 Limitation on Administration	8051.002 RUIA Admin Expenses	8018 Limitation on OIG	Eliminations	Total Earmarked Funds
Balance Sheet as of September 30, 2007									
Assets									
Fund Balance with Treasury	$19,537,468	$20,647,722	$6,527,507	$495,477	$6,960,401	$97,612	$769,515		$55,035,702
Investments	726,234,578	597,361,803							1,323,596,381
NRRIT Net Invested Assets		32,660,594,000							32,660,594,000
Taxes and Interest Receivable	3,801,800,000	29,432,764	102,369,261		8,992,777	9,921,139	1,408	(8,994,925)	3,943,522,424
Other Assets					1,392,290		110,196		1,502,486
Total Assets	**4,547,572,046**	**33,308,036,289**	**108,896,768**	**495,477**	**17,345,468**	**10,018,751**	**881,119**	**(8,994,925)**	**37,984,250,993**
Liabilities Due and Payable	3,997,152,646	353,420,218	8,211,189		1,073,995	934,437	26,376	(8,994,925)	4,351,823,936
Other Liabilities	100,000,000	445,695			10,088,550		623,153		111,157,398
Total Liabilities	**4,097,152,646**	**353,865,913**	**8,211,189**		**11,162,545**	**934,437**	**649,529**	**(8,994,925)**	**4,462,981,334**
Unexpended Appropriations				495,477					495,477
Cumulative Results of Operations	450,419,400	32,954,170,376	100,685,579		6,182,923	9,084,314	231,590		33,520,774,182
Total Liabilities and Net Position	**$4,547,572,046**	**$33,308,036,289**	**$108,896,768**	**$495,477**	**$17,345,468**	**$10,018,751**	**$881,119**	**($8,994,925)**	**$37,984,250,993**
Statement of Net Cost for the Period Ended September 30, 2007									
Gross Program Costs	$5,881,443,284	$4,034,919,838	$99,414,487	$460,089,400	$119,546,625		$7,318,181	($460,524,388)	$10,142,207,427
Less Earned Revenues		520,578	24,854,898		8,453,361			(437,448)	33,391,389
Net Program Costs	$5,881,443,284	$4,034,399,260	$74,559,589	$460,089,400	$111,093,264		$7,318,181	($460,086,940)	$10,108,816,038
Costs Not Attributable to Program Costs									
Less Earned Revenues Not Attributable to Program Costs					241,770				241,770
Net Cost of Operations	**$5,881,443,284**	**$4,034,399,260**	**$74,559,589**	**$460,089,400**	**$110,851,494**		**$7,318,181**	**($460,086,940)**	**$10,108,574,268**
Statement of Changes in Net Position for the Period Ended September 30, 2007									
Net Position Beginning of Period	**$321,059,509**	**$29,443,814,247**	**$97,261,348**	**$434,877**	**$5,587,732**	**$9,420,743**	**$36,883**		**$29,877,615,339**
Appropriations Received				460,150,000					460,150,000
Expended Appropriations				460,089,400					460,089,400
Appropriations Used				(460,089,400)					(460,089,400)
Taxes and Non-Exchange Revenue	2,650,328,563	2,746,734,584	70,621,637			23,193,993		(460,086,940)	5,030,791,837
Other Financing Sources	3,360,474,612	119,178,805	7,362,183		111,446,685	(23,530,422)	7,512,888		3,582,444,751
Transfers In From NRRIT		1,391,000,000							1,391,000,000
Change in NRRIT Assets		3,287,842,000							3,287,842,000
Net Cost of Operations	(5,881,443,284)	(4,034,399,260)	(74,559,589)	(460,089,400)	(110,851,494)		(7,318,181)	460,086,940	(10,108,574,268)
Change in Net Position	**129,359,891**	**3,510,356,129**	**3,424,231**	**60,600**	**595,191**	**(336,429)**	**194,707**		**3,643,654,320**
Net Position End of Period	**$450,419,400**	**$32,954,170,376**	**$100,685,579**	**$495,477**	**$6,182,923**	**$9,084,314**	**$231,590**		**$33,521,269,659**

Note 17 Earmarked Funds

	8010 SSEB	8011 RRA	8051.001 RUIA Benefit Payments	0113 Federal Payments to RR Accounts	8237 Limitation on Administration	8051.002 RUIA Admin Expenses	8018 Limitation on OIG	Eliminations	Total Earmarked Funds
Balance Sheet as of September 30, 2006									
ASSETS									
Fund Balance with Treasury	$(6,392,891) *	$2,681,862	$8,132,697	$434,877	$10,360,150	$97,612	$675,334		$15,989,641
Investments	725,637,871	478,075,636							1,203,713,507
NRRIT Net Invested Assets		29,372,752,000							29,372,752,000
Taxes and Interest Receivable	3,753,600,000	26,619,780	95,353,739		4,481,666	10,064,992	53,129	(4,555,684)	3,885,617,622
Other Assets					1,486,727		113,050		1,599,777
Total Assets	**4,472,844,980**	**29,880,129,278**	**103,486,436**	**434,877**	**16,328,543**	**10,162,604**	**841,513**	**(4,555,684)**	**34,479,672,547**
Liabilities Due and Payable	3,974,060,271	345,613,096	6,225,088		854,498	741,861	104,354	(4,555,684)	4,323,043,484
Other Liabilities	177,725,200	90,701,935			9,886,313		700,276		279,013,724
Total Liabilities	**4,151,785,471**	**436,315,031**	**6,225,088**		**10,740,811**	**741,861**	**804,630**	**(4,555,684)**	**4,602,057,208**
Unexpended Appropriations				434,877					434,877
Cumulative Results of Operations	321,059,509	29,443,814,247	97,261,348		5,587,732	9,420,743	36,883		29,877,180,462
Total Liabilities and Net Position	**$4,472,844,980**	**$29,880,129,278**	**$103,486,436**	**$434,877**	**$16,328,543**	**$10,162,604**	**$841,513**	**$(4,555,684)**	**$34,479,672,547**
Statement of Net Cost for the Period Ended September 30, 2006									
Gross Program Costs	$5,804,819,794	$3,733,192,445	$100,848,315	$466,085,873	$117,062,685		$7,647,389	$(466,504,822)	$9,763,151,679
Less Earned Revenues		532,954	28,259,164		7,586,440			(421,362)	35,957,196
Net Program Costs	**$5,804,819,794**	**$3,732,659,491**	**$72,589,151**	**$466,085,873**	**$109,476,245**		**$7,647,389**	**$(466,083,460)**	**$9,727,194,483**
Costs Not Attributable to Program Costs									
Less Earned Revenues Not Attributable to Program Costs					236,039		678		236,717
Net Cost of Operations	**$5,804,819,794**	**$3,732,659,491**	**$72,589,151**	**$466,085,873**	**$109,240,206**		**$7,646,711**	**$(466,083,460)**	**$9,726,957,766**
Statement of Changes in Net Position for the Period Ended September 30, 2006									
Net Position Beginning of Period	**$216,894,783**	**$27,850,854,372**	**$94,186,765**	**$370,750**	**$5,853,470**	**$7,489,071**	**$212,295**		**$28,175,861,506**
Appropriations Received				466,150,000					466,150,000
Expended Appropriations				466,085,873					466,085,873
Appropriations Used				(466,085,873)					(466,085,873)
Taxes and Non-Exchange Revenue	2,504,022,072	2,702,201,570	70,550,184			21,979,566		(466,083,460)	4,832,669,932
Other Financing Sources	3,404,962,448	(29,841,915)	5,113,550		108,974,468	(20,047,894)	7,471,299		3,476,631,956
Transfers In From NRRIT		947,000,000							947,000,000
Change in NRRIT Assets		1,706,259,711							1,706,259,711
Net Cost of Operations	(5,804,819,794)	(3,732,659,491)	(72,589,151)	(466,085,873)	(109,240,206)		(7,646,711)	466,083,460	(9,726,957,766)
Change in Net Position	**104,164,726**	**1,592,959,875**	**3,074,583**	**64,127**	**(265,738)**	**1,931,672**	**(175,412)**		**1,701,753,833**
Net Position End of Period	**$321,059,509**	**$29,443,814,247**	**$97,261,348**	**$434,877**	**$5,587,732**	**$9,420,743**	**$36,883**		**$29,877,615,339**

* The negative cash balance for the SSEB (Fund 60x8010) account is a result of regular, retroactive year-end adjustments made by Treasury.
Note: The Statement of Changes in Net Position portion of this Note has been changed to conform to the format of OMB Circular A-136, dated June 29, 2007.

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

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

The amounts of Category B direct and reimbursable obligations are reported on the face of the Statement of Budgetary Resources for fiscal years 2006 and 2007.

This disclosure agrees with the aggregate of RRB direct and reimbursable obligations as reported on the RRB's fiscal year 2007 year-end SF-133, *Report on Budget Execution and Budgetary Resources*, and lines 8A and 8B in the Statement of Budgetary Resources.

19. Changes to Obligated and Unobligated Balances at the Beginning of the Fiscal Year

There is no material change to either the unobligated or unpaid obligation balances at the beginning of fiscal year 2007 from the respective ending balances in these RRB accounts at September 30, 2006. The change to the unobligated balance and the balance of unpaid obligations at the beginning of fiscal year 2006 relate to the restatement of prior year balances associated with the capitalization of two operating leases.

