OIG Report # 13-01 **The Office of Inspector General's Report on the Railroad Retirement Board's Financial**
November 15, 2012 **Statements begins on page 100 of the RRB's FY 2012 Performance and Accountability Report.**

RAILROAD RETIREMENT BOARD

PERFORMANCE AND ACCOUNTABILITY REPORT

FISCAL YEAR 2012

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Railroad Retirement Board
Performance and Accountability Report
Fiscal Year 2012

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RRB's fiscal year 2012 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 2012 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 December 2011, the RRB conducted an American Customer Satisfaction Index (ACSI) Survey, which focused on railroad workers receiving unemployment or sickness insurance benefits. The RRB earned a score of 81 which was 14 points higher than the latest Federal government average of 67, and 6 points higher than the previous survey on the same customer segment done in 2002. In July 2012, we conducted another ACSI survey focusing on initial survivor annuitants. In this survey the RRB earned an overall satisfaction score of 90, which was 23 points higher than the latest Federal government average (67) and the same as the previous survey on the same segment conducted in 2005.

This year we implemented the Middle Class Tax Relief and Job Creation Act of 2012, which further extended the provisions of the Worker, Homeownership and Business Assistance Act of 2009 by providing for the payment of additional extended unemployment benefits for benefit periods beginning no later than December 31, 2012. The RRB began making payments under this Act on February 22, 2012, and has paid approximately $3.1 million of these extended benefits through May 30, 2012.

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 are 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 material weaknesses identified by the Office of Inspector General in the internal control environment for information security (risk management and configuration management), and budgetary reporting.

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
Walter A. Barrows, Labor Member
Jerome F. Kever, Management Member

November 6, 2012

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MANAGEMENT'S DISCUSSION AND ANALYSIS

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Management's Discussion and Analysis

Overview of the Railroad Retirement Board

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 private 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 Railroad Retirement (RR) Account funds transferred to the National Railroad Retirement Investment Trust (NRRIT) to be invested in non-governmental assets, as well as in governmental securities. Funds transferred from the Social Security Equivalent Benefit (SSEB) Account to the NRRIT are allowed to be invested only in governmental securities. The legislation also established the NRRIT, whose Board of seven trustees oversees these investments. The Board of Trustees is comprised of three members selected by rail labor, three members selected by rail management, 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 2012, the RRB trust funds realized a net of almost $4.2 billion, representing 42 percent of RRB financing sources (excluding transfers to/from the NRRIT and the decrease in NRRIT net assets), through the financial interchange.

Other sources of income currently include revenue resulting from Federal income taxes on railroad retirement benefits (tier I, tier II, and vested dual benefits), and appropriations from general Department of the Treasury (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, six American Recovery and Reinvestment Act of 2009 (ARRA) funds, and two Worker, Homeownership and Business Assistance Act of 2009 (WHBAA) 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 Walter A. Barrows, 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. The RRB field structure is comprised of 53 offices located throughout the United States as shown on page 12.

U.S. RAILROAD RETIREMENT BOARD

OFFICE OF EQUAL OPPORTUNITY
Lynn E. Cousins

OFFICE OF INSPECTOR GENERAL
Martin J. Dickman

THE BOARD

Chairman, Michael S. Schwartz
Labor Member, Walter A. Barrows
Management Member, Jerome F. Kever

CHIEF ACTUARY *
BUREAU OF THE ACTUARY
Frank J. Buzzi

EXECUTIVE COMMITTEE

MEMBER
George V. Govan

MEMBER
Karl T. Blank

MEMBER
Keith B. Earley

SENIOR EXECUTIVE OFFICER
Dorothy A. Isherwood

MEMBER
Martha M. Barringer

MEMBER
Terri S. Morgan

CHIEF FINANCIAL OFFICER
BUREAU OF FISCAL OPERATIONS
George V. Govan

OFFICE OF GENERAL COUNSEL
Karl T. Blank

- **OFFICE OF LEGISLATIVE AFFAIRS** – Margaret S. Lindsley
- **BUREAU OF HEARINGS AND APPEALS** – Rachel L. Simmons
- **SECRETARY TO THE BOARD** – Martha P. Rico

OFFICE OF ADMINISTRATION
Keith B. Earley

- **ACQUISITION MANAGEMENT** – Paul T. Ahern
- **REAL PROPERTY MANAGEMENT** – Scott Rush
- **BUREAU OF HUMAN RESOURCES** – Marguerite V. Daniels
- **PUBLIC AFFAIRS** – Michael P. Freeman

OFFICE OF PROGRAMS
Dorothy A. Isherwood

- **POLICY AND SYSTEMS** – Ronald Russo
- **PROGRAM EVALUATION AND MANAGEMENT SERVICES** – Janet M. Hallman
- **RETIREMENT BENEFITS** – Cecilia A. Freeman
- **SURVIVOR BENEFITS** – Valerie F. Allen
- **DISABILITY BENEFITS** – John A. Bognar
- **UNEMPLOYMENT AND PROGRAMS SUPPORT** – Micheal T. Pawlak

BUREAU OF 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 2012

U.S. RAILROAD RETIREMENT BOARD
District Office Map

Financial Highlights

Amounts in the 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 SSEB Account not needed to pay current benefits and administrative expenses are transferred to either the RR Account or the NRRIT.

On February 17, 2009, President Obama signed the ARRA. Under the ARRA, the RRB has two major benefit programs to administer, economic recovery payments, and extended unemployment insurance benefits. For additional information on the ARRA, see page 37.

On November 6, 2009, President Obama signed the WHBAA. The legislation authorized payment of extended unemployment insurance benefits to rail workers. For additional information on WHBAA, see page 37.

On December 17, 2010, President Obama signed the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010. The legislation provides a 1-year reduction in employee payroll taxes and provides more extended unemployment benefits for railroad workers. For additional information on the Tax Relief Act, see page 38.

On February 22, 2012, President Obama signed the Middle Class Tax Relief and Job Creation Act of 2012. For additional information on the Middle Class Tax Relief and Job Creation Act, see page 38.

Shown on the following page 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)

	2012	2011
NET POSITION AT SEPTEMBER 30		
Social Security Equivalent Benefit Account	$798.5	$ 319.9
Railroad Retirement Account 1/	23,959.2	22,466.7
Railroad Retirement Administration Fund	8.0	3.3
Railroad Unemployment Insurance Trust Fund –		
Benefit Payments	162.5	40.3
Administrative Expenses	11.4	11.7
Limitation on the Office of Inspector General	.7	.8
Dual Benefits Payments Account	9.7	9.0
Federal Payments to the Railroad Retirement Accounts	24.9	21.0
American Recovery and Reinvestment Act of 2009		
Railroad Unemployment Insurance Extended Benefit Payments – Recovery Act (no year dollars)	9.6	9.5
Economic Recovery Payments – Recovery Act	5.0	5.0
Administrative Expenses – Recovery Act (no year dollars)	-	-
Administrative Expenses – Recovery Act	-	-
Limitation on Administration – Recovery Act (no year dollars)	-	-
Limitation on Administration – Recovery Act	.7	.7
Worker, Homeownership and Business Assistance Act of 2009		
Railroad Unemployment Insurance Extended Benefits Payments (no year dollars)	141.4	147.8
Administrative Expenses, Railroad Unemployment Insurance Extended Benefit Payments		-
Total	$25,131.6	$23,035.7
FINANCING SOURCES FOR FISCAL YEAR		
Social Security Equivalent Benefit Account	$7,232.8	$ 6,272.1
Railroad Retirement Account 2/	6,142.6	3,008.7
Railroad Retirement Administration Fund	117.8	118.6
Railroad Unemployment Insurance Trust Fund –		
Benefit Payments	198.8	158.1
Administrative Expenses	(0.3)	3.4
Limitation on the Office of Inspector General	8.6	8.7
Dual Benefits Payments Account	48.6	55.2
Federal Payments to the Railroad Retirement Accounts 3/	771.0	698.1
American Recovery and Reinvestment Act of 2009		
Railroad Unemployment Insurance Extended Benefit Payments – Recovery Act (no year dollars)	-	(.5)
Economic Recovery Payments – Recovery Act	-	-
Administrative Expenses – Recovery Act (no year dollars)	-	-
Administrative Expenses – Recovery Act	-	-
Limitation on Administration – Recovery Act (no year dollars)	-	-
Limitation on Administration – Recovery Act	-	-
Worker, Homeownership and Business Assistance Act of 2009		
Railroad Unemployment Insurance Extended Benefits Payments, (no year dollars)	6.5	7.8
Administrative Expenses, Railroad Unemployment Insurance Extended Benefit Payments	.5	-
Total	$14,526.9	$10,330.2

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.

	2012	2011
BENEFIT PAYMENTS FOR FISCAL YEAR 4/		
Social Security Equivalent Benefit Account	$6,631.9	$ 6,384.6
Railroad Retirement Account	4,648.7	4,522.4
Railroad Unemployment Insurance Trust Fund –		
Unemployment Insurance	34.6	36.8
Sickness Insurance	41.4	54.1
Dual Benefits Payments Account	48.6	55.2
American Recovery and Reinvestment Act of 2009		
Railroad Unemployment Insurance Extended Benefit Payments – Recovery Act (no year dollars)	-	.5
Economic Recovery Payments – Recovery Act	-	-
Worker, Homeownership and Business Assistance Act of 2009		
Railroad Unemployment Insurance Extended Benefits Payments (no year dollars)	6.4	7.8
Total	$11,411.6	$11,061.4

4/ Net of recoveries and offsetting collections; 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.

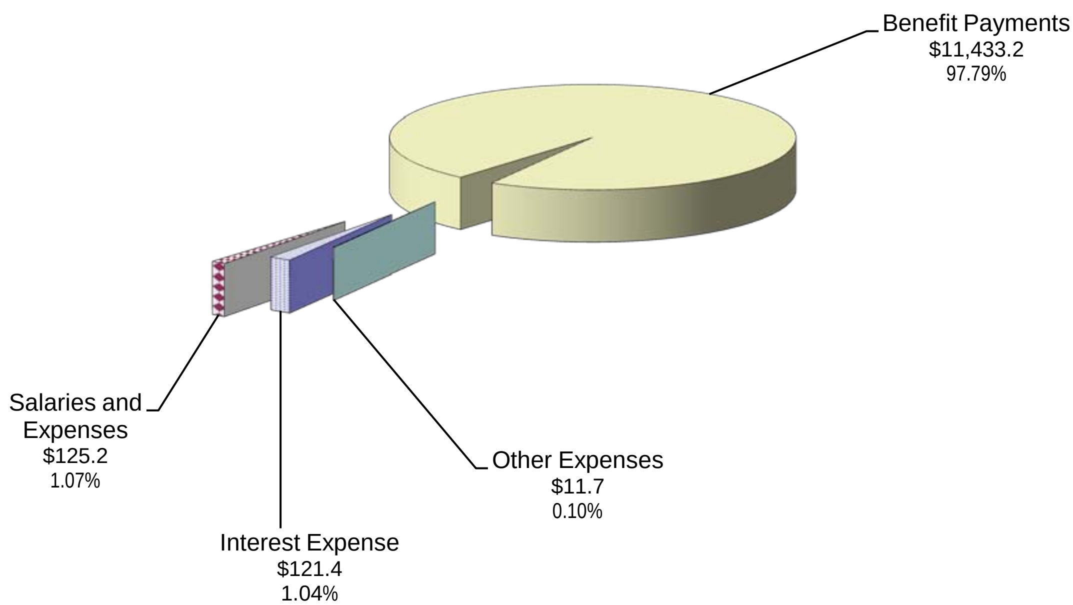
Comparison of Net Cost of Operations and Financing Sources

The net cost of operations for fiscal years 2012 and 2011 was $11,657.7 million and $11,321.8 million, respectively. The details of the net cost of operations by type, amount, increase or decrease, and percentage change from fiscal year 2011 to fiscal year 2012 are shown below. Additional information regarding the net cost of operations and financing sources for fiscal years 2012 and 2011 is shown on the following pages.

NET COST OF OPERATIONS
(In millions)

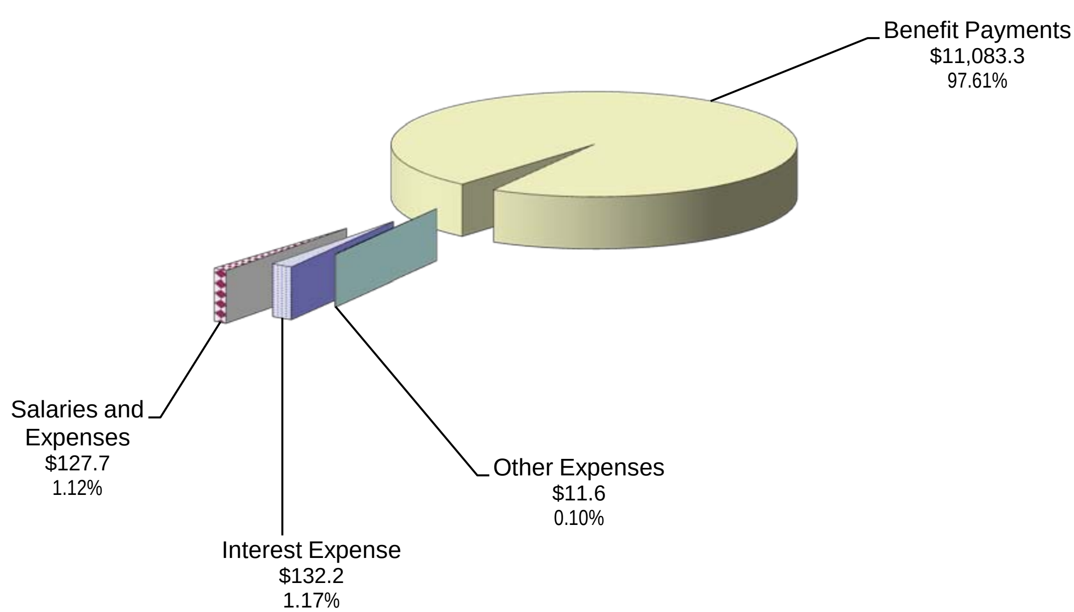
	FY 2012	FY 2011	Amount of Increase (Decrease)	Percent of Increase (Decrease)
Interest expense – Treasury borrowing	$ 121.4	$ 132.2	($10.8)	(8.2%)
Salaries and expenses	125.2	127.7	(2.5)	(2.0%)
Benefit payments – RRB	11,433.2	11,083.3	349.9	3.2%
Other expenses	11.7	11.6	0.1	1.0%
Subtotal	11,691.5	11,354.8	336.7	3.0%
Less: Earned revenues	33.8	33.0	0.8	2.4%
Net cost of operations	$11,657.7	$11,321.8	$335.9	3.0%

FY 2012
NET COST OF OPERATIONS
(In millions)



Totals $11,691.5 million, excluding reimbursements and earned revenues of $33.8 million.

FY 2011
NET COST OF OPERATIONS
(In millions)



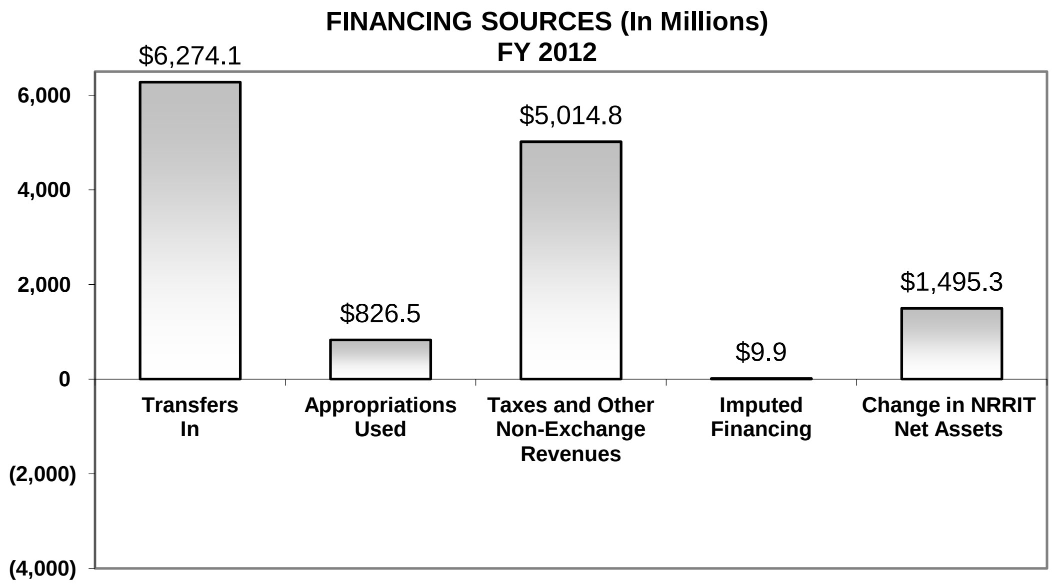
Totals $11,354.8 million, excluding reimbursements and earned revenues of $33.0 million.

The following table shows financing sources (excluding changes in unexpended appropriations) by type, amount, increase or decrease, and percentage change from fiscal year 2011 to fiscal year 2012.

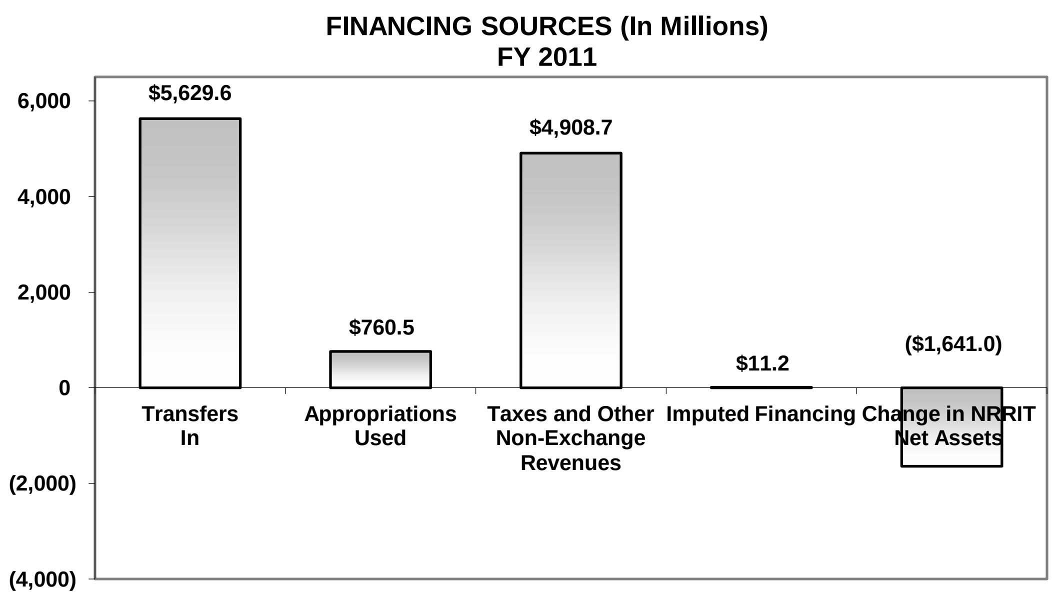
FINANCING SOURCES
(In millions)

	FY 2012	FY 2011	AMOUNT OF INCREASE (DECREASE)	PERCENT OF INCREASE (DECREASE)
Appropriations used	$ 826.5	$ 760.5	$ 66.0	8.7
Taxes and other non-exchange revenues:				
Payroll taxes	4,768.6	4,696.7	71.9	1.5
Interest revenue and other income	42.2	41.6	0.6	1.4
Carriers refunds – principal	(5.7)	(2.4)	(3.3)	(138.5)
Railroad Unemployment Insurance (RUI) revenue	209.7	172.8	36.9	21.4
Subtotal	$ 5,014.8	$4,908.7	$ 106.1	2.2
Imputed financing (amount to be provided by the Office of Personnel Management (OPM) to pay future retirement benefits to RRB employees)	9.9	11.2	(1.3)	(11.6)
Transfers in:				
Financial Interchange, net	4,248.1	3,885.6	362.5	9.3
NRRIT	2,026.0	1,744.0	282.0	16.2
Subtotal	$ 6,274.1	$5,629.6	$ 644.5	11.4
Other:				
Change in NRRIT net assets	1,495.3	(1,641.0)	3,136.4	191.1
Subtotal	$13,620.6	$9,669.0	$3,951.6	40.9
Less: Transfers out to NRRIT	0.0	0.0	0.0	0.0
Add: Gain/(Loss) in Contingency	134.8	(37.9)	172.7	455.7
Subtotal	134.8	(37.9)	172.7	455.7
Total	$13,755.4	$9,631.1	$4,124.3	42.8

The most significant difference between the RRB's financial statements for fiscal year 2011 and fiscal year 2012 was the change in NRRIT net assets. The increase in NRRIT net assets of $1,495 million is due to market fluctuations during the past year. There is a section on page 20 that describes the NRRIT, and the NRRIT net assets balances for 2011 and 2012 are shown in the RRB's Financial Section of this publication.



