



MANAGEMENT'S DISCUSSION AND ANALYSIS

Future Plans/Objectives

Program Improvements

- **Medicare Modernization Act (MMA)** The Medicare Prescription Drug, Improvement and Modernization Act of 2003, otherwise known as the Medicare Modernization Act (MMA), added a prescription drug benefit (Part D) to the Medicare program effective January 2006. The MMA provides beneficiaries the option to pay Parts C (Medicare Advantage Plan) and D premiums directly to their plans or to have premiums withheld from benefits paid by the Social Security Administration (SSA), the Office of Personnel Management, or the Railroad Retirement Board.

The RRB has been working with the Centers for Medicare & Medicaid Services (CMS) to implement Medicare Parts C and D premium withholding and other provisions of the MMA. We have not completed work on processes and automated systems changes that will allow beneficiaries to have Parts C and D premiums withheld from the monthly benefits paid by the RRB. (Railroad retirement beneficiaries who currently have monthly Parts C and D premiums pay their premiums by direct bill arrangements with their plans.) Work on Parts C and D premium withholding was temporarily suspended while we focused available resources on implementing provisions of the MMA that require certain beneficiaries to pay higher Part B premiums beginning January 2007, and to allow time for CMS to review and resolve problems with the withholding of Parts C and D premiums from benefits paid by SSA.

We are resuming work with CMS in 2008 on the data exchange needed to support Parts C and D premium withholding from RRB benefits. Along with CMS, we have established a target implementation date of January 2010.

- **Nationwide Toll-Free Service and RRB HelpLine Improvements** In fiscal year 2007, the agency awarded a contract through GSA-Network Universal to Qwest Government Services, Inc. for a managed nationwide toll-free telephone service. The features of the service will include a single nationwide toll-free number, automatic distribution of customer calls, interactive voice response (IVR) functionality, an upgrade of the existing data network, and implementation of Voice over Internet Protocol (VoIP) telephone service at all RRB field offices. 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 first 12 Pilot Offices are scheduled to be implemented in fiscal year 2008, with the roll-out for the balance of the RRB field offices to be completed by December 31, 2008.

The design of the nationwide toll-free service will support all of the existing self-service options and features of the current RRB HelpLine, facilitate a number of enhancements and allow for expansion of services into other areas in the future.

- **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 online. The account statement lists recent forms filed and unemployment and sickness insurance benefit

payments. In 2009, the RRB plans to implement a process to allow beneficiaries to submit online biweekly claims for sickness insurance benefits.

Employer Reporting System (ERS) – Internet Site We continue to use contractor assistance to work on the Employer Reporting System (ERS). In 2008, we are automating the pre-payment and post-payment verification notices (Forms ID-4k and ID-4e) sent to employers for benefits we pay under the Railroad Unemployment Insurance Act (RUIA). The agency is also converting the current system and forms to a software language which is compatible with existing standards, and which should enable in-house staff to add new functionality to the system without the need to obtain contractor support.

In 2009, the ERS Internet-based version of Form BA-3, Annual Report of Service and Compensation, will be introduced, yielding 7 additional services and replacing several post-reporting requests for information from employers. We will also include the functionality for two notification processes: RL-5a, Notice of Annuity Award; and the Notice of Tier I Tax Liability on Sickness Payments (Forms ID-6 and ID-6y). Employers need information about former and retired employees to make the necessary adjustments in their insurance and other health and welfare benefits afforded retired employees. Distributing these notifications to employers via the ERS provides for a secure, efficient method of transmitting this information.

The focus for 2010 will be on providing additional automated notifications to employers, including the G-73a.1, Notice of Death of Annuitant, and the RL-10, Notice of Medicare Entitlement. In fiscal year 2010, we also plan to develop an automated referral process in ERS to notify employers of errors or the need for additional information and provide a means for correcting the data.

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 2008, responsible officials performed in-depth reviews of 12 assessable units, assessed all 42, and certified 41.

The RRB reported a material weakness relating to deficiencies in Information Technology Security in fiscal year 2002; the remaining action needed to close out these 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. The Responsible Official certification for fiscal year 2008 includes information about actions underway to address these deficiencies.

In fiscal year 2008, the OIG-identified material weakness, Actuarial Projection Process–Fund Balance, was addressed and closed out. On September 30, 2008, the OIG identified Financial Reporting as a material weakness. The agency has implemented actions to improve the financial reporting process, such as issuing additional reporting guidance and implementing an enhanced year-end financial statement review. Additional actions are being evaluated and planned.

The agency is committed to resolving these deficiencies. We will continue to monitor progress during fiscal year 2009.

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 Financial Reporting as material weaknesses. A previously reported material weakness, Actuarial Projection Process—Fund Balance, was addressed and closed out in fiscal year 2008.

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 2009, 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 OIG also identified financial reporting as a material weakness. The Bureau of Fiscal Operations will work with the OIG to implement necessary enhancements to the financial reporting process.

Original signed by:

Michael S. Schwartz, Chairman
V. M. Speakman, Jr., Labor Member
Jerome F. Keever, 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, 2008. 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 2008-2082, 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.

Subsequent to January 1, 2008, the effective date of the Statement of Social Insurance, market fluctuations resulted in a reduction in the value of the fund balance, which directly affects projected future cash flows. See Note 15.

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 2008-2018. 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.