Note 20 Reconciliation of Net Cost of Operations to Budget
For the Years Ended September 30, 2007 and 2006
(in dollars)

	2007	2006
Resources Used to Finance Activities:		
Budgetary Resources Obligated		
Obligations Incurred	$10,683,269,123	$10,317,626,743
Less: Spending Authority from Offsetting Collections and Recoveries	(33,619,801)	(38,792,436)
Obligations Net of Offsetting Collections and Recoveries	10,649,649,322	10,278,834,307
Less: Offsetting Receipts	(4,033,541,000)	(3,933,814,000)
Net Obligations	**6,616,108,322**	**6,345,020,307**
Other Resources		
Imputed Financing from Costs Absorbed by Others	8,904,879	8,817,957
Other	3,287,840,872	1,706,259,711
Net Other Resources Used to Finance Activities	**3,296,745,751**	**1,715,077,668**
Total Resources Used to Finance Activities	**9,912,854,073**	**8,060,097,975**
Resources Used to Finance Items Not Part of the Net Cost of Operations:		
Change in Budgetary Resources Obligated for Goods, Services & Benefits Ordered but not yet Provided	(151,398)	(326,791)
Budgetary Offsetting Collections & Receipts That Do Not Affect Net Cost of Operations	(3,623,700)	1,137,987
Resources That Finance the Acquisition of Assets	(3,288,358,958)	(1,706,720,927)
Other Resources or Adjustments to Net Obligated Resources That Do Not Affect Net Cost of Operations	3,573,541,000	3,467,814,000
Total Resources Used to Finance Items Not Part of the Net Cost of Operations	**281,406,944**	**1,761,904,269**
Total Resources Used to Finance the Net Cost of Operations	**10,194,261,017**	**9,822,002,244**
Components of the Net Cost of Operations That Will Not Require or Generate Resources in the Current Period:		
Components Requiring or Generating Resources in Future Periods:		
Increase in Annual Leave Liability	193,310	229,122
Other	309,116	189,489
Total Components of Net Cost of Operations That Will Require or Generate Resources in Future Periods	**502,426**	**418,611**
Components Not Requiring or Generating Resources:		
Depreciation and Amortization	296,214	532,732
Revaluation of Assets or Liabilities	1,128	0
Total Components of Net Cost of Operations That Will Not Require or Generate Resources	**297,342**	**532,732**
Total Components of Net Cost of Operations That Will Not Require or Generate Resources in the Current Period	**799,768**	**951,343**
Net Cost of Operations	**$10,195,060,785**	**$9,822,953,587**

Required Supplementary Information

Social Insurance

Program Financing

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

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

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

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

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

On a present value basis, funds provided through the FI are expected to equal $73,405 million, or 42.4 percent of the estimated future income of $173,147 million.

Benefits

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

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

Program Finances and Sustainability

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

The Statement of Social Insurance presents an actuarial analysis of the financial position of the railroad retirement system as of January 1, 2007. The figures in the table are based on the 2007 Section 502 Report extended through calendar year 2081. The present values in the table are based on estimates of income and expenditures through the year 2081. The estimates include income and expenditures related to future participants as well as to former and present railroad employees. The present values are computed on the basis of economic and demographic assumptions and employment assumption II, the intermediate employment assumption, as used in the 2007 Section 502 Report. Under employment assumption II, starting with an average 2006 employment of 237,000, (1) railroad passenger employment is assumed to remain level at 43,000, and (2) the employment base, excluding passenger employment, is assumed to decline at a constant annual rate of 2.5 percent for 25 years, at a reducing rate over the next 25 years, and remain level thereafter.

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

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

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

- Expenditures: benefit payments and administrative expenses.

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

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

The Statement of Social Insurance and the required supplementary information below are based on actuarial and economic assumptions used in the 2007 Section 502 Report extended through calendar year 2081, the RRA, and the Railroad Retirement Tax Act. This information includes:

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

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

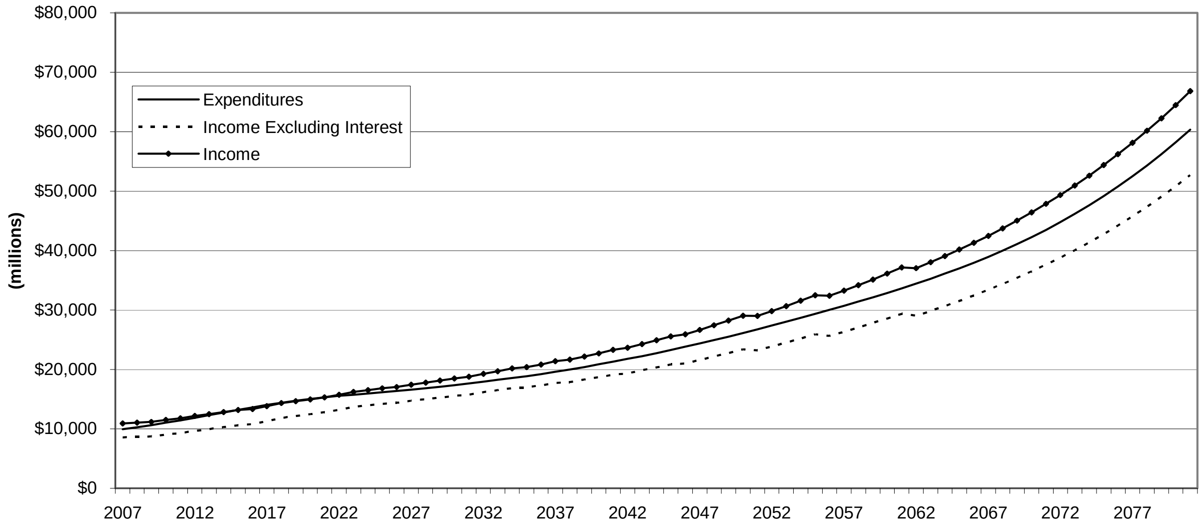
(3) the ratio of estimated annuitants to estimated full time employees, showing the relationship between the program's benefit recipients and taxpayers; and

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

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

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

Chart 1: Estimated Income and Expenditures

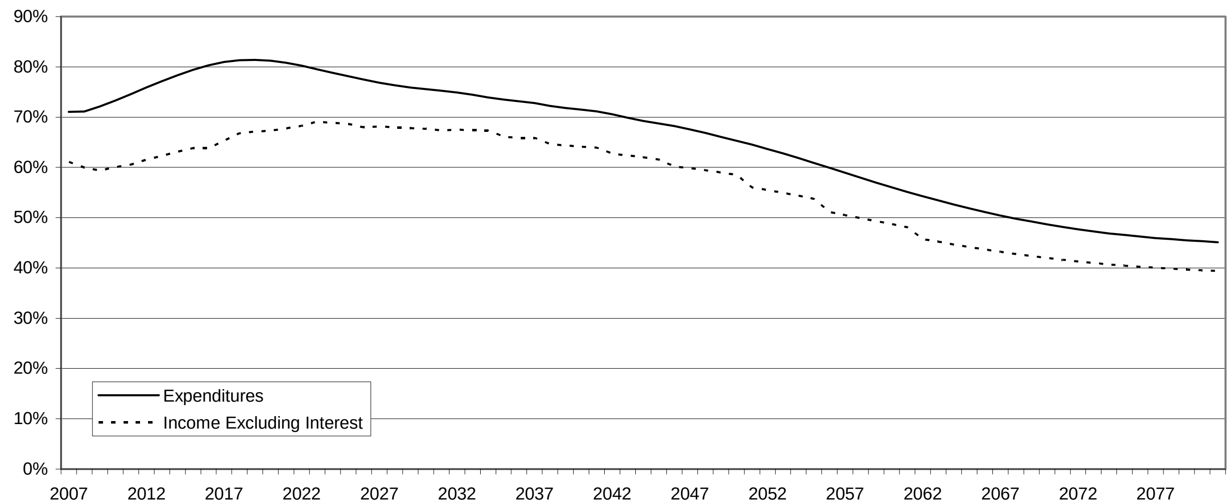


<u>Cashflow Projections</u> – Chart 1 shows actuarial estimates of railroad retirement annual income, income excluding interest, and expenditures for 2007-2081 in nominal dollars. The estimates are for the open-group population, which includes all persons projected to participate in the railroad retirement program as railroad workers or beneficiaries during the period. Thus, the estimates include payments from, and on behalf of, those who will be employed by the railroads during the period as well as those already employed at the beginning of the period. They also include expenditures made to, and on behalf of, such workers during that period.

As Chart 1 shows, annual expenditures begin to exceed annual income in 2015. This continues for a few years, but by 2021 income is once again greater than expenditures. This remains true throughout the remainder of the projection period. Without investment income, however, annual expenditures are always greater than annual income. Reasons for this pattern include participant demographics, the assumed drop in railroad employment, and the automatic tier 2 tax rate adjustment mechanism. The combined balance of the NRRIT, RR Account, and SSEB Account never becomes negative largely because (i) a sufficient balance exists at the beginning of the projection period and (ii) tier 2 tax rates respond automatically to changing account balances.