Total Financing Sources $13,620.6 million, excluding $134.8 million gain contingency.



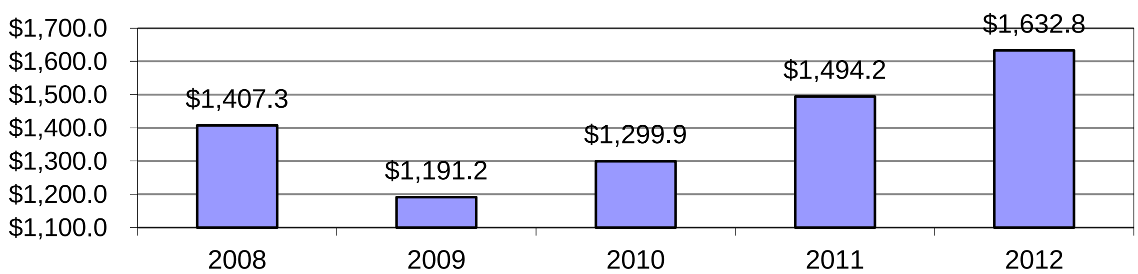
Total Financing Sources $9,669.0 million, excluding $37.9 million loss contingency.

Railroad Retirement Investments at Treasury

The book value of all railroad retirement investments, including accrued interest, increased to $1,632.8 million as of September 30, 2012, from $1,494.2 million on September 30, 2011 (excludes NRRIT net assets). The graph below reflects the book value of the railroad retirement investments from September 30, 2008, through September 30, 2012.

INVESTMENT BALANCES HELD AT TREASURY (AT BOOK VALUE)
AT SEPTEMBER 30, 2008 - 2012

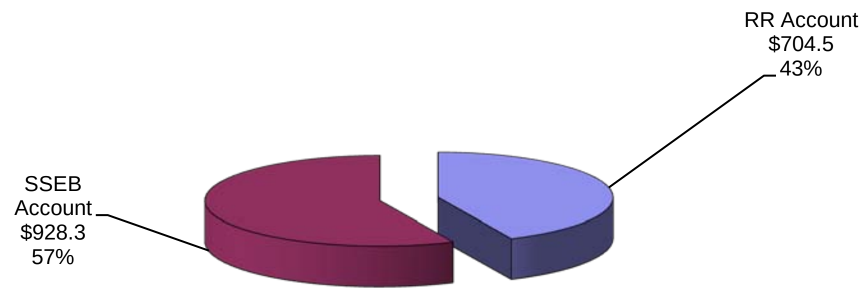
(In millions, excluding NRRIT net assets)



The following chart shows the portfolio of the railroad retirement investments as of September 30, 2012.

RAILROAD RETIREMENT INVESTMENTS HELD AT TREASURY
AS OF SEPTEMBER 30, 2012

(In millions, excluding NRRIT net assets)



AT BOOK VALUE
Total $1,632.8

Railroad Retirement Account

On September 30, 2012 and 2011, the book values of the RR Account investments, excluding NRRIT assets, including accrued interest, totaled $704,533,913 and $697,396,746, respectively. The balance on September 30, 2012, consisted of $703,531,000 in 3.000 percent par value specials (with market value equal to face value) maturing on October 1, 2012, and $1,002,913 in accrued interest. The balance on September 30, 2011, consisted of $696,280,000 in 3.000 percent par value specials (with market value equal to face value) maturing on October 3, 2011, and $1,116,746 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, 2012 and 2011, the book values of the SSEB Account investments, including accrued interest, totaled $928,271,039 and $796,827,566, respectively. The balance on September 30, 2012, consisted of $926,882,000 in 3.000 percent par value specials maturing on October 1, 2012, and $1,389,039 in accrued interest. The balance on September 30, 2011, consisted of $795,547,000 in 3.000 percent par value specials maturing on October 3, 2011, and $1,280,566 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 (USC). 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 RRA. 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 Operations, 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 OMB.

Program, Operations, and Financial Performance and Results

During fiscal year 2012 (ended September 30, 2012), railroad retirement and survivor benefit payments totaled $11.4 billion, net of recoveries and offsetting collections. Railroad unemployment and sickness insurance benefit payments totaled $76 million in fiscal year 2012, net of recoveries and offsetting collections. During fiscal year 2012, the RRB also paid benefits on behalf of SSA (for which the RRB is reimbursed) amounting to $1.4 billion to about 114,000 beneficiaries.

In fiscal year 2012, 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 2012 included:

- Providing payments to 573,000 retirement and survivor beneficiaries.
- Providing payments to 10,000 unemployment insurance beneficiaries.
- Providing payments to 17,000 sickness insurance beneficiaries.
- Processing 29,708 retirement, survivor, and disability applications for benefits and then determining eligibility (through May 2012).
- Processing 164,647 applications and claims for unemployment and sickness insurance benefits (through May 2012).
- Issuing 262,253 certificates of employee railroad service and compensation (mailed on June 15, 2012).

During fiscal year 2012, the RRB used 18 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 a direct appropriation of $108,649,264 for ongoing 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 2012 were not available at the time this report was published. For those objectives, we reported part-year performance information for fiscal year 2012, 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. For fiscal year 2012, we expect to meet or exceed most of our timeliness goals and increase Internet services available to employers.

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 2012, we expect that benefit payment accuracy rates will exceed 99 percent.

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 processing retirement/survivor and unemployment/sickness insurance 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 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.

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. Our Annual Performance Plan for Fiscal Year 2012 reflects two strategic objectives that focus on the specifics of achieving this goal.

- Pay benefits timely.
- Provide a range of choices in service delivery methods.

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. Our performance budget reflects four objectives that direct our focus on this goal.

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

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.

<u>Validation of Performance Information</u>. The RRB has implemented comprehensive 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 the RRB's Annual Performance Plan 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 the RRB's Planning Council review the certified performance data and attestations for completeness and 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 the 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 II-B-1a)

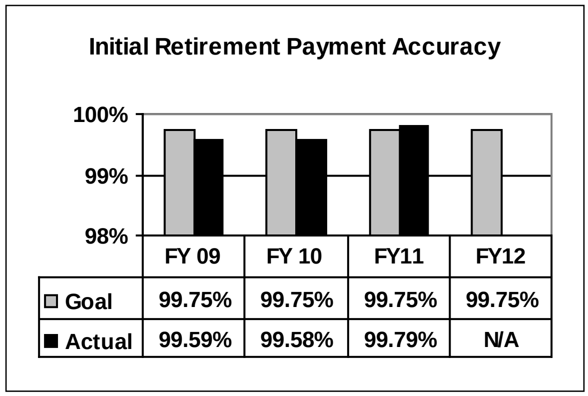
Our overall strategic goal is to achieve a railroad retirement benefit payment recurring accuracy rate of at least 99 percent on our initial processing of applications for retirement (employee, spouse and widow) benefits.

FY 2012 goal: 99.75%
Our FY 2012 performance: Not available

Full-year data will be available in fiscal year 2013.

FY 2011 goal: 99.75%
Our FY 2011 performance: 99.79%

We met our goal.



	FY 09	FY 10	FY11	FY12
Goal	99.75%	99.75%	99.75%	99.75%
Actual	99.59%	99.58%	99.79%	N/A

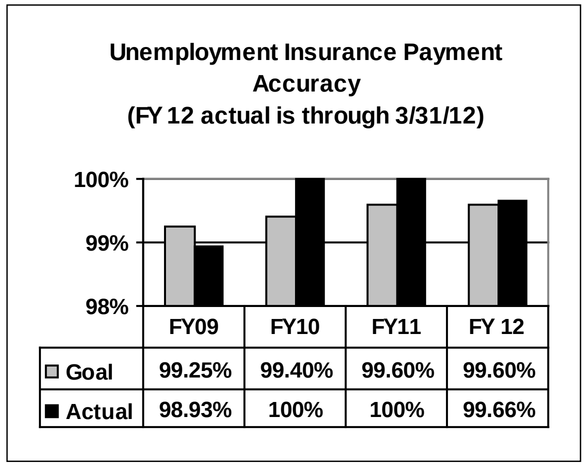
Automation plays a key role in assuring initial benefit payment accuracy by reducing the number of erroneous payments. Automation will become more critical in this area as experienced personnel retire in the coming years.

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 II-B-2a)**

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

FY 2012 goal: 99.60%
Our FY 2012 performance: 99.66% through the quarter



We are achieving our goal. Automation plays a key role in assuring benefit payment accuracy by reducing the number of erroneous payments.

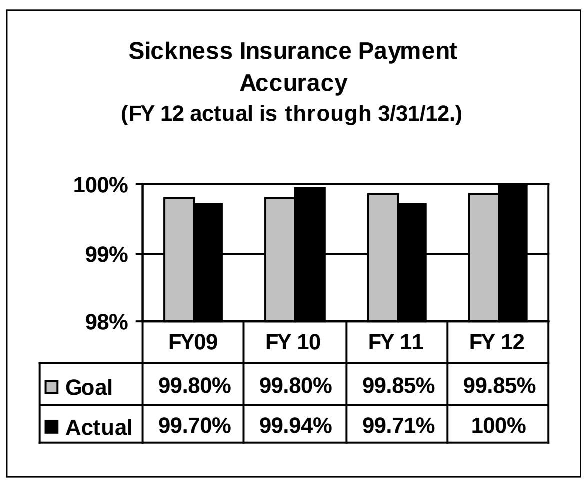
FY 2011 goal: 99.60%
Our FY 2011 performance: 100%

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 II-B-2b)**

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

FY 2012 goal: 99.85%
Our FY 2012 performance: 100% through the quarter



We are achieving our goal. Automation plays a key role in assuring benefit payment accuracy by reducing the number of erroneous payments.

FY 2011 goal: 99.85%
Our FY 2011 performance: 99.71%

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.

<u>Key performance indicator 4:</u> Timeliness of initial railroad retirement annuity payments, when advanced filed (Objective I-A-1)

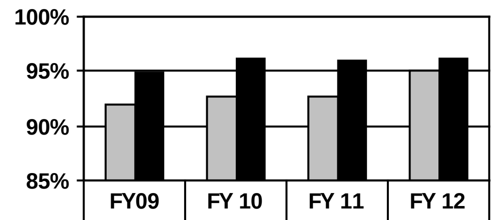
FY 2012 goal: 95.00%
Our FY 2012 performance: 96.1%
through the quarter

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

FY 2011 goal: 92.75%
Our FY 2011 performance: 96.0%

Data definition: This goal is included in the RRB Customer Service Plan.

The RRB makes a decision to pay or deny a railroad retirement employee or spouse initial annuity application within 35 days of the annuity beginning date, if advanced filed. (FY 12 actual is through 3/31/12.)



	FY09	FY 10	FY 11	FY 12
Goal	92.00%	92.75%	92.75%	95.0%
Actual	94.86%	96.16%	96.0%	96.1%

<u>Key performance indicator 5:</u> Timeliness of initial railroad retirement annuity payments, if not advanced filed (Objective I-A-2)

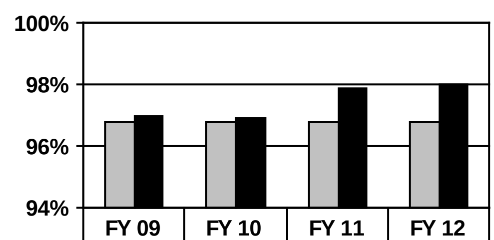
FY 2012 goal: 96.8%
Our FY 2012 performance: 98.0%
through the quarter

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

FY 2011 goal: 96.8%
Our FY 2011 performance: 97.9%

Data definition: This goal is included in the RRB Customer Service Plan.

The RRB makes a decision to pay or deny a retirement employee or spouse initial annuity application within 60 days of the date the application was filed. (FY 12 actual is through 3/31/12.)

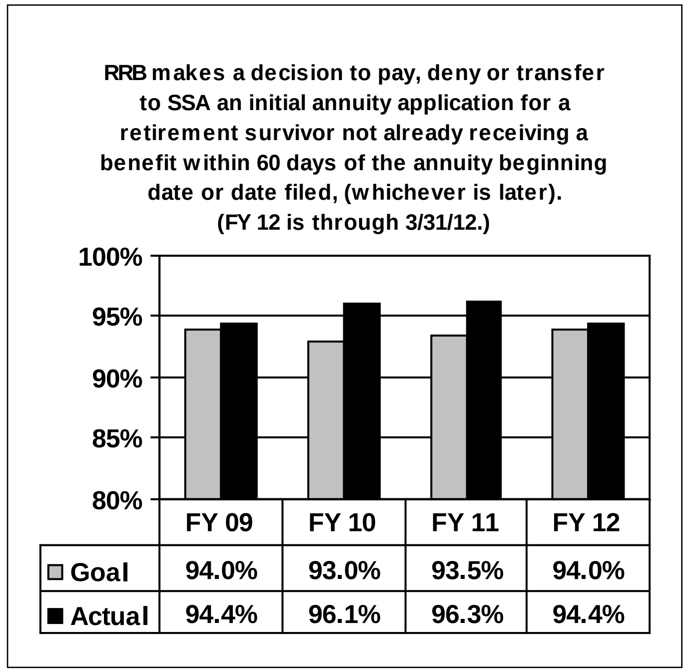


	FY 09	FY 10	FY 11	FY 12
Goal	96.8%	96.8%	96.8%	96.8%
Actual	97.0%	96.9%	97.9%	98.0%

<u>Key performance indicator 6:</u> Timeliness of new survivor benefit payments (Objective I-A-3)

FY 2012 goal: 94.0%
Our FY 2012 performance: 94.4%
through the quarter

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



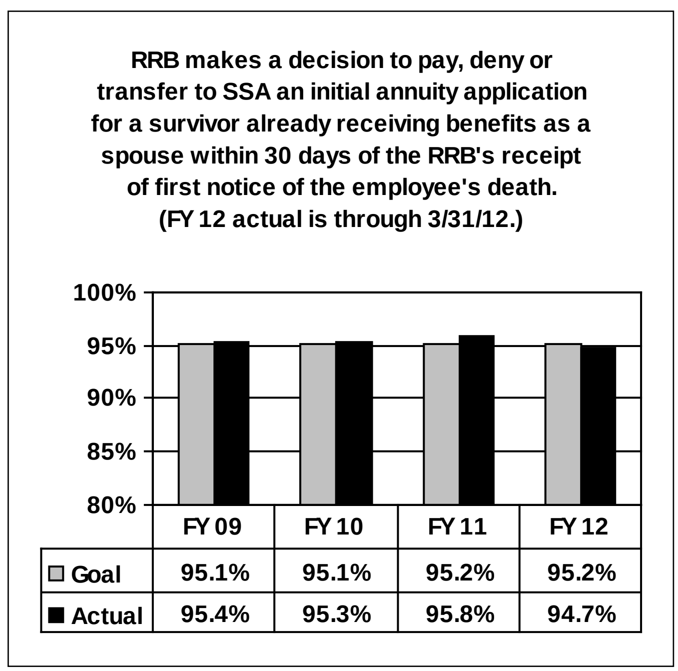
FY 2011 goal: 93.5%
Our FY 2011 performance: 96.3%

Data definition: This goal is included in the RRB Customer Service Plan. The indicator was restated in our final performance budget for fiscal year 2010 to more accurately describe how timeliness is measured. The current goal is stated in the chart at the right.

<u>Key performance indicator 7:</u> Timeliness of spouse to survivor benefit payment conversions (Objective I-A-4)

FY 2012 goal: 95.2%
Our FY 2012 performance: 94.7%
through the quarter

We are not yet achieving our goal, but we expect to meet the goal by the end of fiscal year 2012. Automation plays a key role in assuring benefit payment timeliness for this performance indicator.



FY 2011 goal: 95.2%
Our FY 2011 performance: 95.8%

Data definition: This goal is included in the RRB Customer Service Plan. The indicator was restated in our final performance budget for fiscal year 2010 to more accurately describe how timeliness is measured. The current goal is stated in the chart at the right.

<u>Key performance indicator 8:</u> Timeliness of unemployment or sickness insurance payments (Objective I-A-6)

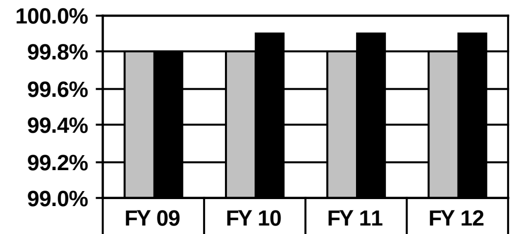
FY 2012 goal: 99.8%
Our FY 2012 performance: 99.9%
through the quarter

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

FY 2011 goal: 99.8%
Our FY 2011 performance: 99.9%

Data definition: This goal is included in the RRB Customer Service Plan.

RRB certifies a payment or releases a letter of denial of UI or SI benefits within 10 days of the date the RRB receives the claim. (FY 12 actual is through 3/31/12.)



	FY 09	FY 10	FY 11	FY 12
Goal	99.8%	99.8%	99.8%	99.8%
Actual	99.8%	99.9%	99.9%	99.9%

<u>Key performance indicator 9:</u> Timeliness of disability decisions (Objective I-A-7)

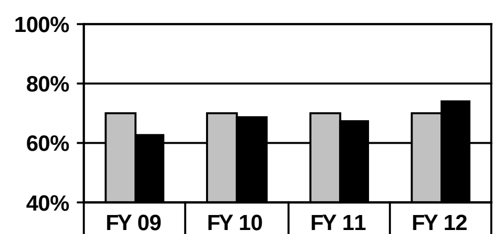
FY 2012 goal: 70.0%
Our FY 2012 performance: 74.3%
through the quarter

We are exceeding our goal.

FY 2011 goal: 70.0%
Our FY 2011 performance: 67.5%

Data Definition: This goal is included in the RRB Customer Service Plan.

The RRB makes a decision to pay or deny a benefit for a disabled applicant or family member within 100 days of the date the application is filed. (FY 12 actual is through 3/31/12.)



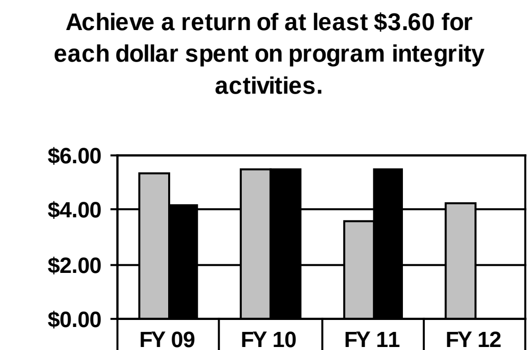
	FY 09	FY 10	FY 11	FY 12
Goal	70.0%	70.0%	70.0%	70.0%
Actual	62.5%	68.9%	67.5%	74.3%

<u>Key performance indicator 10:</u> Return on investment in program integrity activities (Objective II-B-4)

FY 2012 goal: $4.28 : $1
Our FY 2012 performance: Not available

FY 2011 data will be available in FY 2012.

FY 2011 goal: $3.60 : $1
Our FY 2011 performance: $5.46 : $1



	FY 09	FY 10	FY 11	FY 12
Goal	$5.36	$5.48	$3.60	$4.28
Actual	$4.20	$5.51	$5.46	N/A

We exceeded our goal. In November 2010, we discovered that not all program integrity cost information was being used to compile the program integrity ratio – most significantly, the cost of a major monitoring activity was not being captured, even though the benefits of that process were included. As a result, we recomputed the program integrity ratio for fiscal year 2009 using the updated cost amounts. We have also adjusted the fiscal year 2011 target for this indicator from $5.48: $1.00, to an adjusted level of $3.60: $1.00, which is consistent with the initial statement of the objective.

As part of our fiduciary responsibilities to the rail community, we must ensure that the correct benefit amounts are 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

- **Patient Protection and Affordable Care Act** The Patient Protection and Affordable Care Act of 2010 provides for an Income-Related Monthly Adjustment Amount (IRMAA) to be added to the Medicare prescription drug plan (Part D) premiums paid by high-income beneficiaries beginning in January 2011. This provision allows for the collection of Part D IRMAA through withholding from railroad retirement benefit checks or through direct billing. We implemented Part D IRMAA collection in January 2011 through direct billing, utilizing the existing Program Accounts Receivable system. Work is now proceeding to implement premium withholding from railroad retirement benefit checks.

