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UNITED STATES RAILROAD RETIREMENT BOARD

OFFICE OF INSPECTOR GENERAL

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 is a challenge that management has set for itself. Less obvious, are the challenges posed by changes in the environment in which management must operate to meet its organizational objectives. These challenges may arise from legislative and regulatory mandates as well as advances in technology and the economic environment.

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

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
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)**

<i>Program</i>	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

<i>Program</i>	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
<i>Total Material Weaknesses</i>	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
<i>Total Material Weaknesses</i>	3	1	2			2

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