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

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



Sensitivity Analysis – The projections of the future financial status of the railroad retirement program depend on many economic and demographic assumptions including rail employment, inflation, wage increase, investment return, age retirement, disability retirement, withdrawal, active service mortality, beneficiary mortality, total termination, probability of spouse, remarriage, family composition, disability freeze, service patterns, and salary scales. Because perfect long-range projections are impossible, this section is included to illustrate the sensitivity of the long-range projections to changes in certain key assumptions that have the greatest impact on the results. All present values are calculated as of January 1, 2007, and are based on estimates of income and expenditures during the projection period 2007-2081.

Employment: Average employment in the railroad industry has generally been in decline for some years. This decline is expected to continue. Since employment is a key consideration, projections of income and expenditures using three different employment assumptions have been made. The Statement of Social Insurance uses employment assumption II, the intermediate assumption, but this section compares results under the three assumptions. For all three cases, the average employment for the year 2006 is equal to 237,000. Employment assumptions I and II, based on a model developed by the Association of American Railroads, assume that (1) passenger employment will remain at the level of 43,000, and (2) the employment base, excluding passenger employment, will decline at a constant annual rate (1.0 percent for assumption I and 2.5 percent for assumption II) for 25 years, at a reducing rate over the next 25 years, and remain level thereafter. Employment assumption III differs from employment assumptions I and II by assuming that (1) passenger employment will decline by 500 per year until a level of 35,000 is reached and then remain level, and (2) the employment base, excluding passenger employment, will decline at a constant annual rate of 4.0 percent for 25 years, at a reducing rate over the next 25 years, and remain level thereafter. Employment assumptions I, II, and III are intended to provide an optimistic, moderate, and pessimistic outlook, respectively.

Under all three employment assumptions, no cashflow problems occur throughout the entire period. Table 1 shows the excess of assets and the present value of income over the present value of expenditures for the three employment assumptions.

Table 1
Excess of Assets and Present Value of Income over Present Value of Expenditures for Three Employment Assumptions, 2007-2081
(in millions)

Employment Assumption	I	II	III
Present Value	$1,235	$ 907	$ 710
Average Tier 2 tax rate[a]	13.5%	15.3%	17.6%

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

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

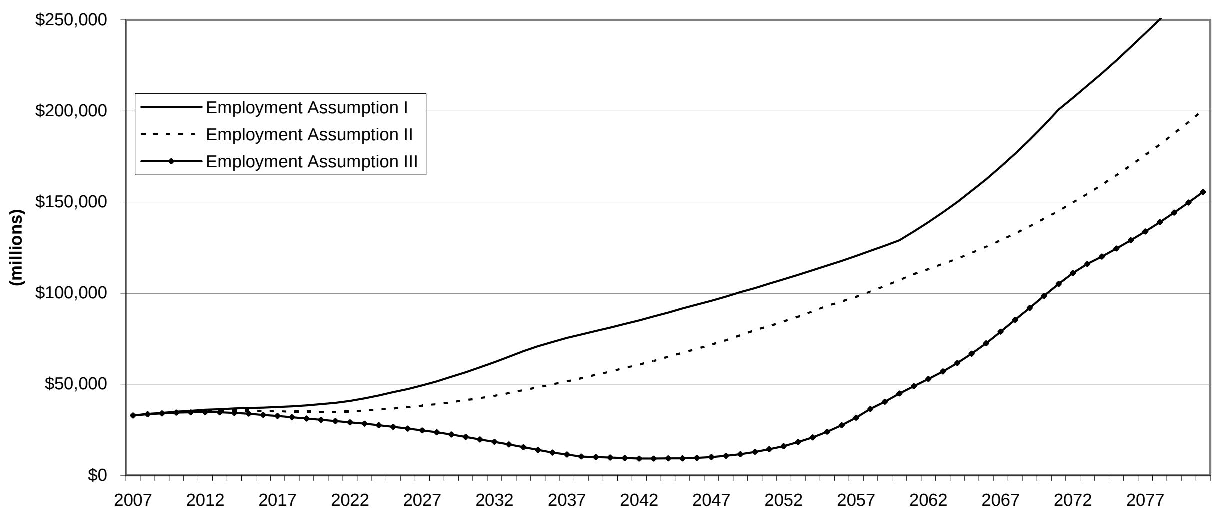
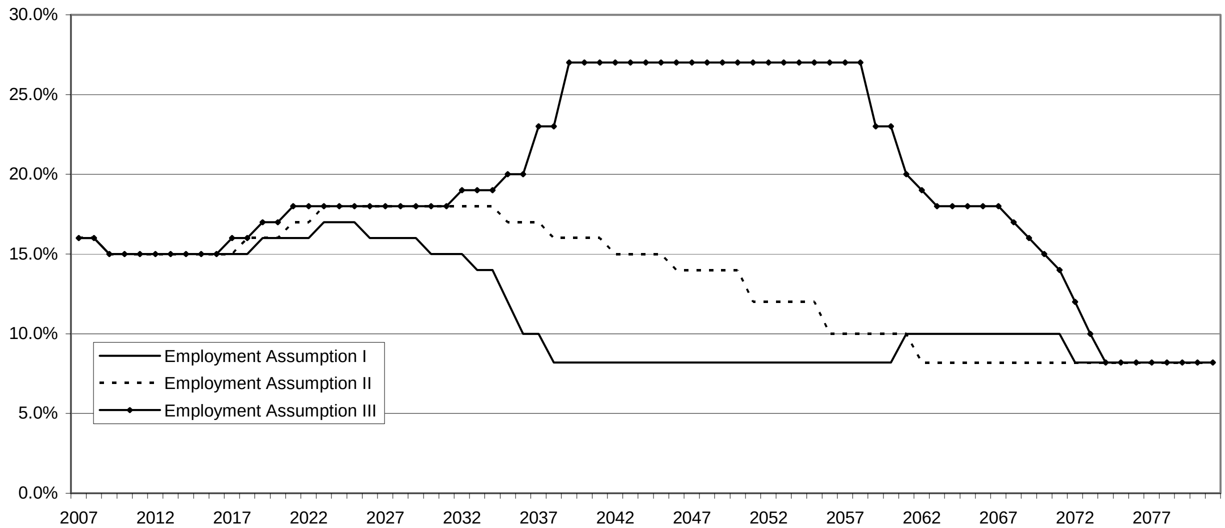


Chart 3a shows the combined balance of the accounts under each of the three employment assumptions. Note that the combined account balance is positive throughout the entire period for all three assumptions.

Chart 3b shows the tier 2 tax rate under these employment assumptions. The tax rate reaches the minimum in 2038 under employment assumption I but then increases again slightly starting in 2061 through 2071 before dropping back down to the minimum again in 2072. The tax rate does not reach the minimum until 2062 under employment assumption II. Under employment assumption III, the tax rate reaches the maximum in 2039, remaining at that level through 2058, and then decreases until it reaches the minimum in 2074.

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



The tier 2 tax rate for each year is determined by the average account benefits ratio, which is the average for the ten most recent fiscal years of the ratio of fair market value of assets in the RR Account and NRRIT (and for years before 2002, the SSEB Account) to the total benefits and administrative expenses paid from the RR Account and the NRRIT. Therefore, the tier 2 tax rate will be affected by employment assumption. The tier 2 tax rate adjustment mechanism promotes but does not guarantee solvency. The tier 1 tax rate does not vary by employment assumption.

Interest rates: Since investments may include non-governmental assets such as equity and debt securities as well as governmental securities, it is worthwhile to examine the effects of future rates of investment return. In addition to the interest rate of 7.5 percent used for our projections, we show the effect on the combined accounts of an interest rate of 4 percent and an interest rate of 11 percent. Table 2 shows the excess of assets and the present value of income over the present value of expenditures for the three interest rate assumptions. If the tier 2 tax rate were fixed, the actuarial surplus would increase with increasing investment return. However, the tier 2 tax rate adjusts to changing account balances, resulting in the highest average tax rate under the 4 percent scenario and the lowest average tax rate under the 11 percent scenario. Under the 7.5 percent scenario, the tax rate adjustment mechanism keeps the system in close actuarial balance. Under the 11 percent scenario, the tax rate is limited to a minimum value, resulting in a higher surplus. Under the 4 percent scenario, the tax rate reaches a maximum value and then remains at that value longer than is needed, resulting in the highest actuarial surplus.

The tier 2 tax rate remains at the maximum longer than is needed largely because of the 10-year average in the Average Account Benefits Ratio, as required by law. Use of the 10-year averaging effectively sacrifices some responsiveness for the sake of stability and smoothness.