- **Employer Reporting System (ERS) – Internet Site** In Phase 4 of the ERSNet project, we are currently developing automated access to the Forms ID-40 series of RUIA contribution notices; the ID-6 series of tax notices; and the Form G-88a.2, which requests annuity eligibility information from rail employers. This will result in three additional on-line services implemented by the end of fiscal year 2012.

  In fiscal year 2013, we will continue our development of automated processes to notify employers of errors or the need for additional information and provide a means for correcting the data. These include requests for verification of last date on the payroll (Form G-88a.1) and for the payment of supplemental annuities (Form G-88p). We also plan to develop an automated referral process to notify employers of the agency's right to reimbursement of benefits paid under section 12(o) of the RUIA. Development of the ID-30 series and ID-3 series notices will result in three (3) additional services for a total of five in fiscal year 2013.

  Starting in fiscal year 2014, we plan to develop additional record correction forms (Forms GL-99, Deemed Service Questionnaire and GL-132, Notice of Service After ABD). Automating these processes will give us direct contact with the responsible official and provide a means for immediate correction of the data. We plan to develop another on-line employer reporting form (Form BA-9, Report of Separation Allowance or Severance Pay) and the contact official form (G-117a). When implemented, these will add four more services to the system. Replacing these paper-based processes continues to improve customer service by accelerating initial annuity processing, and enhances stewardship of the trust funds by securing and protecting personally identifiable information.

Improper Payments Information Act (IPIA)

- **Improper Payment Related Initiatives** To improve the accuracy of our benefit payments, we are pursuing the following initiatives:

  - development of an enhanced automated retirement payment system to replace the current legacy system that processes retirement applications, planned for calendar year 2012,
  - development of an interface between systems to ensure accurate use of military service in the calculation of benefits, tentatively scheduled for completion in calendar year 2012,

- work on the expansion of a Medicare premium collection database to include Part B premium withholding history is expected to begin in fiscal year 2013,
- development of an interface between ORCS (Overpayment Recovery Correspondence System) and payment programs to insure that the most current data is retrieved and used in the development of cases involving overpayment recovery. Current plans are to complete this initiative by the end of fiscal year 2012,
- continued development of SPEED (System Processing Excess Earnings Data), a multi-phase automation initiative designed to process annuity adjustments resulting from excess earnings and work deductions on a timely basis. We are currently working on SPEED Version 6.1 which we expect to complete by the end of calendar year 2012.
- development in fiscal year 2012 of enhanced electronic data processing (EDP) policing to monitor earnings information and reduce manual handlings of records.

See the IPIA reporting details for further discussion of these automation initiatives.

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 legal program, information services, administrative, and financial operations, the RRB has divided these operations functionally into 44 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 2012, responsible officials performed in-depth reviews of 6 assessable units, assessed all 44, and certified 40.

In fiscal year 2011, the OIG identified Budgetary Reporting as a material weakness. In fiscal year 2012 the OIG has determined that there is still a material weakness in Budgetary Reporting. The agency has developed three new controls for budgetary reporting.

During the fiscal year 2011 evaluation of the agency's information security pursuant to the provisions of the Federal Information Security Management Act (FISMA), the OIG identified a new significant deficiency regarding Information Technology Security – Configuration Management. FISMA significant deficiencies are reported as material weaknesses for the financial statement audit. In fiscal year 2012 the OIG has determined that there is still a material weakness in Information Technology Security – Configuration Management. The agency is implementing the MAVE project to upgrade all current applications residing on

Windows 2000 servers. This project will allow the agency to remove the Windows 2000 servers after implementation.

In fiscal year 2012, the OIG has determined that there is still an Information Technology Security – Risk Management Framework material weakness in the security authorization (previously C&A) and continuous monitoring review process that includes complete, accurate, and trustworthy documentation. Their inspection determined that the activities conducted by the RRB for the authorization and continuous monitoring process do not fully comply with existing policy, procedures, guidance, and standards. The agency is addressing these concerns and the Chief Information Security Officer has been tasked to develop training to ensure that RRB staff involved in the authorization and continuous monitoring process can perform this process adequately and meet the requirements set forth by the OIG.

The agency is committed to resolving these reported weaknesses and will closely monitor progress during fiscal year 2013.

Management Assurances

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

1. In accordance with OMB 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 (FMFIA) §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 FMFIA §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 GPRA and OMB Circular No. A-11.

4. The RRB's Inspector General, in his auditor's report, identifies Information Technology Security – Risk Management Framework, Information Technology Security – Configuration Management, and Budgetary Reporting as material weaknesses.

Description of OIG-Identified Material Weaknesses

1. During fiscal year 2011, the OIG inspected the internal control environment regarding the authorization and continuous monitoring process, which includes risk assessments and testing and evaluation of security controls and is still considered to be a material weakness for Information Technology Security – Risk Management Framework.

   In fiscal year 2012, the RRB continued to strengthen the information security review process but the material weakness still exists and will continue to be reported as such for fiscal year 2012.

2. The OIG also identified Information Technology Security – Configuration Management as a material weakness in fiscal year 2011. Corrective actions are in place but the material weakness still exists and will continue to be reported as such for fiscal year 2012.

3. During fiscal year 2011, the OIG identified Budgetary Reporting as a material weakness. The agency has added additional controls for the budgetary reporting process, but the material weakness still exists and will continue to be reported as such for fiscal year 2012.

Original signed by:

Michael S. Schwartz, Chairman
Walter A. Barrows, Labor Member
Jerome F. Kever, Management Member

Financial Management Systems Strategy

The RRB has continually upgraded its financial system structure to meet evolving standards and requirements. Our strategy is, and has been, to continually upgrade and improve the financial management systems structure. The RRB is committed to an integrated and automated financial management system that focuses on the agency's mission and accountability. Our goals are to (1) achieve compliance with applicable laws, regulations, standards, and requirements; (2) identify requirements for financial systems support; (3) improve and facilitate user access to financial information; (4) reduce redundant data entry, storage, and processing; and (5) improve security, control, and disaster recovery capability for information processed and stored on mainframe, local area network, and personal computer systems.

The financial management system of the RRB is considered a major application for certification and accreditation purposes. Other major applications include the financial interchange and the payment of benefits under the RUIA and RRA.

In the current financial management system area, core financial management functions are centralized in a mainframe-based system (the Federal Financial System (FFS)) which continues to be under a maintenance contract between the RRB and CGI. FFS met the Core Financial System Requirements that were established by the former Joint Financial Management Improvement Program. The last major upgrade to the system by the contractor was in 1999 to make the system year 2000 compliant. Since then, the RRB has relied on its own administrative and information technology (IT) staff to ensure that the RRB's core financial system remains able to meet current and future requirements.

Following the KPMG LLP assessment of the RRB's core financial management system (FFS) in 2010, the agency completed an OMB Exhibit 300 (Capital Asset Plan and Business Case Summary) for submission with its fiscal year 2013 budget request that secured the Development/Modernization Enhancement (DME) funding required for migration. In addition, fiscal year 2011 funds were used to retain contractual services for pre-migration activities that were completed in fiscal year 2012 and resulted in the award of a contract to CGI Federal, Inc. for the implementation, migration and hosting of the Financial Management Integrated System (FMIS). The award, which followed a full and open competition, was based on a comprehensive technical evaluation by a panel representing major stakeholders in the RRB's financial management system combined with the offeror's cost proposal to reach the best value for the agency. The RRB's current financial management system, FFS, will be migrated to CGI's proprietary software platform – Momentum Financials. Momentum Financials represents the next generation of financial management software after FFS. The migration of the RRB's financial management system will close performance gaps with Federal Systems Integration Office (FSIO) requirements, eliminate the future risk of maintaining a legacy system in-house and comply with OMB initiatives on cloud-first computing and Financial Management Line of Business (FMLOB) guidance for migration planning.

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, 2012, under our intermediate employment assumption. 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 2012-2086, 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 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 2012-2022. The results indicate that, except for short-term cash flow problems under the pessimistic assumption, the Railroad Unemployment Insurance (RUI) Account will be solvent during the 11-year projection period.

Social Insurance: Key Measures

Balance Sheet: The Balance Sheet displayed on page 58 presents our assets, liabilities, and net position. Total assets for fiscal year 2012 are $30.1 billion, a 6.6% increase over last year. Of the total assets, $23.6 billion relates to funds held by the National Railroad Retirement Investment Trust (NRRIT). The net asset value of funds held by the NRRIT increased from fiscal year 2011 by 6.8%. Our investments total $1.6 billion and we invest those funds not needed to pay current expenses or benefits in interest bearing Treasury securities. A chart of investment balances held at Treasury can be found on page 19. Total liabilities for fiscal year 2012 are $4.9 billion. Liabilities decreased in fiscal year 2012 principally because of a decrease of borrowing from Treasury. Also, benefits due decreased by $7.5 million. By statute, benefits due in September are not paid until October.

Statement of Net Cost: The Statement of Net Cost displayed on page 59 presents the annual cost of operating our two major programs: railroad retirement and railroad unemployment insurance. In fiscal year 2012, our net cost of operations was $11.7 billion, an increase over last year of $336.0 million, or 3.0%. A chart for the net cost of operations for fiscal years 2012 and 2011 can be found on page 15.

Statement of Changes in Net Position: The Statement of Changes in Net Position displayed on page 60 reflects the changes that occurred within cumulative results of operations and unexpended appropriations. Total net position for 2012 is $25.1 billion. The statement shows an increase in the net position of the agency of $2.1 billion attributable to the change in cumulative results of operations. Total financing sources for 2012 are $13.8 billion. A chart for financing sources for fiscal years 2012 and 2011 can be found on page 17.

Statement of Social Insurance: Federal accounting standards require the presentation of a Statement of Social Insurance as a basic financial statement. The Statement of Social Insurance presents estimates of the present value of the income to be received from or on behalf of current and future participants of the Railroad Retirement program, the present value of the cost of providing scheduled benefits to those same individuals, and the difference between the income and cost. The Statement of Social Insurance covers a period of 75 years in the future, and the information and disclosures presented are deemed essential to the fair presentation of this statement.

The open group as of the valuation date includes current participants who have attained retirement age under the Railroad Retirement program, current participants who have not yet attained retirement age, and those expected to become participants, or new entrants. The closed group as of the valuation date includes only current participants: (1) those who have not yet retired but are active workers paying payroll taxes, (2) those who have retired and are receiving benefits, and (3) those who are not currently working but have sufficient service to be eligible for future benefits. The closed group measure represents a reasonably good estimate of the extent to which benefits of the closed group are funded by members of the closed group. The open group measure is inherently more sensitive to assumptions about the distant future than the closed group measure. The open group measure gives a more complete assessment of the long-term financial stability of the program because it includes all those who are projected to be participants in the program over the given projection period, whether paying payroll taxes or receiving benefits.

The net present value (NPV) of future expenditures less future revenue (net expenditures) for all participants over the next 75 years (open group) decreased from $25.2 billion as of December 31, 2010 to $22.7 billion as of December 31, 2011, a net change in the open group measure of ($2.5) billion.

As can be seen on the Statement of Changes in Social Insurance Amounts, the largest change in the open group measure, $2.2 billion, is due to changes in economic data and assumptions. Both ultimate and select assumptions for COLA, wage increase rate, and investment return were updated in 2012, as described in the footnotes to the Statement of Changes. Between December 31, 2010 and December 31, 2011, the fund balance decreased by about $2.1 billion. The change in the valuation period (from 2011-2085 to 2012-2086) had a lesser effect, resulting in a change of about $0.1 billion in the open group measure. There were changes in demographic assumptions, as described in the Notes to the Statement of Changes, as well as updates to demographic data, but these had a relatively small effect, resulting in a change of about $0.3 billion. This year there were no changes in law, policy, or methodology and programmatic data.

TABLE OF KEY MEASURES

Dollars in ***MILLIONS***	FY 2012	FY 2011	Increase / $	(Decrease) %
Total Financing Sources	$13,755.4	$ 9,631.1	4,124.3	42.82
Less: Net Cost	11,657.7	11,321.8	336.0	2.97
Net Change of Cumulative Results of Operations	2,097.7	($1,690.7)	3,788.3	224.07
NET				
Assets	$30,054.9	$28,201.2	1,853.7	6.57
Liabilities	4,923.3	5,165.5	(242.2)	(4.69)
Net Position (Assets minus Liabilities)	25,131.6	$23,035.7	2,095.9	9.10

Dollars in ***BILLIONS***	1/1/2012	1/1/2011	Increase / $	(Decrease) %
SOCIAL				
Social Insurance Net Expenditures (Open Group)	$22.7	$25.2	($2.5)	(9.9%)

1 Source: Consolidated Statement of Net Cost and Statement of Changes in Net Position.

2 Source: Consolidated Balance Sheet.

3 Source: Statement of Social Insurance (SOSI). Social insurance amounts cover calendar year timeframes January 1 through December 31. Amounts equal estimated present value of projected revenues and expenditures for scheduled benefits over the next 75 years. The Statement of Social Insurance shows future revenue less future expenditures while the Key Measure above shows future expenditures less future revenue. This change in presentation is done to eliminate any ambiguity in the interpretation of percentage changes in negative amounts.

American Recovery and Reinvestment Act of 2009

Under the ARRA, the RRB administered two major benefit programs. These are:

- Economic Recovery Payments (ERP). This program, authorized by Section 2201 of the ARRA, provided for one-time payments of $250 to eligible adult beneficiaries under the RRA. The RRB paid $128,718,500 to 514,874 individuals in late May 2009. Additional people were paid through six quarterly catch-up runs scheduled through the end of the program on December 31, 2010. The catch-up runs resulted in an additional $1,405,500 paid to an additional 5,622 individuals.

  In accordance with guidance from OMB, we conducted a risk assessment of this program to ensure that funds are being awarded and distributed as authorized by law and that risks of waste, fraud and abuse are mitigated through reasonable and effective management controls.

  The results of the risk assessment indicated that the risks associated with the ERP program were low. This was primarily due to the following factors:

  - we were able to use many previously existing, tested and reliable systems to assist in making these payments;
  - we had experienced staff in place who were familiar with claims adjudication;
  - the benefit to be paid was a standard, fixed amount for all beneficiaries; and
  - we were working with other agencies that also had experienced staff and existing systems in place to assist with the overall program.

- Extended Unemployment Benefits. This program, authorized by Section 2006 of the ARRA, provided for up to 13 weeks of additional extended unemployment benefits to rail employees who had already exhausted their unemployment benefits under the RUIA. An appropriation of $20 million was made available to fund this program. The RRB began making payments and mailing claims for these special extended unemployment benefits on June 30, 2009. As of May 2011, claims and payments of unemployment benefits under ARRA have ended and the RRB had paid out over $11 million.

  Because the Extended Unemployment Benefits program is directly related to the regular unemployment insurance program, it is assessed as part of our normal quality assurance process for the RUIA program.

For more detailed information on the RRB's ARRA programs, see http://www.rrb.gov/recovery/default.asp.

Worker, Homeownership and Business Assistance Act (WHBAA) of 2009

In November 2009, the President signed the WHBAA which extended the previous ARRA provisions. WHBAA provided for the payment of extended unemployment benefits to anyone who claimed unemployment benefits during the period July 1, 2008, through June 30, 2010, thus increasing the pool of eligible recipients. WHBAA allowed for the same number of days of extended benefits (65 days) and also included an additional appropriation of $175 million. The RRB began making payments under WHBAA on November 6, 2009, and has paid approximately $20.2 million of these extended benefits through December 16, 2010. The latest date that a WHBAA extended benefit period could begin was December 31, 2010.

Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010

In December 2010, President Obama signed the Tax Relief, Unemployment Insurance Reauthorization and Job Creation Act of 2010 ("the Tax Relief Act") which extended the previous WHBAA provisions. The Tax Relief Act provided for the payment of up to 65 days of additional extended unemployment benefits to anyone who claimed unemployment benefits during the period July 1, 2010 through June 30, 2011. These benefits were paid from the above mentioned WHBAA appropriation of $175 million. It also sustained the voluntary tax withholding rate for unemployment claims at 10% and reduced the Tier 1 tax rate (during calendar year 2011 only) for sickness benefits by 2 percentage points.

The RRB began making payments under this Act on December 17, 2010, and paid approximately $10 million of these extended benefits through February 21, 2012. The latest date that an extended benefit period could begin under the Tax Relief Act is December 31, 2011.

Middle Class Tax Relief and Job Creation Act of 2012

In February 2012, President Obama signed the Middle Class Tax Relief and Job Creation Act of 2012 which further extended the WHBAA provisions by providing for the payment of additional extended unemployment benefits to anyone who claimed through June 30, 2012. The benefits will be paid from the remaining WHBAA appropriation of $175 million. It also sustains the 2 percentage point reduction of the Tier 1 tax rate during calendar year 2012 for sickness benefits.

The RRB began making payments under this Act on February 22, 2012, and has paid approximately $3.1 million of these extended benefits through May 30, 2012. The latest date that an extended benefit period may begin under the Middle Class Tax Relief and Job Creation Act is December 31, 2012.

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 USC 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 for fiscal year 2012 from the RRB's Annual Performance Plan. 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 plan 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.

Automation, e-Government and Customer Service Initiatives

The RRB is continuing with long-term plans to implement significant automation initiatives and other improvements. These changes have enabled the agency to operate with reduced resources in recent years and continue to streamline our 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.

Phase 3 of the Employer Reporting System (ERS), which was completed in fiscal year 2011, implemented an Internet-based version of Forms BA-3, Annual Report of Service and Compensation, and BA-11, Report of Gross Earnings. In fiscal year 2012, we continued to work on Phase 4 to automate access to the Forms ID-40 series Railroad Unemployment Insurance Act (RUIA) contribution notices; the ID-6 series tax notices; and the Form G-88a.2, which transmits annuity eligibility information. This will result in three additional on-line services to rail employers when the work is completed.

Work continued on SPEED (System Processing Excess Earnings Data), an automation initiative designed to process post-entitlement annuity adjustments in both retirement and survivor cases that result from excess earnings and work deductions. SPEED 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. SPEED Phases 1 through 5 are currently in production. Phase 6 is divided into two parts: Retirement Processing and Survivor Processing, to be worked simultaneously. Phase 6 Retirement is expected to initiate or adjust regular and/or **L**ast **P**re-retirement Non-Railroad **E**mployer (LPE) work deductions when an estimated work report is entered. Phase 6 Survivor is expected to download survivor current-year earnings estimates from the survivor payments system, create an estimate report, suspend the annuity (if necessary), calculate withholding, establish a reinstatement call-up and release a notification letter to the annuitant. Current plans are to complete the next phase of the survivor processing by the end of calendar year 2012. The next phase of the retirement processing is expected to be competed in calendar year 2013.

Work continued during fiscal year 2012 on an enhanced automated retirement payment system which will replace the current legacy system that processes retirement applications. The enhanced process will improve the accuracy and efficiency of retirement initial claims, as it will automatically interface with the Social Security Administration's benefit payment system to provide real-time offset data. The new system will also allow for the payment of such application types as divorced spouse annuitants, which previously could not be processed automatically. As of June 2012, the target for completion of the enhanced system is calendar year 2012. Future enhancements include the development of a system interface to ensure the accurate use of military service in the calculation of benefits.

Work also continued during fiscal year 2012 on an initiative to redesign the Overpayment Recovery and Correspondence System (ORCS) to automatically interface with other on-line and mainframe applications. The redesigned system will completely automate the retrieval of overpayment recovery data for benefits under the Railroad Retirement Act (RRA), RUIA and Medicare. The system will also include a letter writing and calculation summary process.

The Patient Protection and Affordable Care Act of 2010 provides for an Income-Related Monthly Adjustment Amount (IRMAA) to be added to the Medicare Part D premiums paid by high-income beneficiaries beginning in January 2011. This provision allows for the collection of Part D IRMAA through withholding from railroad retirement benefit checks or through direct billing. We implemented Part D IRMAA collection in January 2011 through direct billing, utilizing the existing Program Accounts Receivable system. During fiscal year 2012, work continued on implementing premium withholding from railroad retirement benefit checks.

Treasury regulations now require recipients of Federal nontax payments to receive payment by electronic funds transfer (EFT) effective May 1, 2011. However, the effective date is delayed until March 1, 2013, for individuals who filed claims for Federal benefits before May 1, 2011, and requested check payments when they filed. Individuals who do not choose direct deposit of their payments to an account at a financial institution are enrolled in the Direct Express® Debit Master Card® program, a prepaid card program established pursuant to terms and conditions approved by Treasury. RRB began offering Direct Express® to RRA beneficiaries in March 2011. As of June 1, 2012, there were 1,103 beneficiaries enrolled in the program. Additionally, RRB began offering International Direct Deposit (IDD) in April 2011, to our RRA beneficiaries who reside in foreign countries. As of June 1, 2012, there were 1,283 beneficiaries enrolled in the IDD program. RRB is currently working with Treasury on program changes that will allow child support payments that are withheld from RRB Benefits and paid to State agencies to be made by EFT.

In fiscal year 2012, work began on a project to enhance our Electronic Data Processing (EDP) policing program, which will address the internal handling and automated matching of earnings information received from our data match with the Social Security Administration. The project involves the automation and capture of earnings information stored on the Retirement On-Line Calculations (ROC) system, which is an on-line system for calculating and paying retirement annuities. Earnings information on ROC is currently stored for only three months and then purged. The improved system will extend the retention period and create additional data files for matching against recent activity received via the LPE earnings monitoring process. We will also update the LPE process to capture the latest monthly earnings and average monthly earnings amounts. The information will be used in the EDP process to monitor earnings information, eliminate redundant information, and reduce the number of records referred to the claims adjudication units.

As directed by the Improper Payments and Recovery Improvement Act of 2010, the RRB implemented in May 2012 a new initiative for preventing improper payments. Our annual improper payments analysis indicates that a delay in reporting a beneficiary's death is a major cause of improper payments. To better inform our customers of the requirements for reporting a death and the consequences of a delay in reporting, the RRB implemented the following communication enhancements:

- Established a new prompt on the RRB's toll-free telephone line to provide information on how to report a death and what to do with benefit payments received after the date of death.

- Added detailed instructions to the frequently asked questions section on the agency's website, www.rrb.gov. This additional information includes how to report a death, what to do with payments received after the date of death, and a link to the nearest RRB field office that can assist in death reporting and returning payments.

In December 2011, the RRB conducted an American Customer Satisfaction Index (ACSI) survey, which focused on railroad workers receiving unemployment or sickness benefits. The RRB earned a score of 81, which was 14 points higher than the latest Federal government average (67) and 6 points higher than the previous survey on the same segment done in 2002. In July 2012, we conducted another ACSI survey focusing on initial survivor annuitants. In this survey the RRB earned an overall satisfaction score of 90, which was 23 points higher than the latest Federal government average (67) and the same as the previous survey on the same segment conducted in 2005.

Succession Planning and Training

Like many agencies, the RRB has an aging workforce. About 70 percent of our employees have 20 or more years of service and nearly 35 percent of the current workforce will be eligible for retirement by fiscal year 2013. To prepare for the expected turnover, the agency is placing increased emphasis on strategic management of human capital. Each organization has completed workforce planning documents that identify the current staffing levels, projected attrition and planned hiring in fiscal years 2012 and 2013, subject to available funding. Each executive also completed a gap analysis for his/her organization that identified potential areas of skills and knowledge gaps that will need to be addressed, identified areas where additional training may be necessary or where mentoring may be desirable to prepare employees for more senior positions, and identified areas of new skills that may need to be addressed through outside hires.

Recently, the agency has been able to utilize the re-employment of retirees to allow retirees under the Civil Service Retirement System and the Federal Employees Retirement System to be temporarily rehired without losing entitlement to their retirement annuities under Section 1122(a) of Public Law 111-84, which amended sections 8344 and 8468 of Title 5 of the United States Code. The agency has been able to rehire several annuitants on a temporary basis to assist in areas that have knowledge gaps due to attrition.

The RRB is also devoting more attention and resources to training. The agency-wide Training Council coordinates this activity, recently offering courses in the areas of managerial and supervisory development. We also make use of technology in this area, utilizing our on-line presentation facility, *RRBVision,* which allows employees to view training, including a video component, in an online format. This is particularly useful to employees and managers in the agency's field offices.

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, plans and procedures exist to maintain continuity of operations after a calamity for information systems that support the operations and assets of the RRB. The RRB's Continuity of Operations plan consists of a number of components, including an Occupant Emergency Plan, a Business Continuity Plan, a Crisis Communication Plan, and technically specific plans for mainframe, local area network (LAN), data communications, and desktop recovery. The agency regularly conducts semi-annual off-site disaster recovery exercises. System programmers restore the systems and applications of the agency from back-ups retrieved from an alternate data storage facility. Program libraries are re-created and production databases established. Finally, business analysts verify that the systems recovered correctly.

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 focusing attention on security. We continue to develop new approaches for refreshing the awareness initiative by providing updated and innovative presentations for the agency staff. We have a full training program that combines a security awareness presentation with additional role-based training appropriate to the RRB's information technology environment. Every employee and contractor with computer network access participates in this annual event. Individuals who do not use a computer receive physical security awareness information. In addition to the awareness presentation, computer analysts, software developers and network/system engineers also receive specialized technical education necessary to maintain their skills and enhance proficiency. The formal awareness-training program is supplemented by a weekly Security News feature story, prominently headlined on the Intranet's home page, reminding employees to protect their computers and information throughout the year. Every year, the RRB awareness program has been able to report exemplary levels of participation.

The RRB kicked off its basic security awareness training in March of 2012 using a web based basic awareness program offered by SANS (an industry leader in security training) called "Securing the Human" at www.securingthehuman.org. Employees and contractors were allowed until August 2012 to complete 16 assigned training topics such as how to identify social engineering, how to develop good passwords, and more. Additionally, all employees with increased security responsibilities at the agency were required to view the "Applying the Risk Management Framework to Federal Information Systems" course at csrc.nist.gov.

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. Utilizing the capabilities of a special 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. The RRB has also established an Agency Core Response Group to determine if there is a reasonable expectation that an incident may be a data breach with the potential for identity theft, and notifies the Board members who will make the final decisions regarding breach notification.

The Security Authorization process is integral to the information security programs of Federal agencies. Performing the security authorization process helps provide an understanding of the risks and other factors that could adversely affect the agency's mission for all of the agency information systems. The RRB developed a Security Authorization strategy for fiscal year 2012 that is in line with the National Institute for Standards and Technology (NIST) Risk Management Framework (RMF) strategy. The agency will employ a continuous monitoring strategy that will increase the effectiveness of our current information security program by performing annual risk assessments as well as testing all security controls applicable to the information system.

Integrating security into the System Development Life Cycle (SDLC) in the RRB Information System program is essential. To ensure that all RRB applications are developed securely, standards need to be identified using industry standards identified by security professionals. The RRB plans on drafting a secure RRB SDLC procedure, implementing standards from guidelines such as:

- Microsoft Security Development Lifecycle,
- Open Web Application Security Project (OWASP) Guide to Building Secure Web Applications, and
- The OWASP secure coding practices.

Program Evaluations

Program Evaluation	Results in Fiscal Year 2012
Federal Managers' Financial Integrity Act Reports	See "Systems and Controls" in the "Management's Discussion and Analysis" section.
Twenty-Fifth Actuarial Valuation of the Assets and Liabilities Under the Railroad Retirement Act as of December 31, 2010	The Chief Actuary's report describes the results of three valuations, each valuation differing from the others as to the employment assumption on which it is based. Cash flow problems arise only under the most pessimistic employment assumption. Even under that assumption, the cash flow problems do not occur until the year 2035.
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 2012, addresses the 11 fiscal year period 2012 through 2022. The report indicated that even as maximum benefits are expected to increase 44 percent from 2011 to 2022, experience-based contribution rates are expected to keep the unemployment insurance system solvent. The report did not include any recommendations for financing changes at this time.
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, and published on our website at www.rrb.gov.
Program integrity report	The RRB's program integrity report for fiscal year 2011, released in November 2011, showed that program integrity activities resulted in the establishment of about $21.6 million in recoverables, recovery of $13.5 million, benefit savings of $846 thousand, and referral of 207 cases to the Office of Inspector General.
Quality assurance reviews and special studies	RRA adjudicative and payment accuracy is measured in regular diagnostic reviews conducted by quality assurance staff within the RRB's Program Evaluation and Management Services (PEMS) component. PEMS also evaluates policies and processes through special studies, as needed. PEMS reports 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 was completed in 2008. 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 2012
Performance budget monitoring	Results of performance budget monitoring are shown in the chart of performance objectives on the following pages. Actual performance data are reviewed, validated and certified prior to inclusion in this report. Validation and certification processes are documented as part of the RRB's management control review process.
Computer security and privacy assessment	All of the RRB's general support systems and all major applications are fully certified and accredited in compliance with the Federal Information Security Management Act, Office of Management and Budget directives and National Institute of Standards and Technology guidance.
Electronic government (e-Gov) activities	See pages 41 and 42 of this section.
Improper payment evaluation	See "Improper Payments Information Act (IPIA)" in the "Other Accompanying Information" section.

The next page begins a consolidated presentation of our actual performance in fiscal year 2009 through March 31, 2012 (except as noted), followed by a discussion of our unmet performance goals and objectives for fiscal year 2011. At the time this report was prepared, we had incomplete information on our fiscal year 2012 performance. The discussion of any unmet fiscal year 2012 performance goals and indicators will be presented in next year's report. This performance report was prepared by RRB employees.

Railroad Retirement Board FY 2012 Performance Plan	2009 Actual (At $105.5m)	2010 Actual (At $109.1m)	2011 Actual (At $108.9m)	2012 Planned [1/] (At $108.6m)	2012 Actual [1/] (At $108.6m)
STRATEGIC GOAL I: Provide Excellent Customer Service					
Performance Goal I-A: Pay benefits timely. Goal leader for objectives I-A-1 through I-A-8: Dorothy A. Isherwood, Director of Programs Goal leader for objective I-A-9: Rachel L. Simmons, Director of Hearings and Appeals					
I-A-1. RRB makes a decision to pay or deny a railroad retirement employee or spouse initial annuity application within 35 days of the annuity beginning date, if advanced filed. (Measure: % ≤ 35 days)	94.86%	96.16%	96.0%	95.0%	96.1%
1-A-2. RRB makes a decision to pay or deny a railroad retirement employee or spouse initial annuity application within 60 days of the date the application was filed. (Measure: % ≤ 60 days)	97.0%	96.9%	97.9%	96.8%	98.0%
I-A-3. RRB makes a decision to pay, deny or transfer to SSA an initial annuity application for a railroad retirement survivor not already receiving a benefit within 60 days of the annuity beginning date, or date filed (whichever is later). (Measure: % ≤ 60 days)	94.4%	96.1%	96.3%	94.0%	94.4%

Railroad Retirement Board FY 2012 Performance Plan	2009 Actual (At $105.5m)	2010 Actual (At $109.1m)	2011 Actual (At $108.9m)	2012 Planned [1/] (At $108.6m)	2012 Actual [1/] (At $108.6m)
I-A-4. RRB makes a decision to pay, deny or transfer to SSA an initial annuity application for a railroad retirement survivor already receiving the benefits as a spouse within 30 days of the RRB's receipt of first notice of the employee's death. (Measure: % ≤ 30 days)	95.4%	95.3%	95.8%	95.2%	94.7%
I-A-5. RRB makes a decision to pay or deny a lump sum death benefit within 60 days of the date the application was filed. (Measure: % ≤ 60 days)	97.43%	98.3%	98.3%	98.0%	97.8%
I-A-6. RRB certifies a payment or releases a letter of denial of UI or SI benefits within 10 days of the date RRB receives the claim. (Measure: % ≤ 10 days)	99.80%	99.9%	99.9%	99.8%	99.9%
I-A-7. RRB makes a decision to pay or deny a benefit for a disabled applicant or family member within 100 days of the date the application is filed. (Measure: % ≤ 100 days)	62.5%	68.9%	67.5%	70.0%	74.3%
I-A-8. RRB makes a payment to a disabled applicant within 25 days of the date of decision or earliest payment date, whichever is later. (Measure: % ≤ 25 days)	96.5%	96.2%	96.0%	95.0%	96.8%
I-A-9. Reduce the number of days elapsed between the date the appeal is filed and a decision is rendered. (Measure: average elapsed days)	231 (Estimated) [2/]	252	300	375	316

Railroad Retirement Board FY 2012 Performance Plan	**2009 Actual (At $105.5m)**	**2010 Actual (At $109.1m)**	**2011 Actual (At $108.9m)**	**2012 Planned [1/] (At $108.6m)**	**2012 Actual [1/] (At $108.6m)**
Performance Goal I-B: Provide a range of choices in service delivery methods. Goal leader: Dorothy A. Isherwood, Director of Programs					
I-B-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)	18 services available	18 services available	19 services available	19 services available	19 services available
I-B-2. Enable employers to use the Internet to conduct business with the RRB, in support of the Government Paperwork Elimination Act. (Measures: percentage of employers who use the on-line Employer Reporting System (ERS); number of services available through electronic media) a) Employers using ERS:	77.0%	81.2%	84%	80.0%	84%
b) Internet services:	10 Internet services available	10 Internet services available	17 Internet services available	20 Internet services available	Pending
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 protected, collected, recorded, and reported appropriately. Goal leader: George V. Govan, Chief Financial Officer					

Railroad Retirement Board FY 2012 Performance Plan		2009 Actual (At $105.5m)	2010 Actual (At $109.1m)	2011 Actual (At $108.9m)	2012 Planned [1/] (At $108.6m)	2012 Actual [1/] (At $108.6m)
II-A-1. Debts will be collected through billing, offset, reclamation, referral to outside collection programs, and a variety of other collection efforts. (Measure for fiscal years through 2011: funds collected vs. total debts outstanding. Measure for fiscal years 2012 and following: total overpayments recovered in the fiscal year / total overpayments established in the fiscal year.)		56%	59%	54%	85%	96.6%
Performance Goal II-B: Ensure the accuracy and integrity of benefit programs. Goal leader: Dorothy A. Isherwood, Director of Programs						
II-B-1. Achieve a railroad retirement benefit payment recurring accuracy rate [3/] of at least 99%. (Measure: percent accuracy rate)	a) Initial payments:	99.59%	99.58%	99.79%	99.75%	Not available
	b) Sample post recurring payments:	100%	Deferred [4/]	Deferred [4/]	99.75%	Not available
II-B-2. Achieve a railroad unemployment/sickness insurance benefit payment accuracy rate [3/] of at least 99%. (Measure: percent accuracy rate)	a) Unemployment:	98.93%	100%	100%	99.60%	99.66%
	b) Sickness:	99.70%	99.94%	99.71%	99.85%	100%

Railroad Retirement Board FY 2012 Performance Plan	2009 Actual (At $105.5m)	2010 Actual (At $109.1m)	2011 Actual (At $108.9m)	2012 Planned [1/] (At $108.6m)	2012 Actual [1/] (At $108.6m)
II-B-3. Maintain the level of Railroad Retirement Act (RRA) improper payments below 2.5% of RRA outlays. (Measure: percent of improper RRA payments as reported for the Improper Payments Information Act)			New indicator for fiscal year 2012	0.64%	0.59%
II-B-4. Achieve a return of at least $3.60 for each dollar spent on program integrity activities. (Measure for fiscal years through 2011: recoveries and savings per dollar spent. Measure for fiscal years 2012 and following: recoverables and savings per dollar spent.)	$4.20: $1.00	$5.51: $1.00	$5.46: $1.00	$4.28: $1.00	Not available
Performance Goal II-C: Ensure effectiveness, efficiency, and security of operations. Goal leader: Terri S. Morgan, Chief Information Officer					
II-C-1. Complete modernization of RRB processing systems in accordance with long-range planning goals. (Measure: Meet target dates for the project. Yes/No)	Yes. The project was in the analysis and planning phase and on schedule as anticipated.	Yes. The Medicare database was converted on 9/26/10.	Yes. We expect to finish the RUIA database conversion by 2/29/12.	Yes. The target date for the RUIA conversion is now 2/29/12. We have begun conversion work on the Employment Data Maintenance (EDM) database.	No. The scope of the project was increased. The updated completion date for RUIA is 05/31/13. Conversion work on the EDM database, however, continues to be on target for 12/31/12.

Railroad Retirement Board FY 2012 Performance Plan	**2009 Actual (At $105.5m)**	**2010 Actual (At $109.1m)**	**2011 Actual (At $108.9m)**	**2012 Planned [1/] (At $108.6m)**	**2012 Actual [1/] (At $108.6m)**
Performance Goal II-D: Effectively carry out responsibilities with respect to the National Railroad Retirement Investment Trust. Goal leader: Karl T. Blank, General Counsel					
II-D-1. Timely review information reported by the National Railroad Retirement Investment Trust to carry out RRB's oversight responsibility under section 15(j)(5)(F) of the Railroad Retirement Act. Reports are to be reviewed within 30 days of receipt. (Measure: Yes/No)			New indicator for fiscal year 2012	Yes	Yes

1/ Planned amounts reflect the fiscal year 2012 performance targets shown in the RRB's Congressional Justification of Budget Estimates, released on February 13, 2012. Actual results represent status as of March 31, 2012, unless otherwise noted.

2/ The figure for fiscal year 2009 was stated as an estimate due to problems with the computer program which produced it.

3/ The payment accuracy rate is the percentage of dollars paid correctly as a result of adjudication actions performed.

4/ The quality review of post recurring payments was deferred in fiscal year 2010 because the accuracy rates historically had been very high, and the findings minimal. The return on measuring this area every year had diminished over time. Review was deferred again in fiscal year 2011 to allow staff to complete work on a special quality assurance case review started in fiscal year 2010.

Discussion of Unmet Performance Goals and Indicators for Fiscal Year 2011

INDICATOR	DISCUSSION OF VARIANCE
Performance indicator I-A-7. Make a decision to pay or deny a benefit for a disabled applicant or family member within 100 days of the date the application is filed. (Measure: % ≤ 100 days) Our fiscal year 2011 goal was 70.0%, and the actual was 67.5%.	The lack of clerical staff and extended absences of several claims examiners directly impacted our ability to meet our timeliness goal. The hiring of clerical staff and the monitoring of aging cases will enhance future performance.
Performance indicator I-B-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 fiscal year 2011 goal was 20 services, and the actual was 19 services.	The target of 20 services was not met because the service, Retirement Application Online, could not be done without funding at the request level.
Performance indicator II-A-1. Debts will be collected through billing, offset, reclamation, referral to outside collection programs, and a variety of other collection efforts. (Measure for fiscal year 2011: funds collected vs. total debts outstanding) Our fiscal year 2011 goal was 55%, and the actual was 54%.	Our target goal of 55% was missed by 1% because we had an unusually large increase ($7.5 million) in new receivables caused by claimants receiving benefits while receiving wages in excess of statutory limits. It should be noted that our target goal for this performance indicator was changed in fiscal year 2012 to conform with guidance contained in the Improper Payments Elimination and Recovery Act, which challenges agencies to achieve an annual recapture target of 85%. As of mid-year, we were exceeding our goal.
Performance indicator II-B-2 (b). Achieve a railroad retirement sickness insurance benefit payment accuracy rate of at least 99%. (Measure: percent accuracy rate) Our fiscal year 2011 goal was 99.85%, and the actual was 99.71%.	Our payment accuracy is determined by a sample review. The performance goal was set at an approximate target level, and the deviation of 0.14% was not statistically significant related to our projected accuracy range. There was no effect on overall program or activity performance.

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 2012. 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. We strive 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 continued to provide high quality financial management and financial reporting during fiscal year 2011.

- We received a disclaimer audit opinion on our consolidated financial statements for fiscal year 2012. We continued to prepare unaudited quarterly financial statements and met the accelerated schedule of releasing these statements to OMB.

- We implemented audit recommendations as follows:

  At the beginning of fiscal year 2012, the agency's audit follow-up tracking system reported 187 audit recommendations as being open. During the fiscal year, audit reports containing another 74 recommendations were issued. As a result, the total number of open recommendations during the year was 261. At the same time, final action was completed on 60 audit recommendations and 6 audit recommendations were rejected, resulting in a balance at the end of the fiscal year of 195 open recommendations. Additionally, the status of the OIG-identified material weaknesses and planned corrective action are presented in the Management's Discussion and Analysis' Management Assurances section.

In fiscal year 2010, the RRB contracted for an assessment of our core financial system. In fiscal year 2011, the agency took the next step towards the recommended solution to migrate to a designated shared service provider. The agency, with contractual assistance, completed an OMB Exhibit 300 (Capital Asset Plan and Business Case Summary) for submission with its fiscal year 2013 budget request to secure the Development/Modernization Enhancement (DME) funding required for migration. In addition, fiscal year 2011 funds were used to retain contractual services for pre-migration activities and resulted in the award of a contract in fiscal year 2012 to CGI Federal, Inc. for implementation, migration, and hosting of the Financial Management Integrated System (FMIS).