Table 2
Excess of Assets and Present Value of Income over Present Value of Expenditures for Three Interest Rate Assumptions, 2007-2081
(in millions)

Interest Rate Assumption	4%	7.5%	11%
Present Value	$9,336	$ 907	$4,142
Average Tier 2 tax rate	19.6%	15.3%	11.9%

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

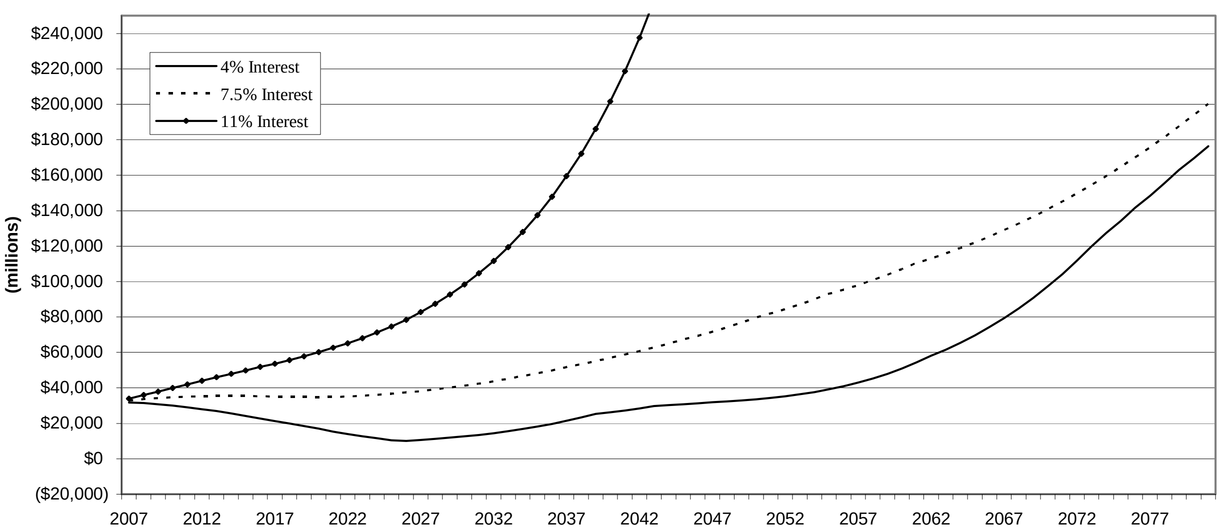
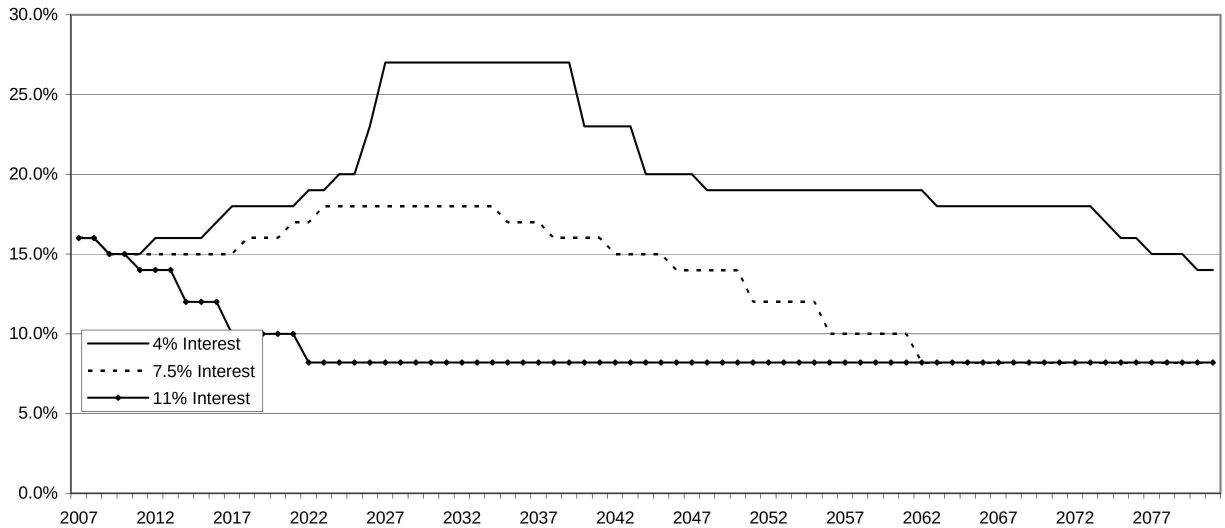


Chart 4a shows the combined account balance under the three interest rate assumptions for the projection period. At a 4 percent interest rate, the account balance reaches its lowest value in 2026, although it never becomes negative. After that it continues to increase. With a 7.5 percent interest rate, the account balance increases through 2014, decreases from 2015 to 2020, and increases thereafter. An 11 percent interest rate results in a combined balance that increases throughout the projection period. Although the 4 percent scenario shows the lowest account balance at the end of the projection period, the concurrent use of a 4 percent discount rate results in the highest surplus on January 1, 2007.

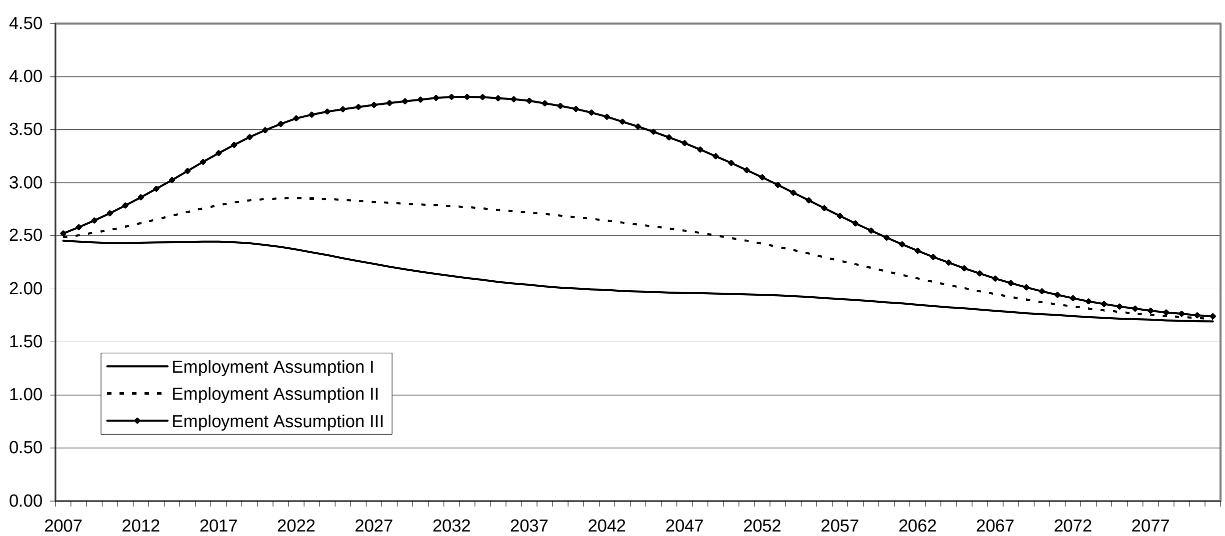
Chart 4b shows the tier 2 tax rate under the same three interest assumptions. With a 4 percent interest rate, the maximum tier 2 tax rate applies from 2027 until 2039. With the 7.5 percent interest rate, the maximum tax rate will never be paid, and the minimum tax rate is paid starting in 2062. With an 11 percent interest rate, the maximum tax rate is never applicable, and the minimum tax rate is paid beginning in 2022. As mentioned above, the tier 2 tax rate is determined based on the ratios of asset values to benefits and administrative expenses, so it will be affected by investment return, but tier 1 tax rates will not.

Chart 4b: Tier 2 Tax Rate under Three Interest Assumptions



Ratio of Beneficiaries to Workers: Chart 5 shows the estimated number of annuitants per full-time employee under all three employment assumptions. The average number of annuitants per employee for employment assumption I is highest in 2007. For assumptions II and III, the ratio is highest in 2022 and 2033, respectively. For all three employment assumptions, the average number of annuitants per employee declines to around 1.7 by the end of the projection period. The convergence in number of annuitants per employee at the end of the projection period results primarily from level employment projected in the latter years under all three employment assumptions.

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



RAILROAD RETIREMENT BOARD
DISAGGREGATE OF BUDGETARY RESOURCES
FOR THE YEAR ENDED SEPTEMBER 30, 2007
(in dollars)