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:

George V. Govan
Chief Financial Officer

RAILROAD RETIREMENT BOARD
CONSOLIDATED BALANCE SHEET
AS OF SEPTEMBER 30, 2012 AND 2011
(in dollars)

	FY 2012	FY 2011
ASSETS		
Intragovernmental:		
Fund Balance with Treasury (Note 3)	$239,740,171	$229,770,395
Investments (Note 4)	1,632,804,952	1,494,224,312
Accounts Receivable (Note 6)	4,497,442,952	4,286,650,547
Total Intragovernmental	**6,369,988,075**	**6,010,645,254**
NRRIT Net Assets (Note 5)	23,641,360,813	22,146,037,531
Accounts Receivable, Net (Note 6)	41,426,279	42,865,125
Inventory and Related Property, Net (Note 7)	91,118	101,450
General Property, Plant and Equipment, Net (Note 8)	1,992,640	1,498,480
Other	50,289	52,366
TOTAL ASSETS	**$30,054,909,214**	**$28,201,200,206**
LIABILITIES (Note 9)		
Intragovernmental:		
Accounts Payable	$504,725,619	$513,563,639
Debt	3,445,603,447	3,536,280,762
Other	1,122,091	1,033,794
Total Intragovernmental	**3,951,451,157**	**4,050,878,195**
Accounts Payable	415,677	376,347
Benefits Due and Payable	950,926,348	958,400,783
Other	20,481,001	155,829,406
TOTAL LIABILITIES	**4,923,274,183**	**5,165,484,731**
COMMITMENTS AND CONTINGENCIES (Note 10)		
NET POSITION		
Unexpended Appropriations - Earmarked Funds (Note 17)	24,889,493	21,045,822
Unexpended Appropriations - Other Funds	165,734,487	171,324,503
Cumulative Results of Operations - Earmarked Funds (Note 17)	24,940,353,973	22,842,686,914
Cumulative Results of Operations - Other Funds	657,078	658,236
TOTAL NET POSITION	**25,131,635,031**	**23,035,715,475**
TOTAL LIABILITIES AND NET POSITION	**$30,054,909,214**	**$28,201,200,206**

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, 2012 AND 2011
(in dollars)

	FY 2012	FY 2011
Program Costs:		
Railroad Retirement Program		
Gross Costs (Note 11)	$11,569,123,333	$11,216,536,778
Less: Earned Revenue	13,208,883	11,092,913
Net Program Costs	11,555,914,450	11,205,443,865
Railroad Unemployment and Sickness Insurance Program		
Gross Costs (Note 11)	122,457,724	138,253,996
Less: Earned Revenue	20,611,899	21,885,559
Net Program Costs	101,845,825	116,368,437
Costs Not Assigned to Programs	0	0
Less: Earned Revenues Not Attributed to Programs	28,071	30,628
NET COST OF OPERATIONS	**$11,657,732,204**	**$11,321,781,674**

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, 2012
(in dollars)

FY 2012

	Earmarked Funds	All Other Funds	Eliminations	Consolidated Total
Cumulative Results of Operations:				
Beginning Balances	$22,842,686,914	$658,236		$22,843,345,150
Budgetary Financing Sources:				
Appropriations Used	771,007,122	55,491,483		826,498,605
Non-Exchange Revenue	5,785,741,383	118,149	(771,007,122)	5,014,852,410
Transfers in from NRRIT (Note 12)	2,026,000,000			2,026,000,000
Transfers in/out Without Reimbursement	4,248,582,000		(500,000)	4,248,082,000
Other Financing Sources (Non-Exchange):				
Imputed Financing	9,851,806			9,851,806
Change in NRRIT Assets	1,495,323,282			1,495,323,282
Other Gains	134,790,002			134,790,002
Total Financing Sources	14,471,295,595	55,609,632	(771,507,122)	13,755,398,105
Net Cost Of Operations	12,373,628,536	55,610,790	(771,507,122)	11,657,732,204
Net Change	**2,097,667,059**	**(1,158)**		**2,097,665,901**
Cumulative Results of Operations	**24,940,353,973**	**657,078**		**24,941,011,051**
Unexpended Appropriations:				
Beginning Balances	21,045,822	171,324,503		192,370,325
Budgetary Financing Sources:				
Appropriations Received	774,911,855	51,500,000		826,411,855
Other Adjustments	(61,062)	(1,598,533)		(1,659,595)
Appropriations Used	(771,007,122)	(55,491,483)		(826,498,605)
Total Budgetary Financing Sources	3,843,671	(5,590,016)		(1,746,345)
Total Unexpended Appropriations	**24,889,493**	**165,734,487**		**190,623,980**
Net Position	**$24,965,243,466**	**$166,391,565**		**$25,131,635,031**

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, 2011
(in dollars)

FY 2011

	Earmarked Funds	All Other Funds	Eliminations	Consolidated Total
Cumulative Results of Operations:				
Beginning Balances	$24,533,250,962	$741,253		$24,533,992,215
Budgetary Financing Sources:				
Appropriations Used	698,086,236	62,464,682		760,550,918
Non-Exchange Revenue	5,607,764,685	51,592	$ (699,116,647)	4,908,699,630
Transfers in from NRRIT (Note 12)	1,744,000,000			1,744,000,000
Transfers in/out Without Reimbursement	3,885,574,000			3,885,574,000
Other Financing Sources (Non-Exchange):				
Imputed Financing	11,246,803			11,246,803
Change in NRRIT Assets	(1,641,046,742)			(1,641,046,742)
Loss Contingency	(37,890,000)			(37,890,000)
Total Financing Sources	10,267,734,982	62,516,274	(699,116,647)	9,631,134,609
Net Cost Of Operations	11,958,299,030	62,599,291	(699,116,647)	11,321,781,674
Net Change	**(1,690,564,048)**	**(83,017)**		**(1,690,647,065)**
Cumulative Results of Operations	**22,842,686,914**	**658,236**		**22,843,345,150**
Unexpended Appropriations:				
Beginning Balances	546,185	177,907,363		178,453,548
Budgetary Financing Sources:				
Appropriations Received	718,650,000	57,000,000		775,650,000
Other Adjustments	(64,127)	(1,118,178)		(1,182,305)
Appropriations Used	(698,086,236)	(62,464,682)		(760,550,918)
Total Budgetary Financing Sources	20,499,637	(6,582,860)		13,916,777
Total Unexpended Appropriations	**21,045,822**	**171,324,503**		**192,370,325**
Net Position	**$22,863,732,736**	**$171,982,739**		**$23,035,715,475**

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, 2012 AND 2011
(in dollars)

	FY 2012	FY 2011
Budgetary Resources		
Unobligated balance brought forward, October 1	$190,388,577	$183,033,165
Adjustment to unobligated balance brought forward, October 1 (Note 23)	4,133,792	0
Unobligated balance brought forward, October 1, as adjusted	194,522,369	183,033,165
Recoveries of prior year unpaid obligations	1,660,283	859,130
Other changes in unobligated balance	(1,574,543)	(1,068,305)
Unobligated balance from prior year budget authority, net	194,608,109	182,823,990
Appropriations (discretionary and mandatory)	8,653,710,195	8,199,808,248
Borrowing authority (discretionary and mandatory) (Note 19 and Note 20)	3,768,500,000	3,820,427,882
Spending authority from offsetting collections (discretionary and	152,990,225	152,066,940
Total budgetary resources	**$12,769,808,529**	**$12,355,127,060**
Status of Budgetary Resources		
Obligations incurred (Note 18)	$12,576,701,992	$12,164,738,483
Unobligated balance, end of year:		
Apportioned	155,436,231	149,132,322
Unapportioned	37,670,306	41,256,255
Total unobligated balance, end of year	193,106,537	190,388,577
Total budgetary resources	**$12,769,808,529**	**$12,355,127,060**
Change in Obligated Balance		
Unpaid obligations, brought forward, October 1	$986,741,632	$975,707,985
Uncollected customer payments from Federal sources, brought forward, October 1 (-)	(252,119)	(253,812)
Obligated balance, start of year (net) before adjustments	986,489,513	975,454,173
Adjustment to obligated balance, start of year (Note 23)	(119,256)	0
Obligated balance, start of year (net), as adjusted	986,370,257	975,454,173
Obligations incurred	12,576,701,992	12,164,738,483
Outlays (gross) (-)	(12,586,272,185)	(12,152,845,706)
Change in uncollected customer payments from Federal sources	30,790	1,693
Recoveries of prior year unpaid obligations (-)	(1,660,283)	(859,130)
Obligated balance, end of year		
Unpaid obligations, end of year (gross) (Note 13)	975,391,901	986,741,632
Uncollected customer payments from Federal sources, end of year	(221,330)	(252,119)
Obligated balance, end of year (net)	**$975,170,571**	**$986,489,513**
Budget Authority and Outlays, Net (Note 14)		
Budget authority, gross (discretionary and mandatory)	$12,575,200,420	$12,172,303,071
Actual offsetting collections (discretionary and mandatory) (-)	(153,021,015)	(152,068,633)
Change in uncollected customer payments from Federal sources (discretionary and mandatory)	30,790	(1,693)
Budget authority, net(discretionary and mandatory)	**$12,422,210,195**	**$12,020,232,745**
Outlays, gross (discretionary and mandatory)	$12,586,272,185	$12,152,845,706
Actual offsetting collections (discretionary and mandatory) (-)	(153,021,015)	(152,068,633)
Outlays, net (discretionary and mandatory)	12,433,251,170	12,000,777,073
Distributed offsetting receipts (-)	(5,014,643,867)	(4,584,640,447)
Agency outlays, net (discretionary and mandatory)	**$7,418,607,303**	**$7,416,136,626**

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

Railroad Retirement Board

Statement of Social Insurance (Note 15, Note 16)

Actuarial Surplus or (Deficiency)

75-year Projection as of January 1, 2012

(Present values in billions of dollars)

	1/1/2012	1/1/2011	1/1/2010	1/1/2009	1/1/2008
Current participants who have attained retirement age:					
Contributions and earmarked taxes	$79.0	$73.1	$70.3	$69.0	$66.2
Expenditures for scheduled future benefits	118.8	109.3	104.8	102.1	97.0
Present Value of future revenue less future expenditures	(39.8)	(36.2)	(34.6)	(33.1)	(30.8)
Current participants not yet having attained retirement age:					
Contributions and earmarked taxes	81.3	71.7	72.9	75.9	69.6
Expenditures for scheduled future benefits	94.7	86.2	88.0	91.2	88.4
Present Value of future revenue less future expenditures	(13.4)	(14.6)	(15.0)	(15.3)	(18.8)
Net present value of future revenue less future expenditures for current participants (closed group measure)	(53.1)	(50.8)	(49.6)	(48.5)	(49.6)
Plus: Treasury securities and assets held by the program	24.2	26.3	24.9	21.8	33.2
Closed group surplus/(unfunded obligation)	($29.0)	($24.6)	($24.7)	($26.6)	($16.4)
Future participants:					
Contributions and earmarked taxes	$64.0	$53.2	$53.2	$57.2	$43.3
Expenditures for scheduled future benefits	33.5	27.6	27.4	29.5	26.0
Present Value of future revenue less future expenditures	30.5	25.6	25.8	27.7	17.3
Net present value of future revenue less future expenditures for current and future participants (open group measure)	(22.7)	(25.2)	(23.8)	(20.7)	(32.3)
Plus: Treasury securities and assets held by the program	24.2	26.3	24.9	21.8	33.2
Open group surplus/(unfunded obligation)	$1.5	$1.0	$1.0	$1.1	$0.9

Detail may not add to totals due to rounding.
The accompanying notes are an integral part of these financial statements.

Railroad Retirement Board

Statement of Changes in Social Insurance Amounts

Open Group Measure

For the Two-Year Period Ended December 31, 2011

(in billions of dollars)

Net Present Value beginning of year 2010	$ (23.8)
Reasons for changes in the NPV during the year:	
Changes in valuation period	0.2
Changes in demographic data and	0
Changes in economic data and	(1.6)
Changes in law or	NA
Changes in methodology and programmatic	NA
Changes in Medicare healthcare and other healthcare	NA
Other changes	NA
Net change during 2010	(1.4)
Net Present Value end of year 2010/beginning of year 2011	$ (25.2)
Reasons for changes in the NPV during the year:	
Changes in valuation period	0.1
Changes in demographic data and	0.3
Changes in economic data and	2.2
Changes in law or	NA
Changes in methodology and programmatic	NA
Changes in Medicare healthcare and other healthcare	NA
Other changes	NA
Net change during 2011	2.5
Net Present Value end of year 2011	$ (22.7)

Detail may not add to totals due to rounding.
The accompanying notes are an integral part of these financial statements

NOTES:

1. Changes in demographic data and assumptions -
   Between 1/1/2010 and 1/1/2011:
   Demographic assumptions were not changed between the Statement of Social Insurance as of 1/1/2010 and the Statement of Social insurance as of 1/1/2011. Changes in demographic data had a minimal effect (less than 0.1 billion) on the open group measure between 1/1/2010 and 1/1/2011.

   Between 1/1/2011 and 1/1/2012:
   Some demographic assumptions, such as the Annuitants Mortality Table, the Disabled Mortality Table for Annuitants with Disability Freeze, the Disabled Mortality Table for Annuitants without Disability Freeze, the Active Service Mortality Table, the Spouse Total Termination Table, the probability of a spouse, the rates of immediate age retirement, the rates of immediate disability retirement, the rates of eligibility for disability freeze, the rates of final withdrawal, service months, salary scales, and family characteristics, were changed between the Statement of Social Insurance as of 1/1/2011 and the Statement of Social Insurance as of 1/1/2012. These changes and the changes in demographic data had a relatively small effect (about 0.3 billion) on the open group measure between 1/1/2011 and 1/1/2012.

2. Changes in economic data and assumptions –
   Between 1/1/2010 and 1/1/2011:
   Ultimate economic assumptions were not changed between the Statement of Social Insurance as of 1/1/2010 and the Statement of Social Insurance as of 1/1/2011, but the select economic assumptions were. The actual COLA of 0.0% was used for 2011 in place of the 0.5% COLA assumed for 2011 in the prior year's report. A wage increase rate of 2.4% was used for 2010 rather than the assumed 4% wage increase rate used for 2010 in the prior year's report. Also, the actual 2010 investment return of 14.4% was higher than the assumed 7.5% investment rate used for 2010 in the prior year's report. The fund balance increased from about $24.9 billion on December 31, 2009 to about $26.3 billion on December 31, 2010. Economic data and assumptions had the greatest effect on the open group measure, resulting in a change of about ($1.6) billion from 1/1/2010 to 1/1/2011.

   Between 1/1/2011 and 1/1/2012:
   Both select and ultimate economic assumptions were changed between 1/1/2011 and 1/1/2012. The actual COLA of 3.6% was used for 2012 in place of the 3.0% COLA assumed for 2012 in the prior year's report. Assumed COLAs of 2.0% in 2013, 2.4% in 2014, and 2.8% in 2015 and thereafter were used rather than the 3.0% COLA assumed in the prior year's report. A wage increase rate of 3.5% was used for 2011 rather than the assumed 4% wage increase rate used for 2011 in the prior year's report. A wage increase rate of 3.8% was used for 2012 and thereafter rather than the 4% wage increase rate used in the prior year's report. Also, the actual 2011 investment return of (1.6%) was lower than the assumed 7.5% investment rate used for 2011 in the prior year's report. An assumed investment return of 7% was used for 2012 and all subsequent years rather than the 7.5% rate used in the prior year's report. Economic data and assumptions had the greatest affect on the open group measure, resulting in a change of about $2.2 billion from 1/1/2011 to 1/1/2012.

3. There were no changes in law or policy.

4. There were no changes in methodology and programmatic data.

5. Medicare healthcare and other healthcare assumptions are not applicable to the Railroad Retirement program.

<u>Notes to the Financial Statements</u>: Fiscal Years Ended September 30, 2012 and 2011

1. <u>Summary of Significant Accounting Policies</u>

<u>A. Basis of Presentation</u>
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 2012 are to be submitted to the President, the Congress, and the Director of OMB by November 15, 2012. 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, Social Insurance, and Changes in Social Insurance Amounts. 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.

The RRB changed its accounting policy with regard to the accrual of Medicare insurance premiums paid by annuitants. This change affected the Balance Sheet, Statement of Net Cost, Changes in Net Position, and Statement of Budgetary Resources.

<u>B. Reporting Entity</u>
The railroad retirement and the railroad unemployment and sickness insurance programs are financed through the following accounts:

- Railroad Retirement (RR) Account, 60X8011, 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 60X8011 is considered an earmarked fund. Our authority to use these collections is 45 United States Code (USC) §231f(c)(1).

- Social Security Equivalent Benefit (SSEB) Account, 60X8010, funds the portion of railroad retirement benefits equivalent to a social security benefit from various income sources related to these benefits. Account 60X8010 is considered an earmarked fund. Our authority to use these collections is 45 USC §231n-1(c)(1).

- Dual Benefits Payments (DBP) Account, 60 0111, funds the phase-out costs of certain vested dual benefits from general appropriations. Account 60 0111 is considered a general fund. Our authority to use these collections is 45 USC §231n(d).

- Federal Payments to the Railroad Retirement Accounts, 60X0113, was established by OMB, not by legislation, and is used as a conduit for transferring certain income taxes on benefits; receiving credit for the interest portion of uncashed check transfers; and funds provided by the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010. Account 60X0113 is considered an earmarked fund. This account has no basis in law.

- Limitation on Administration Account, 60 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 60 8237 is considered an earmarked fund. Our authority to use these collections is 45 USC §231n-1(c) and 45 USC §231n(h).

- Limitation on Administration Account, 60X8237, Public Law 107-217, Sec. 121(d)(3), authorizes Federal agencies to retain indefinitely as "no-year money" any unexpended portion of the fiscal year appropriated funds, up to the estimated cost of the operation and maintenance (O&M) of the delegated properties. Funds carried over may only be expended for O&M and repair of the facility. In addition, this fund contains the Limitation on Administration funds for extended unemployment benefits provided under Public Laws 111-92 and 112-96. Account 60X8237 is considered an earmarked fund.

- Railroad Unemployment Insurance Trust Fund, Benefit Payments, 60X8051.001, funds railroad unemployment and sickness insurance benefits from contributions by railroad employers. Account 60X8051.001 is considered an earmarked fund. Our authority to use these collections is 45 USC §360.

- Railroad Unemployment Insurance Trust Fund, Administrative Expenses, 60X8051.002, was established to pay salaries and expenses to administer the program. Account 60X8051.002 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 (60 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, 60 8018, was established to fund the administration of the Inspector General's Office. Account 60 8018 is considered an earmarked fund. Our authority to use these collections is Public Law 112-74.

- Railroad Unemployment Insurance Extended Benefit Payments – Recovery Act, 60X0114: Funds provided under Public Law 111-5, American Recovery and Reinvestment Act of 2009.

- Economic Recovery Payments – Recovery Act, 60 0115: Funds provided under Public Law 111-5, American Recovery and Reinvestment Act of 2009.

- Administrative Expenses – Recovery Act, 60X0116: Funds provided under Public Law 111-5, American Recovery and Reinvestment Act of 2009.

- Administrative Expenses – Recovery Act, 60 0116: Funds provided under Public Law 111-5, American Recovery and Reinvestment Act of 2009.

- Limitation on Administration – Recovery Act, 60X8262: Funds provided under Public Law 111-5, American Recovery and Reinvestment Act of 2009.

- Limitation on Administration – Recovery Act, 60 8262: Funds provided under Public Law 111-5, American Recovery and Reinvestment Act of 2009.

- Railroad Unemployment Insurance Extended Benefit Payments, for Limitation Account – 60X0118: Funds provided under Public Law 111-92, Worker, Homeownership, and Business Assistance Act of 2009, and Public Law 112-96, Middle Class Tax Relief and Job Creation Act of 2012.

- Railroad Unemployment Insurance Extended Benefit Payments – 60X0117: Funds provided under Public Law 111-92, Worker, Homeownership, and Business Assistance Act of 2009.

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 Department of the Treasury (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.

F. Earmarked Funds
SFFAS No. 27, Identifying and Reporting Earmarked Funds, requires separate presentation and disclosure of earmarked funds balances in the financial statements. Earmarked funds are financed by specifically identified revenues, often supplemented by other financing sources, which remain available over time. Earmarked funds meet the following criteria:

- A statute committing the Federal Government to use specifically-identified revenues and other financing sources only for designated activities, benefits, or purposes;
- Explicit authority for the earmarked fund to retain revenues and other financing sources not used in the current period for future use to finance the designated activities, benefits, or purposes; and
- A requirement to account for and report on the receipt, use, and retention of the revenues and other financing sources that distinguishes the earmarked funds from the Government's general revenues.

Refer to Note 17, Earmarked Funds, for additional information.