BUDGETARY RESOURCES	COMBINED RAILROAD RETIREMENT PROGRAM	COMBINED RAILROAD UNEMPLOYMENT AND SICKNESS INSURANCE PROGRAM	LIMITATION ON THE OFFICE OF INSPECTOR GENERAL	COMBINED TOTALS	INTER-FUND ELIMINATIONS	CONSOLIDATED TOTALS
Unobligated balance, brought forward, October 1	$11,853,969	$0	$194,239	$12,048,208		$12,048,208
Adjustment to beginning balance	0	0	0	0		0
Adjusted unobligated balance, brought forward, October 1	$11,853,969	$0	$194,239	$12,048,208		$12,048,208
Recoveries of prior year unpaid obligations	1,485,134	0	11,902	1,497,036		1,497,036
Budget authority:						
Appropriation	11,033,696,835	200,514,045	0	11,234,210,880	(460,000,000)	10,774,210,880
Spending authority from offsetting collections:						
Earned:						
Collected	8,054,948	24,067,798	0	32,122,746	(526,849)	31,595,897
Change in receivables from Federal sources	19	0	0	19		19
Subtotal	11,041,751,802	224,581,843	0	11,266,333,645	(460,526,849)	10,805,806,796
Nonexpenditure transfers, net, anticipated and actual:	1,394,303	(16,181,504)	7,094,142	(7,693,059)		(7,693,059)
Temporarily not available pursuant to Public Law	(466,973,713)	(107,399,394)	0	(574,373,107)		(574,373,107)
Permanently not available	(3,850,011)	0	0	(3,850,011)		(3,850,011)
TOTAL BUDGETARY RESOURCES	**$10,585,661,484**	**$101,000,945**	**$7,300,283**	**$10,693,962,712**	**($460,526,849)**	**$10,233,435,863**
STATUS OF BUDGETARY RESOURCES						
Obligations incurred:						
Direct	$10,566,539,157	$101,000,945	$7,033,890	$10,674,573,992	($460,526,849)	$10,214,047,143
Reimbursable	8,695,131	0	0	8,695,131		8,695,131
Subtotal	10,575,234,288	101,000,945	7,033,890	10,683,269,123	(460,526,849)	10,222,742,274
Unobligated balance						
Apportioned	1,820,303	0	138,796	1,959,099		1,959,099
Unobligated balance not available	8,606,893	(0)	127,597	8,734,490		8,734,490
TOTAL STATUS OF BUDGETARY RESOURCES	**$10,585,661,484**	**$101,000,945**	**$7,300,283**	**$10,693,962,712**	**($460,526,849)**	**$10,233,435,863**
CHANGE IN OBLIGATED BALANCES						
Obligated balance, net						
Unpaid obligations, brought forward, October 1	$870,592,796	$2,560,772	$534,225	$873,687,793		$873,687,793
Adjustment to beginning balance	0	0	0	0		0
Adjusted unpaid obligations, brought forward, October 1	$870,592,796	$2,560,772	$534,225	$873,687,793		$873,687,793
Uncollected customer payments from Federal sources, brought forward, October 1	(757)	0	0	(757)		(757)
Total unpaid obligated balance, net	**$870,592,039**	**$2,560,772**	**$534,225**	**$873,687,036**		**$873,687,036**
Obligations incurred net (+/-)	10,575,234,288	101,000,945	7,033,890	10,683,269,123	(460,526,849)	10,222,742,274
Gross outlays	(10,545,909,701)	(97,672,988)	(7,051,681)	(10,650,634,370)	460,526,849	(10,190,107,521)
Recoveries of prior year unpaid obligations, actual	(1,485,134)	0	(11,902)	(1,497,036)		(1,497,036)
Change in uncollected customer payments from Federal sources	(19)	0	0	(19)		(19)
Obligated balance, net, end of period:						
Unpaid obligations	$898,432,249	$5,888,729	$504,532	$904,825,510		$904,825,510
Uncollected customer payments from Federal sources	(776)	0	0	(776)		(776)
Total, unpaid obligated balance, net, end of period	**$898,431,473**	**$5,888,729**	**$504,532**	**$904,824,734**	**$0**	**$904,824,734**
NET OUTLAYS						
Gross outlays	$10,545,909,701	$97,672,988	$7,051,681	$10,650,634,370	($460,526,849)	$10,190,107,521
Offsetting collections	(8,054,948)	(24,067,798)	0	(32,122,746)	526,849	(31,595,897)
Distributed offsetting receipts	(4,033,541,000)	0	0	(4,033,541,000)		(4,033,541,000)
NET OUTLAYS	**$6,504,313,753**	**$73,605,190**	**$7,051,681**	**$6,584,970,624**	**($460,000,000)**	**$6,124,970,624**

UNITED STATES RAILROAD RETIREMENT BOARD

OFFICE OF INSPECTOR GENERAL

To the Board Members:

The following report presents the results of the Office of Inspector General's (OIG) audits of the financial statements of the Railroad Retirement Board (RRB) as of and for the fiscal years ended September 30, 2007 and 2006.

OPINION ON THE FINANCIAL STATEMENTS

We have audited the accompanying balance sheet of the RRB as of September 30, 2007 and 2006; the related statements of net cost, changes in net position, and budgetary resources for the years then ended; and the statements of social insurance as of January 1, 2007 and 2006.

We did not audit the financial statements of the National Railroad Retirement Investment Trust (NRRIT). The net assets of the NRRIT represent approximately 86% and 85% of the total assets reported by the RRB for fiscal years 2007 and 2006, respectively. NRRIT assets represent approximately 97% and 96% of the reported Railroad Retirement program's social insurance fund balance as of January 1, 2007 and 2006, respectively. Related changes in the net value of investments held by the NRRIT represent approximately 24% and 15% of the financing sources reported by the RRB for fiscal years 2007 and 2006, respectively.

Pursuant to the Railroad Retirement and Survivors' Improvement Act of 2001, the NRRIT retains the services of an independent auditor to opine on its financial statements. With respect to the assets of the NRRIT as of September 30, 2007, September 30, 2006, January 1, 2007 and January 1, 2006, the financial data of the NRRIT were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for the NRRIT, is based solely on the report of the other auditors.

In our opinion, the financial statements of the RRB referred to above, including the accompanying notes, present fairly, in all material respects, in conformity with U.S. generally accepted accounting principles, the financial position of the RRB, its consolidated net cost of operations and changes in net position, and combined budgetary resources as of and for the fiscal years ended September 30, 2007, and 2006; and the financial condition of the Railroad Retirement program as of January 1, 2007 and 2006.

As described in the statement and related notes, the statement of social insurance presents the actuarial present value of the future income to be received, and expenditures to be paid to or on behalf of participants in the Railroad Retirement program during a period sufficient to illustrate the program's long-term sustainability. In preparing the statement of social insurance, management considers and selects assumptions and

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data that it believes provide a reasonable basis for the assertions in the statement. However, because of the large number of factors that affect the statement of social insurance and the fact that future events and circumstances cannot be known with certainty, there will be differences between the estimates in the statement of social insurance and the actual results, and those differences may be material.

The RRB’s statement of social insurance presents the fund balance of the Railroad Retirement program and the related estimate of actuarial surplus which is computed by adding the fund balance to the estimated excess (or shortfall) of the present value of future income over the present value of future revenue for the 75 year projection period. These additional line items are presented to ensure that a reader would not be misled about the financial condition of the program. The program’s current financing structure creates an inverse relationship between income and program assets; thus, the financial condition of the program cannot be understood without direct reference to the fund balance and the related actuarial surplus or deficiency. This relationship is disclosed in Note 15 to the financial statements.

Emphasis of Matters

The RRB discloses transactions with related parties in Note 2 to the financial statements. The RRB, Social Security Administration and Centers for Medicare and Medicaid Services are parties to a financing arrangement described as a financial interchange. Under this arrangement, transfers-in from the Social Security Administration’s Old-Age and Survivors Insurance and Disability Insurance trust funds and transfers-out to the Federal Health Insurance trust fund represent approximately $3.6 billion (net), or approximately 26% of the approximately $13.8 billion in total financing sources reported on the RRB’s statement of changes in net position for FY 2007.

REPORT ON INTERNAL CONTROL

In planning and performing our audit, we considered the RRB’s internal control over financial reporting and compliance.[1] We did this to determine our procedures for auditing the financial statements and to comply with OMB audit guidance, not to express an opinion on internal control. Accordingly, we do not express an opinion on internal control over financial reporting and compliance or on management’s assertion on internal control included in Management’s Discussion and Analysis.

With respect to previously reported control deficiencies, our current-year evaluation disclosed that RRB management has completed action to strengthen controls over performance measurement, the actuarial projection process and compliance with the Prompt Payment Act. Agency efforts to correct weaknesses in its information security program are not yet complete and the previously reported material weakness continues to exist. We will also continue to identify financial reporting as an area of significant deficiency until recently implemented controls have been in place and operating for a period sufficient to permit evaluation.

[1] The definition of internal control as it relates to the basic financial statements is presented in the footnotes on page 5.

Our evaluation of internal control during FY 2007 disclosed a material weakness, not previously reported, in the method used to develop the social insurance fund balance for the Railroad Retirement program.[2]

Although not considered to be material weaknesses or significant deficiencies, we will report other matters involving internal control and its operation to RRB management in a separate letter.

Material Weaknesses

Information Security

During FY 2007, the OIG evaluated information security pursuant to the provisions of the Federal Information Security Management Act.[3] Our review disclosed continued weaknesses in many areas of the RRB's information security program. Significant deficiencies in program management and access controls make the agency's information security program a source of material weakness in internal control.

RRB efforts to strengthen information security continue and progress is being made; however, previously identified significant deficiencies in access controls, risk assessments, and periodic testing and evaluation continue to exist. In addition, the agency's information security program is not yet fully compliant with current requirements for risk based policies and procedures, a certification and accreditation program, a comprehensive remedial action process, continuity of operations planning, and inventory of systems.

Agency management is working to address the weaknesses in its information security program. Although some progress has been made, much work remains to be completed.

Social Insurance Fund Balance

The RRB does not have a consistent theory under which it computes the Railroad Retirement program's fund balance for social insurance reporting.

The actuarial assumptions and methods used to measure amounts in the statement of social insurance for financial accounting and disclosure purposes should represent the

[2] A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles (GAAP) such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected. A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis.

[3] "Fiscal Year 2007 Evaluation of Information Security at the Railroad Retirement Board," OIG Report #07-08, September 27, 2007.

agency’s best estimates. The program fund balance at the beginning of the period is important because it impacts estimated future tax rates on which estimates of future income are based. In addition, the availability of the fund balance to offset any long term estimated actuarial liability created by a shortfall of income over expense is important to understanding the financial condition of the Railroad Retirement program.

During our audit, we observed that the RRB had used different methods to compute its social insurance fund balance as of January 1, 2006, compared with January 1, 2007, including some amounts previously excluded and excluding other amounts that had been previously included. The impact of the social insurance fund balance on actuarial projections of income and expense for the Railroad Retirement program is described in Note 15 to the financial statements.

The RRB’s actuarial projections also include estimates of future tax rates. Inquiries of management disclosed that neither the 2006 nor the 2007 fund balance had been computed on the same basis used to compute tax rates under the account benefit ratio method for which purpose the agency includes the net assets of the NRRIT as computed under generally accepted accounting principles (GAAP) for private investment companies, the same method used to report on NRRIT-held assets in the RRB’s balance sheet.

Inconsistencies in fund balance methodology undermine management’s assertion of best estimate and make comparative presentation less meaningful. We are in the process of discussing this finding with responsible agency management and expect to make a formal recommendation for corrective action at a later date.

Significant Deficiencies

<u>Financial Reporting</u>

Over the years agency responsibility for financial reporting has grown from preparation of financial statements within six months of fiscal year-end, to publication of an annual performance and accountability report within 45 days of fiscal year-end. Publication of that report is an exercise in public accountability of which preparation of accurate, reliable financial statements is but a single part.

The Bureau of Fiscal Operations (BFO) is responsible for preparing agency financial statements and publishing the RRB’s annual performance and accountability report. During our FY 2006 audit, we observed that existing procedures and controls over its financial reporting process needed to be updated to fully ensure the quality of the RRB’s response to the expanding responsibilities and short timeframes inherent to the Federal financial reporting process. We also observed that the existing control framework was overly reliant on the OIG’s annual audit of the financial statements to ensure the completeness and accuracy of the performance and accountability report.

During FY 2007, we found the agency-reporting process much improved by the efforts of BFO management and staff. BFO responded to the OIG's prior year finding by implementing OIG-recommended corrective actions and by implementing an enhanced year-end financial statement review process of their own design.

Although the process has been strengthened, the corrective action has not yet been in operation for a full fiscal year. Accordingly, the OIG continues to cite financial reporting as an area of significant deficiency in internal control pending a full year of experience demonstrating the effectiveness of controls over time.

COMPLIANCE WITH LAWS AND REGULATIONS

Our tests of compliance with selected provisions of laws and regulations disclosed no instances of non-compliance that are reportable under U.S. generally accepted government auditing standards or OMB guidance. However, the objective of our audit was not to provide an opinion on overall compliance with laws and regulations. Accordingly, we do not express such an opinion.

CONSISTENCY OF OTHER INFORMATION

Management's Discussion and Analysis, required supplementary information, and other accompanying information contain a wide range of data, some of which are not directly related to the financial statements. We did not audit and do not express an opinion on this information. However, we compared this information for consistency with the financial statements and discussed the methods of measurement and presentation with RRB officials. Based on this limited work, we found no material inconsistencies with the financial statements or nonconformance with OMB guidance.

OBJECTIVES, SCOPE, AND METHODOLOGY

RRB management is responsible for (1) preparing the annual financial statements in conformity with U.S. generally accepted accounting principles, (2) establishing, maintaining, and assessing internal control to provide reasonable assurance that the broad control objectives of the Federal Managers' Financial Integrity Act (FMFIA) are met, and (3) complying with applicable laws and regulations.[4]

We are responsible for obtaining reasonable assurance about whether the financial statements are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles. We are also responsible for (1) obtaining

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[4]**Internal Control** as it relates to the financial statements is a process, affected by the agency's management and other personnel, designed to provide reasonable assurance that the following objectives are met: (1) Reliability of financial reporting - transactions are properly recorded, processed, and summarized to permit the preparation of the Basic Statements in accordance with generally accepted accounting principles, and assets are safeguarded against loss from unauthorized acquisition, use, or disposition; and (2) Compliance with applicable laws, regulations, and government-wide policies - transactions are executed in accordance with laws governing the use of budget authority, government-wide policies, and laws identified by OMB, and other laws and regulations that could have a *direct and material effect on the Basic Statements.*

a sufficient understanding of internal control over financial reporting and compliance to plan the audit, (2) testing compliance with selected provisions of laws and regulations that have a direct and material effect on the financial statements, and any other laws for which OMB audit guidance requires testing; and (3) performing limited procedures with respect to certain other information appearing in these annual financial statements. In order to fulfill these responsibilities, we:

- examined, on a test basis, evidence supporting the amounts and disclosures in the proprietary and budgetary financial statements;
- assessed the accounting principles used and significant estimates made by management in preparing the proprietary and budgetary financial statements;
- assessed the factors, data, assumptions and model used to prepare the long-term actuarial projections presented in the statement of social insurance;
- evaluated the overall presentation of the financial statements;
- obtained an understanding of the entity and its operations, including its internal control related to financial reporting, compliance with laws and regulations (including execution of transactions in accordance with budget authority);
- obtained an understanding of the recording, processing, and summarizing of performance measures as reported in Management's Discussion and Analysis;
- tested relevant internal controls over financial reporting and compliance, and evaluated the design and operating effectiveness of internal control;
- considered the process for evaluating and reporting on internal control and financial management systems under the FMFIA; and
- performed tests of compliance with selected provisions of laws and regulations, including laws governing the use of budget authority, and other laws and regulations that could have a direct and material effect on the RRB's basic financial statements:
    - Anti-Deficiency Act, as amended;
    - provisions of the Railroad Retirement Act governing financing and the payment of benefits;
    - provisions of the Railroad Unemployment Insurance Act governing financing and the payment of benefits; and
    - provisions of the Social Security Act that provide for certification of benefits to the RRB for payment (42 U.S.C. § 405(i)).

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

We did not test compliance with all laws and regulations applicable to the RRB. We limited our tests of compliance to those laws and regulations that had a direct and material impact on the RRB's financial statements or that we deemed otherwise applicable to the financial statements for the fiscal year ended September 30, 2007. We caution that noncompliance may occur and not be detected by these tests and that such testing may not be sufficient for other purposes.

The NRRIT was established pursuant to the Railroad Retirement and Survivors' Improvement Act of 2001 (Public Law 107-90). Under that law, the NRRIT <u>is not</u> a department, agency or instrumentality of the Government of the United States. In addition, the law specifically exempts the NRRIT from compliance with Title 31, United States Code which governs the monetary and financial operations of the Federal government. The law also provides that the NRRIT annually engage an independent, qualified public accountant to audit the financial statements of the NRRIT. Accordingly, the OIG has not audited the books and records of the NRRIT, nor had any input into the selection of the independent accountant retained by the NRRIT, nor provided oversight to that firm in the execution of their responsibilities. Our opinion on the RRB's financial statements, insofar as it relates to the amounts included for the NRRIT, is based solely on the report of the auditor retained by the NRRIT, and our assessments of internal control and compliance do not extend to the operations of the NRRIT.

Except to the extent that the foregoing arrangement may have affected the planning and execution of our audit, we performed our work in accordance with U.S. generally accepted government auditing standards and OMB audit guidance.

RRB MANAGEMENT'S COMMENTS

The offices of the Chief Financial Officer and the Board Members have reviewed our report and offered comments expressing management's intention to address the material weaknesses described in our report.

With respect to information security, management notes that information security is a significant challenge to which they have devoted substantial effort and resources in recent years and that they will continue to do so. In FY 2008, the agency plans to resolve the remaining audit recommendations related to this material weakness and then evaluate whether the material weakness has been eliminated.

Regarding the computation of the social insurance fund balance, responsible agency managers will work with the NRRIT to obtain more complete, reliable information about the NRRIT's financial position in order to have a consistent basis for preparing the fund balance.

In their reply, they also thank OIG management and staff for working closely and cooperatively with agency personnel to help ensure that the RRB would be able to meet this year's reporting deadline of November 15th.

The full text of management's response follows as an attachment to this report.

Martin J. Dickman
Inspector General

November 2, 2007, except for matters relating to the fair market value of the net assets of the NRRIT as of September 30, 2007, and amounts related to the NRRIT included in the RRB's social insurance fund balance as of January 1, 2007, as to which the date is November 15, 2007.

Attachment
FORM G-115f (1-92)
RAILROAD RETIREMENT BOARD

UNITED STATES GOVERNMENT
MEMORANDUM

NOV 13 2007

TO : Martin J. Dickman
Inspector General

FROM : Kenneth P. Boehne
Chief Financial Officer

SUBJECT: FY 2007 Financial Statement Audit – Auditor's Report;
Re: Your memorandum dated November 7, 2007

My office, and those of the Board Members, have reviewed your draft report and have the following comments.