G. Application of Critical Accounting Estimates
The financial statements are based on the selection of accounting policies and the application of significant accounting estimates, some of which require management to make significant assumptions. Further, the estimates are based on current conditions that may change in the future. Actual results could differ materially from the estimated amounts. The financial statements include information to assist in understanding the effect of changes in assumptions to the related information.

2. Related Parties

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

- 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 2012 and 2011, net payroll taxes transferred to the RRB by Treasury were $4.8 billion and $4.7 billion, respectively.

  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 2012 and 2011, investments, including accrued interest, totaled $1.6 billion and $1.5 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 2012 due to the financial interchange advances during fiscal year 2011 included principal of $3.8 billion and interest of $130 million. The amount paid by the RRB to Treasury in fiscal year 2011 due to the financial interchange advances during fiscal year 2010 included principal of $3.8 billion and interest of $134 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 2012, the RRB trust funds realized $4.7 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 were $1.4 billion for fiscal year 2012 and $1.4 billion for fiscal year 2011.

- The Centers for Medicare & Medicaid Services (CMS) participates in the annual financial interchange in the same manner as described for SSA. The RRB transferred $511 million and $477 million to CMS in fiscal years 2012 and 2011, 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 2012 and 2011 were $13 million and $10.9 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 amount of $3.4 million for fiscal year 2011 and $3.2 million for fiscal year 2012.

- The Department of Labor (DOL) invests Railroad Unemployment Insurance Act (RUIA) contributions. Accounts receivable with the DOL amounted to $171 million and $55 million for fiscal years 2012 and 2011, respectively.

- The National Railroad Retirement Investment Trust (NRRIT) transfers funds to the RRB for payment of railroad retirement benefits. During fiscal years 2012 and 2011, the NRRIT transferred $2,026 million and $1,744 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:

	2012	2011
A. Fund Balances:		
(1) Trust Funds	$ 50,897,754	$ 38,858,214
(2) General Funds	188,842,417	190,912,181
(3) Other Fund Types	0	0
Total	$239,740,171	$229,770,395
B. Status of Fund Balance with Treasury (FBWT)		
(1) Unobligated Balance		
(a) Available	$155,436,232	$149,132,322
(b) Unavailable	37,670,305	41,256,255
(2) Obligated Balance not yet Disbursed	46,633,634	39,381,818
(3) Non-Budgetary FBWT	0	0
Total	$239,740,171	$229,770,395

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

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

	Amounts for Balance Sheet Reporting		
	Cost	Interest Receivable	Investments Net
Intragovernmental Securities:			
Non Marketable Par Value 2012	$1,630,413,000	$2,391,952	$1,632,804,952
Non Marketable Par Value 2011	$1,491,827,000	$2,397,312	$1,494,224,312

The balance on September 30, 2012, consisted of investments in 3.000 percent par value specials (with market value equal to face value) maturing on October 1, 2012. The balance on September 30, 2011, consisted of investments in 3.000 percent par value specials (with market value equal to face value) maturing on October 3, 2011. 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 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 Federal 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 Federal Government finances all other expenditures.

5. NRRIT Net Assets

The balance sheet amounts represent the net asset value of NRRIT assets, at fair value, as of September 30, 2012 and 2011. These figures were provided to the RRB by the NRRIT for the fiscal years ended September 30, 2012 and 2011.

Readers of these financial statements should be aware that the Railroad Retirement and Survivors' Improvement Act of 2001 authorizes the NRRIT to invest railroad retirement assets in a diversified investment portfolio in the same manner as those of private sector retirement plans.

6. Accounts Receivable

- *Intragovernmental*

Accounts receivable - Intragovernmental at September 30 consisted of:

	2012	2011
Financial Interchange – Principal	$4,194,100,000	$4,084,400,000
Financial Interchange – Interest	132,100,000	142,600,000
Department of Labor	171,073,952	55,081,547
CMS – Refund of Medicare Part B Premiums	169,000	169,000
Social Security Administration - OASI/DI Benefits (Old Age and Survivors Insurance/Disability Insurance)	0	0
Treasury General Fund – HIRE Act (Tier I)	0	4,400,000
Total	$4,497,442,952	$4,286,650,547

- *Accounts Receivable, Net*

Accounts receivable, net at September 30 consisted of:

	2012	2011
Accounts receivable - Benefit overpayments	$52,594,649	$54,925,842
Accounts receivable – Past due RUI contributions and taxes	604,264	592,478
Accounts receivable – Interest, penalty & administrative costs	496,717	409,477
Total	$53,695,630	$55,927,797
Less: Allowances for doubtful accounts	12,269,351	13,062,672
Net Total	$41,426,279	$42,865,125

The RRB's September 30, 2012, accounts receivable balance (after deducting currently not collectible (CNC) receivables but prior to the application of the allowance for doubtful accounts) of $53,695,630 includes $42,898,885 (80%) in railroad retirement program receivables and $10,796,745 (20%) in railroad unemployment insurance program receivables. The total allowance for doubtful accounts is $12,269,351. This includes $9,334,797 (76%) for the railroad retirement program and $2,934,554 (24%) 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, 2012		
Classes of Fixed Assets	Service Lives	Cost	Accumulated Depreciation	Net Book Value
Structures, facilities and leasehold improvements	15 years	$ 2,723,731	$ 2,683,430	$ 40,301
ADP software	5 years	19,666,348	19,657,571	8,777
Equipment	5-10 years	6,337,831	5,861,594	476,237
Internal-Use Software in Development		1,467,325	0	1,467,325
		$30,195,235	$28,202,595	$1,992,640

		At September 30, 2011		
Classes of Fixed Assets	Service Lives	Cost	Accumulated Depreciation	Net Book Value
Structures, facilities and leasehold improvements	15 years	$ 2,723,731	$ 2,673,319	$ 50,412
ADP software	5 years	19,615,921	19,602,513	13,408
Equipment	5-10 years	4,809,548	4,623,124	186,424
Internal-Use Software in Development		1,248,235	0	1,248,235
		$28,397,435	$26,898,956	$1,498,479

9. Liabilities

Liabilities at September 30 consisted of:

	2012	2011
Intragovernmental:		
Other – Unfunded Federal Employees' Compensation Act (FECA) Liability	$ 755,924	$ 670,677
Public:		
Other – Accrued Unfunded Leave	$ 6,933,483	$ 7,186,594
Total Liabilities Not Covered by Budgetary Resources	$ 7,689,407	$ 7,857,271
Total Liabilities Covered by Budgetary Resources	4,915,584,776	5,157,627,460
Total Liabilities	$4,923,274,183	$5,165,484,731

• *Debt*

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

	2012	2011
Beginning Balance, Principal	$3,484,000,000	$3,480,500,000
New Borrowing	3,734,200,000	3,815,800,000
Repayments	(3,816,400,000)	(3,812,300,000)
Ending Balance, Principal	3,401,800,000	3,484,000,000
Accrued Interest	43,803,447	52,280,762
Total	$3,445,603,447	$3,536,280,762

• *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 $12,798,969 and $12,410,998, at September 30, 2012 and 2011, 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.

A special workload of approximately 11,509 benefit cases, estimated at $5.7 million, has been identified and will be processed over the next few years.

• *Other Liabilities*

Other liabilities at September 30 consisted of:

	Non-Current	Current	2012 Total
Intragovernmental:			
Employer Contributions & Payroll Taxes Payable		$ 366,167	$ 366,167
Unfunded FECA Liability		755,924	755,924
Total Intragovernmental		1,122,091	1,122,091
Accrued Unfunded Liabilities		6,933,483	6,933,483
Accrued Payroll		1,498,378	1,498,378
Accrued RRB Contributions – Thrift Savings Plan		43,519	43,519
Withholdings Payable		74,428	74,428
Contingent Liability (see Note 10 for details)	0	0	0
Capital Lease Liability		0	0
Other		11,931,193	11,931,193
Total Other Liabilities	0	$21,603,092	$21,603,092

	Non-Current	Current	2011 Total
Intragovernmental:			
Employer Contributions & Payroll Taxes Payable	$ 0	$ 363,117	$ 363,117
Unfunded FECA Liability	0	670,677	670,677
Total Intragovernmental	0	1,033,794	1,033,794
Accrued Unfunded Liabilities	0	7,186,594	7,186,594
Accrued Payroll	0	1,540,178	1,540,178
Accrued RRB Contributions – Thrift Savings Plan	0	41,757	41,757
Withholdings Payable	0	82,523	82,523
Contingent Liability (see Note 10 for details)	105,000,000	38,790,000	143,790,000
Capital Lease Liability	0	0	0
Other	0	3,188,354	3,188,354
Total Other Liabilities	$105,000,000	$51,863,200	$156,863,200

10. Commitments and Contingencies

The RRB is involved in the following actions:

- A railroad has filed a suit claiming a refund of Railroad Retirement Tax Act or FICA taxes paid on moving expenses and interest on supplemental annuity taxes. The RRB's legal counsel has determined that one of the cases was decided and awarded $9 million which consists of $1.2 million for the employer's share, $0.7 million for the employees' share and the remaining $7.1 million for the supplemental annuity interest. The amount is no longer contingent; therefore, the amount yet to be paid was reclassified to Other Liabilities. Another railroad filed suit requesting a refund of approximately $20 million (not including interest) representing the employer's share of taxes previously paid with respect to moving and relocation expenses and with respect to stock purchased by current and former employees under non-qualified stock options. The likelihood of loss of taxes paid on moving expense allowances and employee stock options is reasonably possible. Also see Subsequent Events footnote 22.

- Several Class I railroads have filed claims for refund of taxes with the Internal Revenue Service (IRS). Of the $2.7 billion in claims, the RRB's legal counsel has determined that it is reasonably possible that the RR and SSEB Accounts are contingently liable for an estimated amount of $1.3 billion, and the remaining $1.4 billion is remote. 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.

- As of September 30, 2012, the RRB had contractual arrangements which may result in future financial obligations of $39.6 million.

- There is no contingent liability in fiscal year 2012 for military service credits.

11. Intragovernmental Costs and Exchange Revenue

	2012	2011
Railroad Retirement (RR) Act Program		
Intragovernmental Costs	$ 153,968,800	$ 165,144,079
Public Costs	11,415,154,533	11,051,392,699
Total RR Act Program Costs	$11,569,123,333	$11,216,536,778
Intragovernmental Earned Revenue	$ 13,208,883	$ 11,092,913
Public Earned Revenue	0	0
Total RR Act Program Earned Revenue	$ 13,208,883	$ 11,092,913
Railroad Unemployment Insurance (RUI) Act Program		
Intragovernmental Costs	$ 4,954,846	$ 4,743,469
Public Costs	117,502,878	133,510,527
Total RUI Act Program Costs	$ 122,457,724	$ 138,253,996
Intragovernmental Earned Revenue	$ 0	$ 0
Public Earned Revenue	20,611,899	21,885,559
Total RUI Act Program Earned Revenue	$ 20,611,899	$ 21,885,559

These totals do not include $28,071 and $30,628 of earned revenues not attributable to either program for fiscal years 2012 and 2011, 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 $2,026 million and $1,744 million from the NRRIT during fiscal years 2012 and 2011, respectively. These funds were received into the RR Account. Transfers were to fund the payment of benefits.

13. Undelivered Orders at the End of the Period

	2012	2011
Undelivered Orders	$12,038,658	$8,201,017

14. Explanation of 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 for the year ended September 30, 2011, to amounts included in the Budget of the United States Government. A reconciliation was not performed for the period ended September 30, 2012, since the RRB's Performance and Accountability Report is published in November 2012, and OMB's MAX system will not have actual budget data available until mid-December 2012.

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

		Fiscal Year 2011 (in millions)			
		Budgetary Resources	Obligations Incurred	Distributed Offsetting Receipts	Net Outlays
1.	Combined Statement of Budgetary Resources – September 30, 2011	12,355	12,165	4,585	7,416
2.	Expenditure Transfers from Trust Funds	(118)			
3.	Unobligated Balance, Brought Forward October 1, 2010	(183)			
4.	Recoveries of Prior Year Unpaid Obligations	(1)			
5.	Sickness Insurance Benefit Recoveries	(22)			
6.	Administrative Expense Reimbursement	(12)			
7.	Cancelled Authority	1			
8.	Interfund Transfers: Federal Payment Obligations – Income Taxes Collected on Benefits (0113)	(698)			
9.	Intrafund Transfers: Receipts from the Old-Age and Survivors Insurance (OASI) Trust Fund	(4,110)			
10.	Intrafund Transfers: Receipts from the Disability Insurance (DI) Trust Fund	(465)			
	Financial Interchange				
11.	Accrued Receipts from the OASI and DI Trust Funds			191	(191)
12.	Accrued Transfers to the Federal Hospital Insurance Trust Fund			498	(498)
	NRRIT				
13.	NRRIT Obligations / Outlays	1,817	1,817		1,817
14.	Intrafund Transfers: NRRIT Transfer to RRA	(1,744)		1,744	(1,744)
15.	Proprietary Receipts: NRRIT – Gains and Losses	371		(371)	371
16.	Proprietary Receipts: NRRIT – Interest and Dividends	(512)		512	(512)
17.	Rounding			1	(1)
18.	Budget of the United States Government FY 2011 Actuals	6,679	13,982	7,160	6,658

15. Social Insurance

- Surplus/(unfunded obligation) represents combined values for the RR Account, SSEB Account, and NRRIT.

- Estimated future revenue includes tier 1 taxes, tier 2 taxes, income taxes on benefits, and financial interchange income, where financial interchange income consists of financial interchange transfers plus financial interchange advances from general revenues less repayment of financial interchange advances from general revenues.

- Estimated future expenditures include benefit and administrative costs.

- Detail may not add to totals due to rounding. Employee and beneficiary status are determined as of 1/1/2011, whereas present values are as of 1/1/2012.

Treasury Securities and Assets Held by the Program

Higher Treasury securities and assets result in lower tax rates and consequently lower future tax income whereas lower Treasury securities and assets result in higher rates and income.

16. Significant Assumptions

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 7.0 percent investment return, a 2.8 percent annual increase in the cost of living, and a 3.8 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 Twenty-Fifth Actuarial Valuation. Under employment assumption II, starting with an average 2011 employment of 230,000, (1) railroad passenger employment is assumed to remain level at 45,000, and (2) the employment base, excluding passenger employment, is assumed to decline at a constant annual rate of 2.0 percent for 25 years, at a reducing rate over the next 25 years, and remain level thereafter.

Actuarial assumptions are those published in the Technical Supplement to the "Twenty-Fifth Actuarial Valuation of the Assets and Liabilities Under the Railroad Retirement Acts as of December 31, 2010." This may be found on the RRB's website, www.rrb.gov.

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

Table S-1.	2010 RRB Annuitants Mortality Table
Table S-2.	2010 RRB Disabled Mortality Table for Annuitants with Disability Freeze
Table S-3.	2010 RRB Disabled Mortality Table for Annuitants without Disability Freeze
Table S-4.	2006 RRB Active Service Mortality Table
Table S-5.	2010 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

Balance Sheet as of September 30, 2012	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
Assets									
Fund Balance with Treasury	$12,873,699	$16,696,962	$3,970,793	$24,889,493	$15,167,549	$269,402	$1,262,271		$75,130,169
Investments	928,271,039	704,533,913							1,632,804,952
NRRIT Net Invested Assets		23,641,360,813							23,641,360,813
Taxes and Interest Receivable	4,326,200,000	33,733,088	166,004,879		200,000	11,149,701		(200,000)	4,537,087,668
Other Assets					1,971,179		162,868		2,134,047
Total Assets	5,267,344,738	24,396,324,776	169,975,672	24,889,493	17,338,728	11,419,103	1,425,139	(200,000)	29,888,517,649
Liabilities Due and Payable	4,468,784,224	425,144,523	7,476,379		431,152	28,288	6,525	(200,000)	4,901,671,091
Other Liabilities		11,931,193			8,951,308		720,591		21,603,092
Total Liabilities	4,468,784,224	437,075,716	7,476,379		9,382,460	28,288	727,116	(200,000)	4,923,274,183
Unexpended Appropriations				24,889,493					24,889,493
Cumulative Results of Operations	798,560,514	23,959,249,060	162,499,293		7,956,268	11,390,815	698,023		24,940,353,973
Total Liabilities and Net Position	$5,267,344,738	$24,396,324,776	$169,975,672	$24,889,493	$17,338,728	$11,419,103	$1,425,139	($200,000)	$29,888,517,649
Statement of Net Cost for the Period Ended September 30, 2012									
Gross Program Costs	$6,754,175,281	$4,649,972,473	$97,215,590	$771,007,122	$125,470,056		$10,061,867	($771,430,776)	$11,636,471,613
Less Earned Revenues			20,611,899		12,230,988		1,402,895	(425,000)	33,820,782
Net Program Costs	6,754,175,281	4,649,972,473	76,603,691	771,007,122	113,239,068		8,658,972	(771,005,776)	11,602,650,831
Costs Not Attributable to Program Costs									
Less Earned Revenues Not Attributable to Program Costs					$ 28,071				28,071
Net Cost of Operations	$6,754,175,281	$4,649,972,473	$76,603,691	$771,007,122	$113,210,997		$8,658,972	($771,005,776)	$11,602,622,760
Statement of Changes in Net Position for the Period Ended September 30, 2012									
Net Position Beginning of Period	$319,948,490	$22,466,647,474	$40,274,485	$21,045,822	$3,347,267	$11,700,076	$769,122		$22,863,732,736
Appropriations Received				774,911,855					774,911,855
Expended Appropriations				771,007,122					771,007,122
Other Adjustments				(61,062)					(61,062)
Appropriations Used				(771,007,122)					(771,007,122)
Taxes and Non-Exchange Revenue	2,899,565,099	2,672,098,716	188,614,995			25,462,563		(771,005,776)	5,014,735,597
Other Financing Sources	4,333,222,206	(50,847,939)	10,213,504		117,819,998	(25,771,824)	8,587,873		4,393,223,818
Transfers In From NRRIT		2,026,000,000							2,026,000,000
Change in NRRIT Assets		1,495,323,282							1,495,323,282
Net Cost of Operations	(6,754,175,281)	(4,649,972,473)	(76,603,691)	(771,007,122)	(113,210,997)		(8,658,972)	771,005,776	(11,602,622,760)
Change in Net Position	478,612,024	1,492,601,586	122,224,808	3,843,671	4,609,001	(309,261)	(71,099)		2,101,510,730
Net Position End of Period	$798,560,514	$23,959,249,060	$162,499,293	$24,889,493	$7,956,268	$11,390,815	$698,023		$24,965,243,466

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, 2011									
Assets									
Fund Balance with Treasury	$12,343,119	$10,221,234	$3,355,602	$21,045,822	$10,843,825	$257,614	$1,178,582		59,245,798
Investments	796,827,566	697,396,746							1,494,224,312
NRRIT Net Invested Assets		22,146,037,531							22,146,037,531
Taxes and Interest Receivable	4,231,400,000	35,320,360	49,812,785		683,878	11,525,380	75,000	(758,878)	4,328,058,525
Other Assets					1,429,061		223,235		1,652,296
Total Assets	**5,040,570,685**	**22,888,975,871**	**53,168,387**	**21,045,822**	**12,956,764**	**11,782,994**	**1,476,817**	**(758,878)**	**28,029,218,462**
Liabilities Due and Payable	4,585,222,195	410,750,046	12,893,902		422,449	82,918	9,897	(758,878)	5,008,622,529
Other Liabilities	135,400,000	11,578,351			9,187,048		697,798		156,863,197
Total Liabilities	**4,720,622,195**	**422,328,397**	**12,893,902**		**9,609,497**	**82,918**	**707,695**	**(758,878)**	**5,165,485,726**
Unexpended Appropriations				21,045,822					21,045,822
Cumulative Results of Operations	319,948,490	22,466,647,474	40,274,485		3,347,267	11,700,076	769,122		22,842,686,914
Total Liabilities and Net Position	**$5,040,570,685**	**$22,888,975,871**	**$53,168,387**	**$21,045,822**	**$12,956,764**	**$11,782,994**	**$1,476,817**	**($758,878)**	**28,029,218,462**
Statement of Net Cost for the Period Ended September 30, 2011									
Gross Program Costs	$6,517,069,440	$4,523,014,465	$114,311,968	$698,086,236	$129,123,565		$10,127,455	($699,540,256)	11,292,192,873
Less Earned Revenues			21,885,559		10,199,716		1,318,197	(425,000)	32,978,472
Net Program Costs	6,517,069,440	4,523,014,465	92,426,409	698,086,236	118,923,849		8,809,258	(699,115,256)	11,259,214,401
Costs Not Attributable to Program Costs									
Less Earned Revenues Not Attributable to Program Costs					30,620		8		30,628
Net Cost of Operations	**$6,517,069,440**	**$4,523,014,465**	**$92,426,409**	**$698,086,236**	**$118,893,229**		**$8,809,250**	**($699,115,256)**	**11,259,183,773**
Statement of Changes in Net Position for the Period Ended September 30, 2011									
Net Position Beginning of Period	**$564,943,363**	**$23,981,000,165**	**($25,394,052)**	**$546,185**	**$3,617,351**	**$8,249,301**	**$834,834**		**24,533,797,147**
Appropriations Received				718,650,000					718,650,000
Expended Appropriations				698,086,236					698,086,236
Other Adjustments				(64,127)					(64,127)
Appropriations Used				(698,086,236)					(698,086,236)
Taxes and Non-Exchange Revenue	2,706,368,270	2,726,425,076	151,248,872			23,722,467		(699,115,256)	4,908,649,429
Other Financing Sources	3,565,706,297	179,283,440	6,846,074		118,623,145	(20,271,692)	8,743,538		3,858,930,802
Transfers In From NRRIT		1,744,000,000							1,744,000,000
Change in NRRIT Assets		(1,641,046,742)							(1,641,046,742)
Net Cost of Operations	(6,517,069,440)	(4,523,014,465)	(92,426,409)	(698,086,236)	(118,893,229)		(8,809,250)	699,115,256	(11,259,183,773)
Change in Net Position	**(244,994,873)**	**(1,514,352,691)**	**65,668,537**	**20,499,637**	**(270,084)**	**3,450,775**	**(65,712)**		**(1,670,064,411)**
Net Position End of Period	**319,948,490**	**22,466,647,474**	**40,274,485**	**21,045,822**	**3,347,267**	**11,700,076**	**769,122**		**22,863,732,736**

18. <u>Apportionment Categories of Obligations Incurred: Direct vs. Reimbursable Obligations</u>

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 Category B direct obligations are $12,564,445,535 and the reimbursable obligations are $12,256,457. These are reported under Obligations Incurred on the SBR in the amount of $12,576,701,992 which combines the direct and reimbursable obligations.

This disclosure agrees with the aggregate of RRB direct and reimbursable obligations as reported on the RRB's fiscal year 2012 year-end SF-133, *Report on Budget Execution and Budgetary Resources*, and line 2190 in the Statement of Budgetary Resources.

19. <u>Terms of Borrowing Authority Used</u>

The Railroad Retirement Board (RRB), Social Security Administration and Centers for Medicare and Medicaid Services are parties to a financing arrangement described as the "financial interchange".

The financial interchange between the railroad retirement and social security systems is intended to put the Social Security Old-Age, Survivors, and Disability Insurance (OASDI) and Hospital Insurance (HI) trust funds in the same position they would have been had railroad employment been covered under the Social Security and Federal Insurance Contributions Acts.

Financial interchange transfers are made in a lump sum for a whole fiscal year in the June following the close of a fiscal year. The Railroad Retirement Solvency Act of 1983, as amended, provided for monthly advances of the financial interchange from the U.S. Treasury general fund to be repaid when the financial interchange is settled each June. Each advance/loan is equal to an estimate of the transfer the RRB would have received in the preceding month if the financial interchange with social security were on an up-to-date basis, with interest adjustments. The RRB must repay these advances/loans when it receives the transfer from social security against which the money was advanced.

Section 7(c)(4) of the 1974 Railroad Retirement Act (RRA) as amended provides the rules for repayment of the financial interchange advances and references Section 7(c)(3) for the interest rate to be used.

The interest rate on the repayment of the advances is the same as that used in the actual financial interchange determination from the close of the prior fiscal year until the date of the transfer.

20. <u>Available Borrowing Authority, End of the Period</u>

The amount of RRB available borrowing authority at the end of the period associated with financial interchange advances is $3,816,400,000.

21. Legal Arrangements Affecting Use of Unobligated Balances

The portion of RRB trust fund receipts collected in the current fiscal year that exceed the amount needed to pay benefits or other valid obligations remain in the RRB trust funds as unobligated balances. These receipts can become available in the current year if needed for valid obligations. RRB receipts are assets of the trust fund and available for obligation as needed in the future.

22. Subsequent Events

On November 6, 2012, a United States district court issued a final ruling in favor of a railroad which could result in a loss to the trust funds in excess of $22 million, exclusive of interest, for taxes paid on moving expense allowances and employer stock options.

There was an increase of $0.7 billion in NRRIT net assets from the SOSI, January 1, 2012 valuation date and the September 30, 2012 balance sheet date, discussed in Note 15. Other than these two events, no other material events or transactions have occurred subsequent to September 30, 2012, that we are aware of. We have evaluated subsequent events through November 15, 2012, the date the financial statements were released.

23. Adjustment to Unobligated Balance, Brought Forward, October 1, and Obligated Balance, Start of the Year

In fiscal year 2012, there is a net adjustment to unobligated balance brought forward of $4,133,792 and an adjustment to obligated balances of $119,256. These adjustments relate to a subsequent review of fiscal year 2011 unobligated and obligated balances.

Note 24 Reconciliation of Net Cost of Operations to Budget
For the Years Ended September 30, 2012 and 2011
(in dollars)

	2012	2011
Resources Used to Finance Activities:		
Budgetary Resources Obligated		
Obligations Incurred	$12,576,701,992	$12,164,738,483
Less: Spending Authority from Offsetting Collections and Recoveries	(154,650,508)	(152,926,070)
Obligations Net of Offsetting Collections and Recoveries	12,422,051,484	12,011,812,413
Less: Offsetting Receipts	(5,014,643,867)	(4,584,640,447)
Net Obligations	**7,407,407,617**	**7,427,171,966**
Other Resources		
Imputed Financing from Costs Absorbed by Others	9,851,806	11,246,803
Other	1,630,113,284	(1,678,936,742)
Net Other Resources Used to Finance Activities	**1,639,965,090**	**(1,667,689,939)**
Total Resources Used to Finance Activities	**9,047,372,707**	**5,759,482,027**
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	(3,036,494)	(592,642)
Resources That Fund Expenses Recognized in Prior Periods	0	(877,543)
Budgetary Offsetting Collections & Receipts That Do Not Affect Net Cost of Operations	(3,633,371)	(788,135)
Resources That Finance the Acquisition of Assets	(1,497,424,767)	1,640,604,217
Other Resources or Adjustments to Net Obligated Resources That Do Not Affect Net Cost of Operations	4,248,082,000	3,885,574,000
Total Resources Used to Finance Items Not Part of the Net Cost of Operations	**2,743,987,368**	**5,523,919,897**
Total Resources Used to Finance the Net Cost of Operations	**11,791,360,075**	**11,283,401,924**
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	(253,111)	(85,699)
Other	(134,586,696)	38,354,804
Total Components of Net Cost of Operations That Will Require or Generate Resources in Future Periods	**(134,839,807)**	**38,269,105**
Components Not Requiring or Generating Resources:		
Depreciation and Amortization	1,211,936	110,645
Total Components of Net Cost of Operations That Will Not Require or Generate Resources	**1,211,936**	**110,645**
Total Components of Net Cost of Operations That Will Not Require or Generate Resources in the Current Period	**(133,627,871)**	**38,379,750**
Net Cost of Operations	**$11,657,732,204**	**$11,321,781,674**

Required Supplementary Information

Social Insurance

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 $84.2 billion, or 37.5% of the estimated future income of $224.3 billion.

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, partitioned surviving spouses, partitioned surviving divorced spouses, divorced widow(er)s, 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 five 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, 2012. The figures in the table are based on the Twenty-Fifth Actuarial Valuation extended through calendar year 2086. The present values in the table are based on estimates of income and expenditures through the year 2086. 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 Twenty-Fifth Actuarial Valuation. Under employment assumption II, starting with an average 2011 employment of 230,000, (1) railroad passenger employment is assumed to remain level at 45,000, and (2) the employment base, excluding passenger employment, is assumed to decline at a constant annual rate of 2.0 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, investment income, and financial interchange transfers.
- Income excluding interest[a]: income, as defined above, excluding the investment 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.

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

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

The Statement of Social Insurance and the required supplementary information are based on actuarial and economic assumptions used in the Twenty-Fifth Actuarial Valuation extended through calendar year 2086, 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;

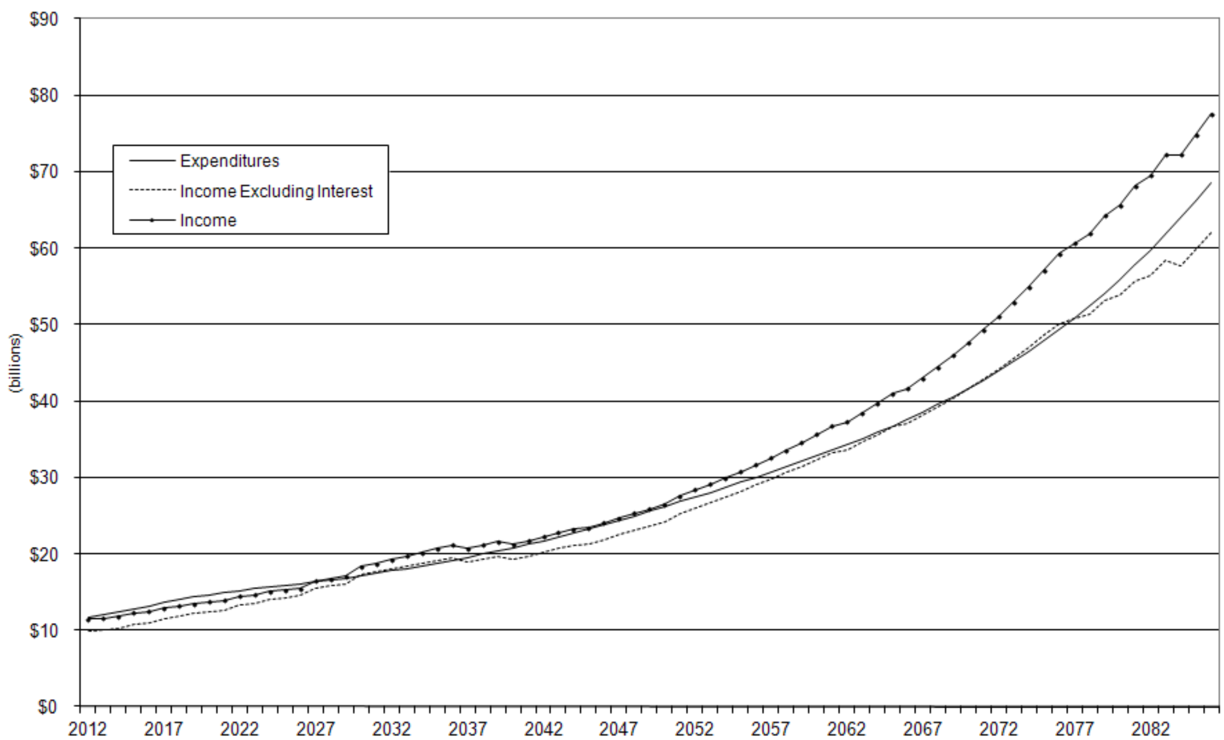
(2) estimated annual income excluding interest and expenditures in nominal dollars and as a percentage of taxable payroll;

(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.

Chart 1: Estimated Income and Expenditures

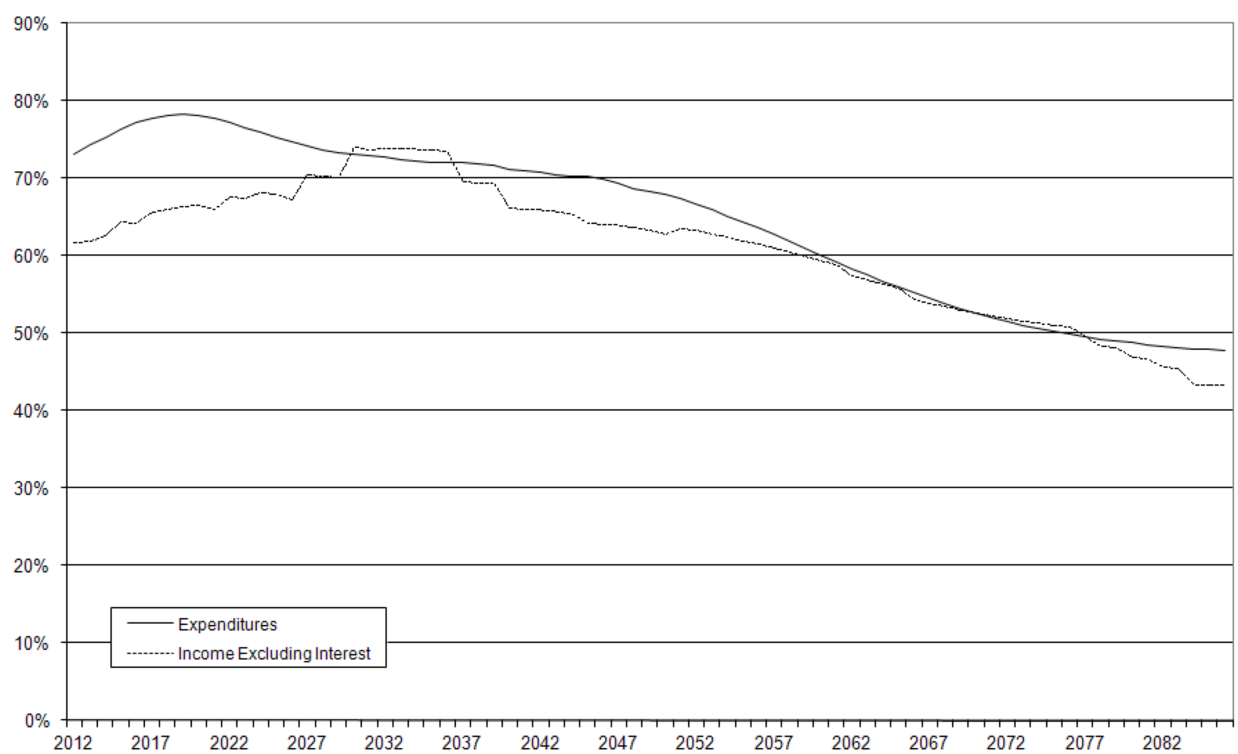


Cashflow Projections – Chart 1 shows actuarial estimates of railroad retirement annual income, income excluding interest, and expenditures for 2012-2086 in nominal dollars. The estimates are for the open-group population, which includes all persons projected to participate in the railroad retirement 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 exceed annual income through 2026. By 2027, income is greater than expenditures. This remains true throughout the remainder of the projection period. Without investment income, however, annual expenditures are generally greater than annual income although this is not true in 2030 through 2036 and in 2070 through 2076. 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.

Percentage of Taxable Payroll – Chart 2 shows estimated annual income excluding interest and expenditures for the railroad retirement program expressed as percentages of taxable payroll. Expenditures as a percentage of payroll increase from 2012 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, 2012, and are based on estimates of income and expenditures during the projection period 2012-2086.

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 2011 is equal to 230,000. 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 45,000, and (2) the employment base, excluding passenger employment, will decline at a constant annual rate (0.5 percent for assumption I and 2.0 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 3.5 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 employment assumptions I and II, no cashflow problems occur throughout the entire period. Under employment assumption III, the combined balance of the RR Account, the NRRIT, and the SSEB Account becomes negative in 2035 and remains so through the rest of the 75-year 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, 2012-2086
(in billions)

Employment Assumption	I	II	III
Present Value	$2.0	$1.5	$(1.6)
Average Tier 2 tax	17.3%	19.9%	22.2%

[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

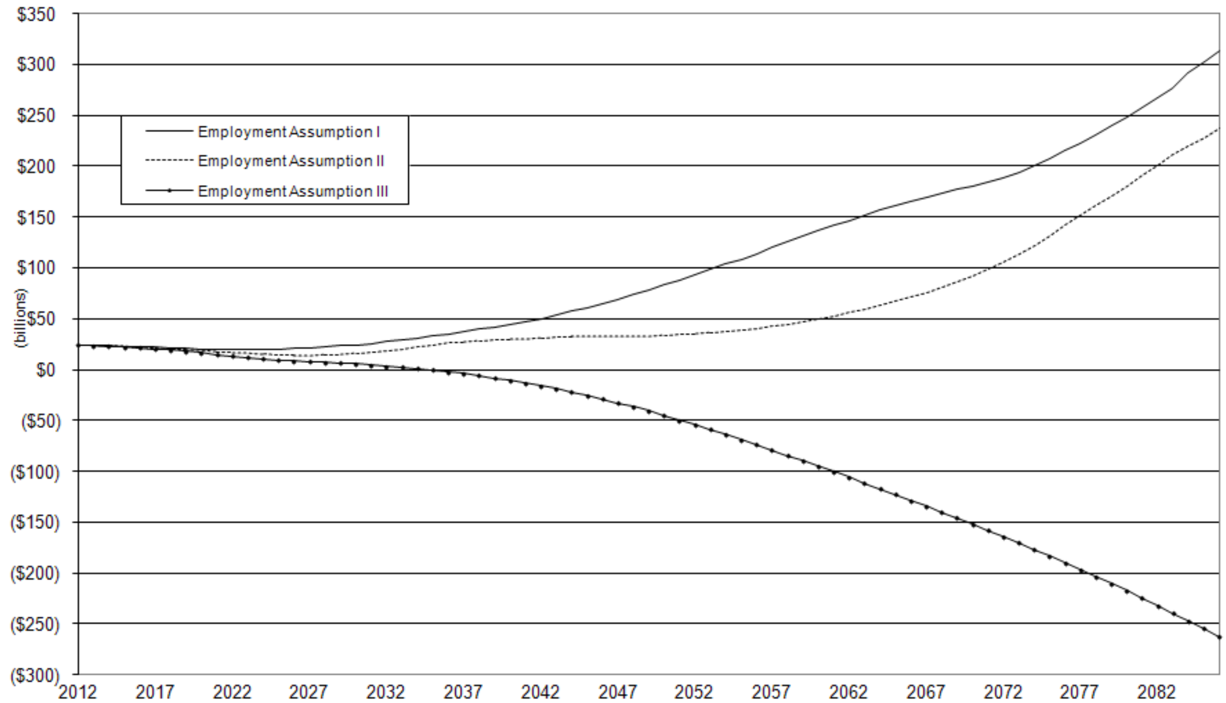
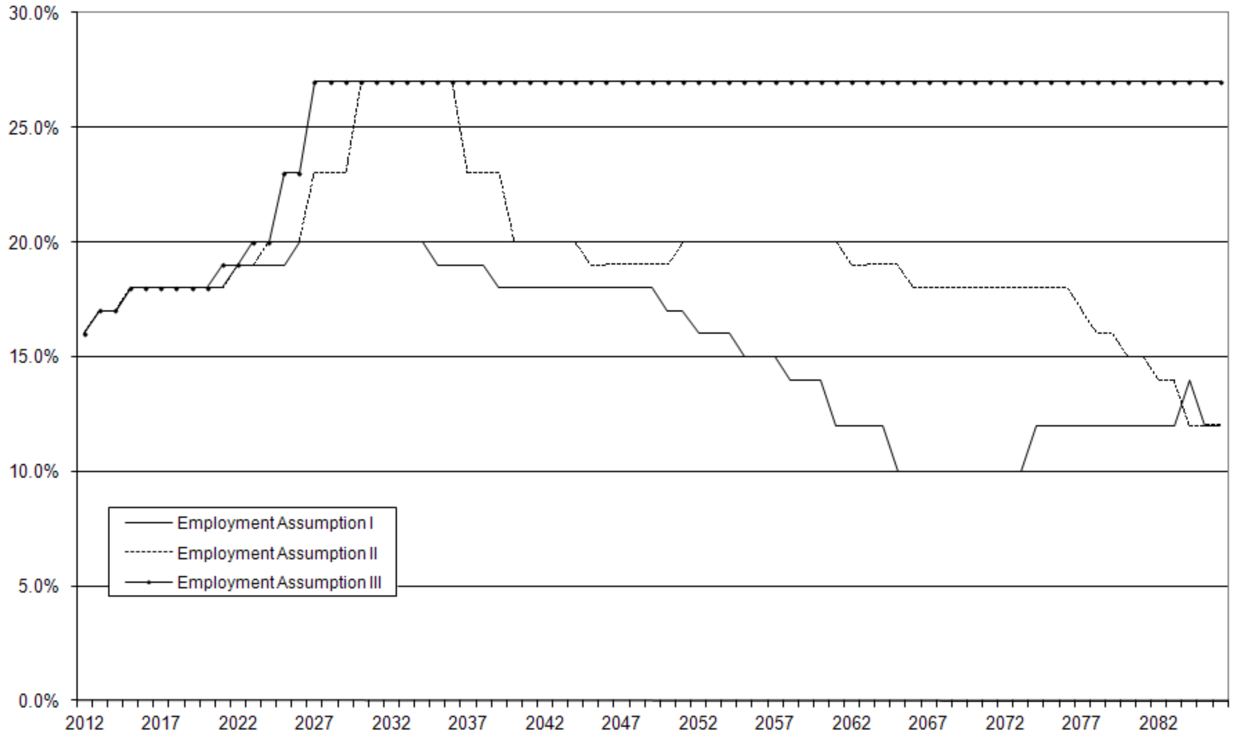


Chart 3a shows the combined balance of the accounts under each of the three employment assumptions. Note that the combined account balance is positive throughout the entire period for assumptions I and II but goes negative in 2035 for assumption III and remains so through the remainder of the 75-year period.