You reported material weaknesses in your draft report dealing with information security and the social insurance fund balance. Regarding the former, the Railroad Retirement Board recognizes that information security is a significant challenge. We have devoted substantial effort and resources to this area in recent years and will continue to do so. In fiscal year 2008, the Bureau of Information Services plans to resolve the remaining audit recommendations related to this material weakness and then evaluate whether the material weakness has been eliminated. Regarding the latter, the Bureau of the Actuary will work with the Bureau of Fiscal Operations and the National Railroad Retirement Investment Trust (NRRIT) to obtain more complete, reliable information about the NRRIT's financial position in order to have a consistent basis for preparing the fund balance.

We again thank you and your staff for working closely and cooperatively with us these past few months to help ensure that the RRB will be able to meet this year's reporting deadline of November 15.

cc: The Board
Executive Committee

OTHER ACCOMPANYING INFORMATION

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MANAGEMENT AND PERFORMANCE CHALLENGES FACING THE RAILROAD RETIREMENT BOARD

This statement has been prepared pursuant to the Reports Consolidation Act of 2000 and the requirements of Office of Management and Budget Circular A-136 which require that the Inspectors General identify what they consider to be the most serious management challenges facing the agency and briefly assess the agency's progress in addressing those challenges. Our identification of challenges facing Railroad Retirement Board (RRB) management is based on recent audits, evaluations and our general knowledge of the RRB's programs and operations.

The 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 <u>is a challenge that management has set for itself</u>. Less obvious, are the challenges posed by <u>changes in the environment</u> 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.

Information Technology Security

Information security means protecting information and information systems from unauthorized access, use, disclosure, disruption, modification or destruction in order to provide confidentiality, integrity, and availability.

The RRB is still in the process of developing an information security management program that complies with the requirements of the Federal Information Security Management Act (FISMA) and the National Institute of Standards and Technology. Although the agency is making progress, this is a significant undertaking and can be expected to present a challenge during the coming years.

During fiscal year (FY) 2006, the RRB completed corrective action to eliminate a previously reported significant deficiency in training. However, much work remains to be completed to address previously identified significant deficiencies in access controls, risk assessment and periodic testing and evaluation.

During FY 2007, the RRB contracted with technical specialists to support the certification and accreditation of the agency's end-user computing general support system. Contracted work included preparation of a risk assessment, an updated security plan, security testing and evaluation, as well as a plan of action and milestones to address control deficiencies. The agency anticipates using a similar contractor-assisted process to support certification and accreditation of the mainframe general support and major application systems in the future.

Safeguarding Privacy

The RRB collects and retains sensitive personally identifiable information about its beneficiaries and employees which needs to be safeguarded from unauthorized disclosure.

The Privacy Act of 1974 requires Federal agencies to establish appropriate administrative, technical and physical safeguards to insure the security and confidentiality of records and to protect against any anticipated threats or hazards to their security or integrity which could result in substantial harm, embarrassment, inconvenience, or unfairness to any individual on whom information is maintained. The RRB has implemented a privacy program and appointed a Chief Privacy Officer to oversee its operation.

During FY 2007, OIG audits identified weaknesses in the physical security of sensitive information stored on paper, in computers and other electronic and non-electronic media. The OIG has recommended that the RRB develop a more comprehensive security program and offered additional, more specific recommendations to strengthen the agency's privacy program. RRB management responded positively to OIG recommendations to strengthen that program, agreeing to take corrective action in all areas.

Also in FY 2007, the RRB established two committees charged with responding to losses of personal information in the event of a data breach and to provide oversight to the agency's privacy program.

Information technology security is a critical part of an effective privacy program. We have summarized the challenges facing the agency in that arena in the preceding section of this statement.

Performance Measurement

The OIG has previously identified performance reporting as a challenge because we had observed that increasing emphasis would be placed on the quality of performance reporting as part of the larger effort to implement a performance based budget.

For many years, OMB has required that auditors perform limited procedures with respect to internal control over performance measures. In Bulletin No. 07-04, OMB stated that the limited objective of these procedures was to report on control deficiencies and, specifically, not to audit performance measures and results. In that bulletin, OMB also stated its intention to expand oversight of performance reporting by replacing the existing requirement with "a separate framework for independent verification and validation of performance data starting for fiscal year 2008."

The OIG previously cited the RRB with material weakness in internal control due to inadequacies in the review and validation of data identified by audits of selected performance statistics. RRB management responded positively to OIG findings and recommendations by strengthening internal controls over the performance measurement and reporting process.

As a result of agency efforts, the OIG has concluded that the previously identified material weakness was corrected during FY 2007. However, prior OIG audits were not designed to identify all control deficiencies; accordingly, control deficiencies may exist that will only be identified by a proactive continuing management control assessment process.

During FY 2006, the agency implemented a new administrative circular requiring that reporting managers develop procedures for testing and validating their performance data to ensure accuracy. During FY 2007, the management control review committee agreed to require testing of controls over that data. In addition, the RRB's management control review committee approved a proposal to include oversight of agency performance reporting in the renamed Budget and Planning Assessable Unit which will include updating that unit's control documentation to include performance planning and reporting functions and controls.

As a result of the expanded oversight anticipated by OMB, performance reporting will continue to present challenges to the RRB in the coming years. Independent verification and validation of performance data can be expected to challenge the supporting control structure in a manner similar to a first-time financial audit.

Martin J. Dickman

Martin J. Dickman
Inspector General

October 5, 2007

Management's Comments

These are Management's comments on the Management and Performance Challenges identified by the Railroad Retirement Board Inspector General. The three challenges identified by the Inspector General are: 1) Information Technology Security, 2) Safeguarding Privacy, and 3) Performance Measurement. Management appreciates the Inspector General's recognition of the progress that has been made in addressing these areas.

The Railroad Retirement Board realizes that **information technology security** is a significant challenge. We have devoted substantial effort and resources to this area in recent years and will continue to do so over the next several years. We have replaced our operating system and we are now in the process of modernizing our automated systems. At the same time, we are working to address access issues and certify and accredit our automated systems. We have made substantial progress, but much work remains. The viability and security of our automated systems are critical to our ability to accomplish our mission.

We are also working to improve our **privacy** controls both in our automated systems and in our paper records systems. As the Inspector General states, the agency has established two new committees with oversight of privacy issues. We are currently reviewing all of our systems to make sure that our records systems are accurate and that personally identifiable information that is not necessary is eliminated. Like other Federal agencies, we are studying means by which we can reduce the need for personally identifiable information with particular emphasis on reducing the use of social security numbers. We are also strengthening our physical security controls to reduce vulnerability to theft or misuse of personal information.

Finally, in fiscal year 2007, we implemented comprehensive new administrative procedures to ensure that the RRB's **performance measurements** are accurate and valid. The procedures establish standards and assign responsibility for collecting, documenting, validating, certifying, reporting and retaining information related to the actual performance data reported for objectives in the RRB's Annual Performance Budget and Government Performance and Results Act Report. In fiscal year 2008, we will expand management control documentation to include performance planning and reporting functions. We are confident that these administrative changes will ensure a high level of accuracy in the RRB's performance measurement and reporting activities. We will continue to monitor controls in this area to ensure their ongoing effectiveness.

Improper Payments Information Act (IPIA) Reporting Details

I. Describe the risk assessment(s), performed subsequent to completing the 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 risk assessments. Be sure to include the programs previously identified in the former Section 57 of Circular A-11 (now located in Circular A-123, Appendix C).

The RRB's Office of Programs reviewed each of the two benefit payment programs the agency administers which are both listed in the former Section 57 of OMB A-11: Retirement and Survivor Benefits (referred to as RRA) and Railroad Unemployment Insurance Benefits (referred to as RUIA). The agency used the process described below to calculate the amount of improper payments made in fiscal year 2006.

Results of Fiscal Year 2006 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	Yes	No

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

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

III. Describe the Corrective Action Plans for:

a. **Reducing the estimate rate and amount of improper payments for *each* type of category of error. This discussion must include the corrective action(s) for each different type or cause of error, and the corresponding steps necessary to prevent future recurrence. If efforts are ongoing, 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.**

No corrective action plans are required for either the RRA or the RUIA programs. Nevertheless, there are several ongoing activities and projects aimed at improving the accuracy of the 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*, the agency conducts quality assurance programs and validation reviews, which identify activities that are susceptible to error and suggest process improvements and procedures to prevent further errors. The initiatives to minimize specific types of improper payments in the RRA program include:
  - A system which evaluates employer-reported changes to the employee service and compensation records and adjusts annuities, if needed. The initial implementation of this process in FY 2006 handled the evaluation of record changes posted in January 2006. In FY 2007, the system evaluated adjustments posted prior to January 2006. This initiative identified specific RRA improper underpayments and paid out additional benefits due. Therefore, this resolved many of the improper payments that have been included in previous years' estimates. As a result of this, the estimate of improper underpayments is reduced starting in FY 2008. This system is being run quarterly so that annuity adjustments are made timely and properly.
  - 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 the calculation of benefits.
  - A project to resolve inconsistencies related to the SSN on records of auxiliary beneficiaries (spouse, children, and widow(er)s). This will allow the agency to match to the SSA earnings database to identify earnings and to match to files containing death information.
  - 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 allows the RRB to adjust annuity payments for earnings on a timely basis, which minimizes any underpayments or overpayments that may result from changes in earnings.
  - Better procedures to identify unreported last pre-retirement employment earnings after the annuity beginning date.

- To detect improper payments due to *out-of-date information*, the agency conducts comprehensive monitoring and program integrity efforts which aim to validate continued entitlement to benefits. In FY 2006, the agency achieved a return of $5.36 for every dollar in staff time invested in program integrity activities.

Furthermore, the agency maintains a management 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 1999 through 2007, the OIG presented RRB management with 117 recommendations for process improvement and corrective action pertaining to improper payments. Agency management has implemented or plans to implement 111 of the 117 recommendations. The agency will continue to work with the OIG to address the issue of improper payments in its benefit programs.

IV. Program improper payment reporting.

a. The table below is required for each reporting agency.

Improper Payment (IP) Reduction Outlook FY 2005 – FY 2010
($ in millions)

Program	FY 05 $ Outlays	FY 05 IP %	FY 05 IP $	FY 06 $ Outlays (actual)	FY 06 IP %	FY 06 IP $	FY 07 $ Outlays (estimated)	FY 07 IP %	FY 07 IP $
RRA	9,197.9	1.65%	151.8	9,457.4	1.36%	128.6	9,803.4	1.36%	133.3
RUIA	111.2	2.3%	2.6	105.6	2.6%	2.7	111.0	2.6%	2.9

Program	FY 08 $ Outlays (estimated)	FY 08 IP %	FY 08 IP $	FY 09 $ Outlays (estimated)	FY 09 IP %	FY 09 IP $	FY 10 $ Outlays (estimated)	FY10 IP %	FY 10 IP $
RRA	10,174.5	1.00%	101.7	10,453.3	1.00%	104.5	10,824.6	1.00%	108.2
RUIA	120.9	2.6%	3.1	129.2	2.6%	3.4	136.5	2.6%	3.5

At the time this report was prepared, the latest actual data available was for fiscal year 2006. The estimates for fiscal years 2007 through 2010 are based on the December 2006 OMB budget review estimates. For the RRA program, the estimated improper payment rate for FY 2008 and beyond has been adjusted downward due to the implementation in FY 2007 of the processing improvements discussed above. For the RUIA program, the agency has applied the FY 06 percentage rate to estimated outlays to estimate improper payment amounts for future years.

b. Discuss your agency's recovery of improper payments, if applicable. Include in your discussion the dollar amount of cumulative recoveries collected beginning with FY 2004.

Despite the agency's best efforts to prevent improper payments, some will always occur, due, for instance, to lack of timely information. In overpayment situations, the agency is diligent in its recovery efforts. The RRB's accounts receivable balance for the RRA program at the end of FY 2006 was $40,380,734. This balance includes $8,216,797 classified as currently not collectible. We estimate that approximately 79.8% of these receivables will be collected and that the remaining 20.2% will eventually be closed as uncollectible. The RRB's collection program is in full compliance with the Debt Collection Improvement Act of 1996. For the period of fiscal years 2003 through 2006, the RRB recovered $104,500,978 in RRA program receivables. 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.

The RRB's accounts receivable balance for the RUIA program at the end of FY 2006 was $11,376,939. This balance includes $6,647,790 classified as currently not collectible. We estimate that approximately 73.4% of these receivables will be collected and that the remaining 26.6% will eventually be closed as uncollectible. The RRB's RUIA collection program is in full compliance with the Debt Collection Improvement Act of 1996. For the period of fiscal years 2003 through 2006, the RRB recovered $153,556,011 in RUIA program receivables. Recoveries were received from settlements by railroads for injury and time lost claims filed by rail employees, through offset of future benefits, 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.

V. Recovery auditing reporting.

This does not apply to RRB's 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 the agency's two strategic goals. Agency managers have links to those goals in their performance appraisal plans.

VII. Agency information systems and other infrastructure.

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 FY 2008 budget submission to Congress to obtain the necessary information systems and infrastructure.

The following 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.

The agency requested fiscal year 2008 funding for System Modernization. The modernization process will help reduce redundancy, improve accuracy and speed, and move to more modern/less costly technology.

The RRB also requested funding for:

- Support of network operations,
- Replacement of a small portion of outdated information technology equipment,
- Expansion of the electronic services to the public.

VIII. Describe any statutory or regulatory barriers which may limit the agency's 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.

The RRB has made concerted efforts to reduce improper payments over the years. Payment accuracy rates are at consistently high levels and the return on investment for program integrity activities has been high as well. Both have been set as annual performance goals and reported each year since the Government Performance and Results Act has been in effect. The agency monitors progress on implementing recommendations from the quality assurance process, and is vigilant about pursuing OIG recommendations which impact the quality and timeliness of payments. The agency has also worked closely with the OIG in referring potential fraud cases for investigation and prosecution. The agency hopes to be able to maintain adequate staffing so that it can continue this important effort.

Summaries of Financial Statement Audit and Management Assurances

Summary of Financial Statement Audit

Audit Opinion	Unqualified
Restatement	No

Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Ending Balance
Information Technology Security	1				1
Performance Measurement	1		1		0
Actuarial Projection Process – Formal Policies	1		1		0
Actuarial Projection Process – Fund Balance		1			1
Total Material Weaknesses	3	1	2		2

Summary of Management Assurances

Effectiveness of Internal Control over Operations (FMFIA § 2)	
Statement of Assurance	Qualified

Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Information Technology Security	1					1
Performance Measurement	1		1			0
Actuarial Projection Process – Formal Policies	1		1			0
Actuarial Projection Process – Fund Balance		1				1
Total Material Weaknesses	3	1	2			2

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

APPENDICES

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Appendices

Glossary of Acronyms and Abbreviations

A

ACSI	American Customer Satisfaction Index
AMS	American Management Systems, Inc.

B

BCP	Business Continuity Plan
BIA	Business Impact Analysis
BIPA	Benefits Improvement and Protection Act of 2000
BIS	Bureau of Information Services
BPD	Bureau of the Public Debt
BRM	Business Reference Model

C

CHRIS	Comprehensive Human Resources Integrated System
CMS	Centers for Medicare & Medicaid Services
CNC	Currently Not Collectible
COA	Change of Address
COOP	Continuity of Operations Plan
CPI-W	Consumer Price Index for Urban Wage Earners and Clerical Workers

D

DCIA	Debt Collection Improvement Act of 1996
DOJ	Department of Justice
DOL	Department of Labor

E

ERS	Employer Reporting System

F

FAIR Act	Federal Activities Inventory Reform Act
FASAB	Federal Accounting Standards Advisory Board
FBWT	Fund Balance With Treasury
FECA	Federal Employees' Compensation Act
FFS	Federal Financial System
FHI	Federal Hospital Insurance
FI	Financial Interchange
FICA	Federal Insurance Contributions Act
FMFIA	Federal Managers' Financial Integrity Act
FMS	Financial Management Service
FY	Fiscal Year
FOASI/DI	Federal Old-Age and Survivors Insurance/Disability Insurance
FTE	Full-time Equivalent

G

GAO	Government Accountability Office
GISRA	Government Information Security Reform Act
GPRA	Government Performance and Results Act
GSA	General Services Administration

H

HIPAA	Health Insurance Portability and Accountability Act

I

IAE	Integrated Acquisition Environment
IPIA	Improper Payments Information Act
IRM	Information Resources Management
IRS	Internal Revenue Service
ISSO	Information System Security Officer
IT	Information Technology

M

MAC	Medicare Administrative Contractor
MCR	Medicare Contracting Reform
MCRC	Management Control Review Committee
MEDCOR	Medicare Correction System
MMA	Medicare Prescription Drug, Improvement and Modernization Act of 2003
MOU	Memorandum of Understanding

N

N/A	Not Applicable
NRRIT	National Railroad Retirement Investment Trust

O

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

P

P&AR	Performance and Accountability Report
PBSC	Performance-based Service Contracting
PDP	Prescription Drug Plan
P&F	Program and Financing
PIN	Personal Identification Number

Q

QRRB	Qualified Railroad Retirement Beneficiary

R

RR	Railroad Retirement
RRA	Railroad Retirement Act
RR Account	Railroad Retirement Account
RRB	Railroad Retirement Board
RRS Account	Railroad Retirement Supplemental Account
RRSIA	Railroad Retirement and Survivors' Improvement Act of 2001
RRTA	Railroad Retirement Tax Act
RUI	Railroad Unemployment Insurance
RUIA	Railroad Unemployment Insurance Act
RUSI	Railroad Unemployment and Sickness Insurance

S

SBR	Statement of Budgetary Resources
SCHIP	State Children's Health Insurance Program
SFFAS	Statement of Federal Financial Accounting Standards
SPEED	System Processing Excess Earnings Data
SSA	Social Security Administration
SSEB	Social Security Equivalent Benefit

T

TOP	Treasury Offset Program
Treasury	Department of the Treasury
Trust	National Railroad Retirement Investment Trust
TSP	Thrift Savings Plan

U

USPS	United States Postal Service

V

VAN	Virtual Area Network

Railroad Retirement Board
Board Members, Inspector General, and Executive Committee

Board Members

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

Office of Inspector General

Inspector General	Martin J. Dickman

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General Counsel	Steven A. Bartholow
Chief Financial Officer	Kenneth P. Boehne
Director of Programs	Dorothy A. Isherwood
Chief Information Officer	Terri S. Morgan
Chief Actuary	Frank J. Buzzi

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