Chart 3b shows the tier 2 tax rate under these employment assumptions. The tax rate reaches 10 percent in 2065 under employment assumption I but then increases again slightly to 12 percent in 2074 and remains at that level through 2086 with the exception of 2084, when it is 14 percent. The tax rate goes down to 12 percent in 2084 under employment assumption II and remains at that level through 2086. Under employment assumption III, the tax rate reaches the maximum of 27 percent in 2027, remaining at that level through the remainder of the 75-year period.

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.

Investment return: 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 investment return of 7 percent used for our projections, we show the effect on the combined accounts of an investment return of 4 percent and an investment return of 10 percent. Table 2 shows the excess of assets and the present value of income over the present value of expenditures for the three investment return 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 10 percent scenario. Under the 7 percent scenario, the tax rate adjustment mechanism keeps the system in close actuarial balance. Under the 10 percent scenario, the tax rate falls to the minimum rate in 2056 and remains at that level.

Table 2
Excess of Assets and Present Value of Income over Present Value of Expenditures for Three Investment Return Assumptions, 2012-2086
(in billions)

Investment Return Assumption	4%	7%	10%
Present Value	$8.3	$1.5	$0.6
Average Tier 2 tax rate	21.8%	19.9%	17.0%

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

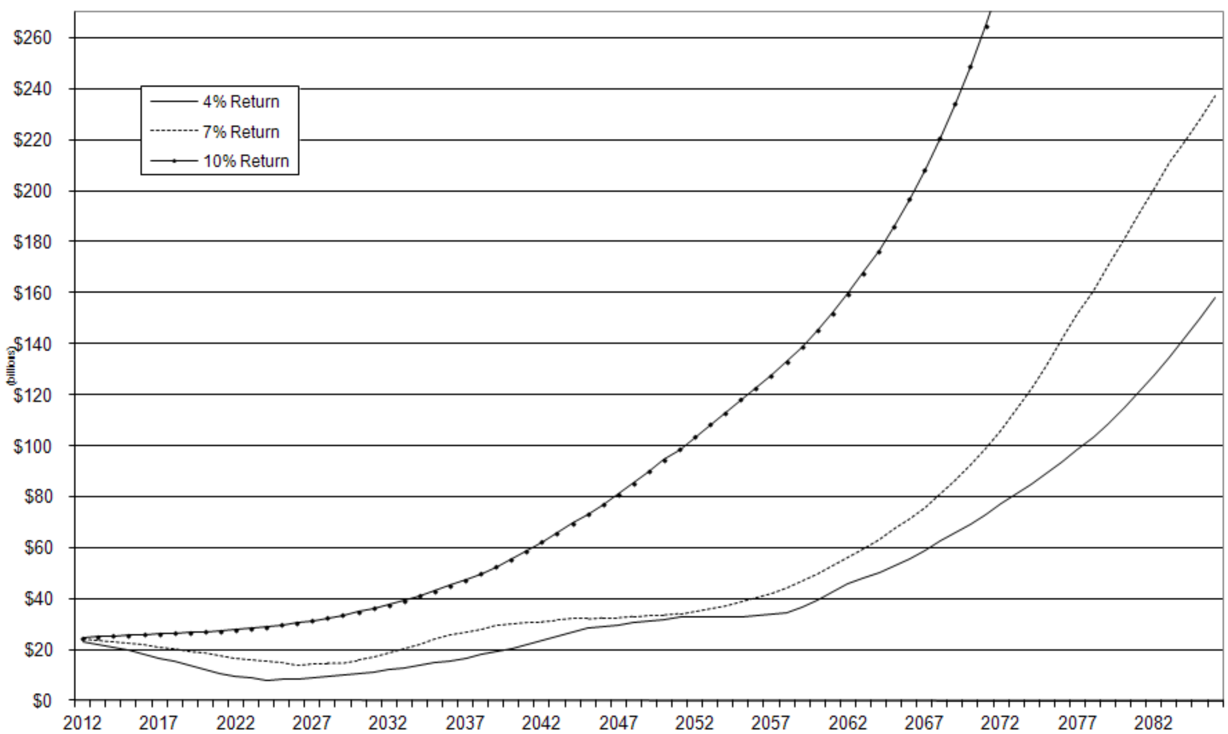
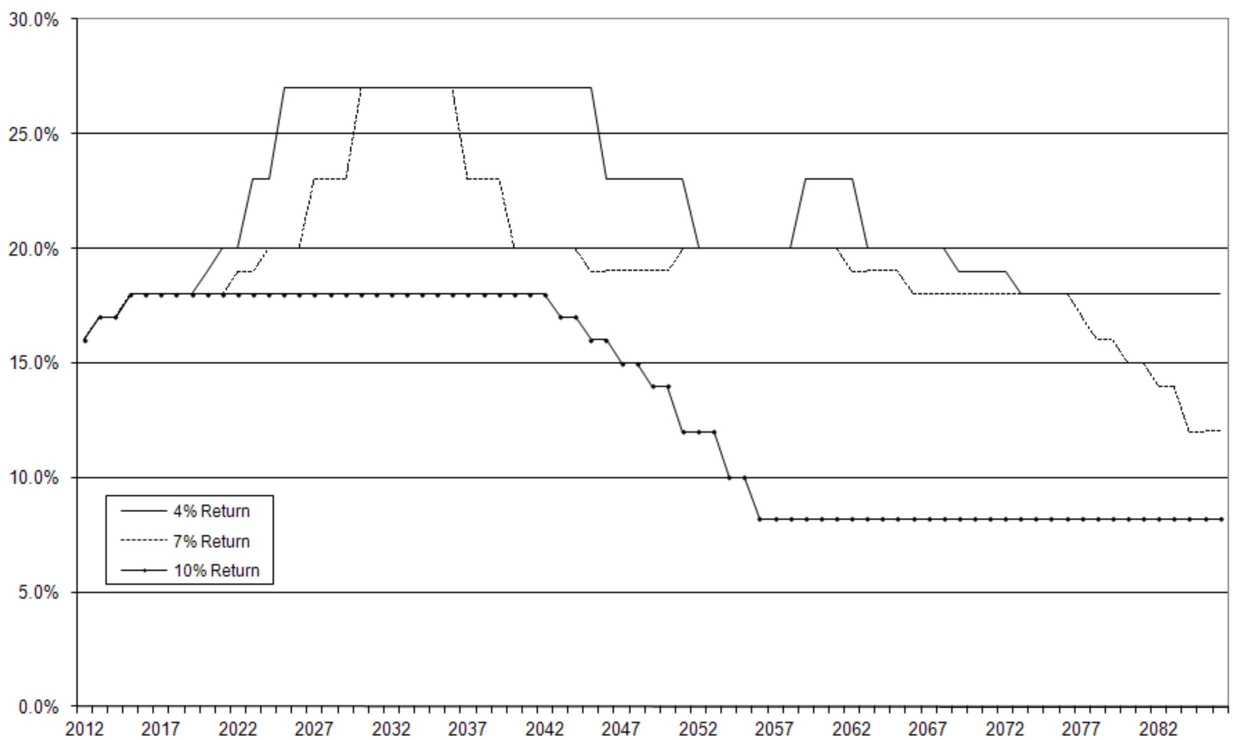


Chart 4a shows the combined account balance under the three investment return assumptions for the projection period. At a 4 percent investment return, the account balance reaches its lowest value in 2024, although it never becomes negative. After that it starts to increase, except for a slight decrease in 2052 and 2053. With a 7 percent investment return, the account balance decreases through 2026 and increases thereafter. A 10 percent investment return 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, 2012.

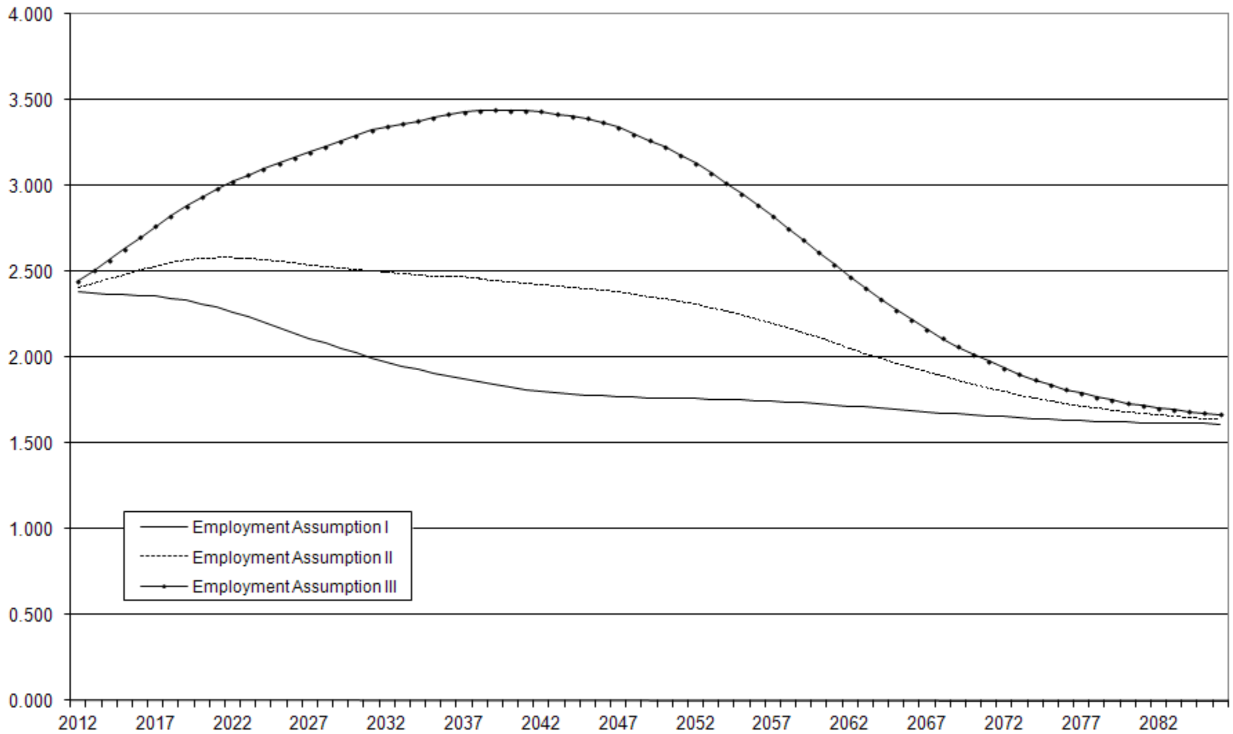
Chart 4b shows the tier 2 tax rate under the same three investment return assumptions. With a 4 percent investment return, the maximum tier 2 tax rate applies from 2025 through 2045. With the 7 percent investment return, the maximum tax rate applies from 2030 through 2036. With a 10 percent investment return, the maximum tax rate is never applicable, and the minimum tax rate of 8.2 percent is paid beginning in 2056. 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 Investment Return 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 2012. For assumptions II and III, the ratio is highest in 2021 and 2039, respectively. For all three employment assumptions, the average number of annuitants per employee declines to between 1.6 and 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, 2012
(in dollars)

	COMBINED RAILROAD RETIREMENT PROGRAM	COMBINED RAILROAD UNEMPLOYMENT AND SICKNESS INSURANCE PROGRAM	LIMITATION ON THE OFFICE OF INSPECTOR GENERAL	COMBINED TOTALS
Budgetary Resources				
Unobligated balance brought forward, October 1	130,246,191	59,445,591	696,795	190,388,577
Adjustment to unobligated balance brought forward, October 1	(92,274,466)	96,408,258	0	4,133,792
Unobligated balance brought forward, October 1, as adjusted	37,971,725	155,853,849	696,795	194,522,369
Recoveries of prior year unpaid obligations	1,620,588	0	39,695	1,660,283
Other changes in unobligated balance	(1,574,543)	0	0	(1,574,543)
Unobligated balance from prior year budget authority, net	38,017,770	155,853,849	736,490	194,608,109
Appropriations (discretionary and mandatory)	8,561,621,834	92,227,793	(139,432)	8,653,710,195
Borrowing authority (discretionary and mandatory)	3,768,500,000	0	0	3,768,500,000
Contract Authority (discretionary and mandatory)	0	0	0	0
Spending authority from offsetting collections (discretionary and mandatory)	122,146,402	21,286,369	9,557,454	152,990,225
Total budgetary resources	12,490,286,006	269,368,011	10,154,512	12,769,808,529
Status of Budgetary Resources				
Obligations incurred	12,446,929,539	120,266,071	9,506,382	12,576,701,992
Unobligated balance, end of year:				
Apportioned	6,286,119	149,101,940	48,172	155,436,231
Unapportioned	37,070,348	0	599,958	37,670,306
Total unobligated balance, end of year	43,356,467	149,101,940	648,130	193,106,537
Total Budgetary Resources	12,490,286,006	269,368,011	10,154,512	12,769,808,529
Change in Obligated Balance				
Unpaid obligations, brought forward, October 1	977,448,688	8,736,157	556,787	986,741,632
Uncollected customer payments from Federal sources, brought forward, October 1 (-)	(252,119)	0	0	(252,119)
Obligated balance, start of year (net), before adjustments	977,196,569	8,736,157	556,787	986,489,513
Adjustment to obligated balance, start of year	(119,256)	0	0	(119,256)
Obligated balance, start of year (net), as adjusted	977,077,313	8,736,157	556,787	986,370,257
Obligations incurred	12,446,929,539	120,266,072	9,506,381	12,576,701,992
Outlays (gross) (-)	(12,451,556,684)	(125,306,166)	(9,409,335)	(12,586,272,185)
Change in uncollected customer payments from Federal sources	27,790	3,000	0	30,790
Recoveries of prior year unpaid obligations (-)	(1,620,588)	0	(39,695)	(1,660,283)
Obligated balance, end of year				
Unpaid obligations, end of year (gross)	971,081,700	3,696,063	614,138	975,391,901
Uncollected customer payments from Federal sources, end of year	(224,330)	3,000	0	(221,330)
Obligated balance, end of year (net)	970,857,370	3,699,063	614,138	975,170,571
Budget Authority and Outlays, Net				
Budget authority, gross (discretionary and mandatory)	12,452,268,236	113,514,162	9,418,022	12,575,200,420
Actual offsetting collections (discretionary and mandatory) (-)	(122,174,193)	(21,289,368)	(9,557,454)	(153,021,015)
Change in uncollected customer payments from Federal sources (discretionary and mandatory)	27,790	3,000	0	30,790
Budget authority, net (discretionary and mandatory)	12,330,121,833	92,227,794	(139,432)	12,422,210,195
Outlays, gross (discretionary and mandatory)	12,451,556,683	125,306,166	9,409,336	12,586,272,185
Actual offsetting collections (discretionary and mandatory) (-)	(122,174,192)	(21,289,368)	(9,557,455)	(153,021,015)
Outlays, net (discretionary and mandatory)	12,329,382,491	104,016,798	(148,119)	12,433,251,170
Distributed offsetting receipts (-)	(5,014,643,867)	0	0	(5,014,643,867)
Agency outlays, net (discretionary and mandatory)	7,314,738,624	104,016,798	(148,119)	7,418,607,303

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 (FY) ended September 30, 2012 and 2011.

For reasons explained on the following pages, the RRB-OIG does not express an opinion on the RRB's financial statements for FY 2012. We have also found it necessary to change our previous audit opinion from unqualified to disclaimer for the RRB's FY 2011 and FY 2010 financial statements. The statements impacted consist of: 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, 2012, 2011 and 2010; and the financial condition of the Railroad Retirement program, social insurance, as of January 1, 2012 and 2011, and changes in the financial condition of the program for the year ended December 31, 2011 and 2010. For reasons also explained on the following pages, we found that the statements of social insurance as of January 1, 2010, 2009 and 2008 present fairly, in all material respects, in conformity with U.S. generally accepted accounting principles, the financial condition of the Railroad Retirement program as of January 1, 2010, 2009 and 2008.

OPINION ON THE FINANCIAL STATEMENTS

We undertook to audit the accompanying balance sheet of the RRB as of September 30, 2012 and 2011; the related statements of net cost, changes in net position, and budgetary resources for the years then ended; the statement of social insurance as of January 1, 2012, 2011, 2010, 2009, and 2008 and the statement of changes in social insurance amounts for the two year period ended December 31, 2011.

We did not audit the financial statements of the National Railroad Retirement Investment Trust (NRRIT). The net assets of the NRRIT represent approximately 79% of the total assets reported by the RRB for fiscal years 2012 and 2011. NRRIT assets represent approximately 95% of the Treasury securities and assets held by the Railroad Retirement program as of January 1, 2012 and 2011. Related changes in the net value of investments held by the NRRIT are reported as a source of financing which contributed a net gain of $1.5 billion during FY 2012 and a net loss of $1.6 billion during FY 2011.

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, 2012 and 2011; and January 1, 2012, 2011, 2010, 2009, and 2008 the financial statements 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 report dated November 8, 2011, except for matters relating to the fair value of the net assets of the NRRIT as of September 30, 2011, as to which the date was November 15, 2011, we expressed an opinion that the financial statements of the RRB, including the 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, 2011 and 2010; and the financial condition of the Railroad Retirement program as of January 1, 2011, 2010, 2009, 2008, and 2007 and changes in the financial condition of the program for the year ended December 31, 2010. The financial statements of the NRRIT were audited by other auditors, and our opinion, insofar as it relates to the amounts included for the NRRIT, is based solely on the report of the other auditors. That accounting firm received a rating of *pass with deficiency* for its system review report for the year ended March 31, 2011 due to certain audit policies and procedures adopted and related training not being sufficient to ensure consistent performance and documentation of all necessary procedures on its non-SEC issuer audit engagements and that audit firm did not consistently demonstrate that sufficient procedures were performed and/or documented in certain substantive areas. For certain audit engagements, the firm subsequently supplemented its procedures and/or prepared additional documentation to support its opinions. In one instance, the related financial statements were restated. Accordingly, our present opinion on the 2011 and 2010 financial statements, presented herein, is different from that expressed in our previous report.

By law the RRB-OIG cannot audit the financial records of the NRRIT and cannot provide oversight for the independent accountant retained by the NRRIT and therefore must rely solely on the NRRIT's audit report for the net assets of the NRRIT, which represented $22.1 billion, or approximately 79%, of the RRB's total assets for FY 2011 and $23.8 billion, or approximately 80%, of the RRB's total assets reported for FY 2010. NRRIT net assets represented approximately 95% of the Treasury securities and assets held by the program as of January 1, 2011. Due to the significance of the NRRIT's net asset amounts in the RRB's financial statements and the results of the independent accountant's system review rating, we do not express an opinion on 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, 2011 and 2010; and the financial condition of the Railroad Retirement program as of January 1, 2011, and changes in the financial condition of the program for the year ended December 31, 2010.

The net assets of the NRRIT represent $23.6 billion, or approximately 79%, of the RRB's total assets reported for FY 2012. NRRIT net assets represent approximately 95% of the Treasury securities and assets held by the program as of January 1, 2012. Due to the significance of the NRRIT's net asset amounts in the RRB's financial statements and the results of the independent accountant's system review rating, we do not express an opinion on 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, 2012; and the financial condition of the Railroad Retirement program as of January 1, 2012, and changes in the financial condition of the program for the year ended December 31, 2011.

The statements of social insurance as of January 1, 2010, 2009, and 2008 are not impacted by the period defined in the system review report which resulted in a rating of *pass with deficiency*. In our opinion, the statement of social insurance presents fairly, in all material respects, in conformity with U.S. generally accepted accounting principles, the financial condition of the Railroad Retirement program as of January 1, 2010, 2009, and 2008.

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 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 statement of changes in social insurance amounts reconciles the beginning and ending net present values of future revenue less future expenditures for current and future participants (the "open group measure") and presents the components of the changes in the open group measure from the end of the previous reporting period. The significant components of the change include: changes in the valuation period; changes in demographic and economic data and assumptions; and changes in law, regulation, and policy, as applicable.

CONSISTENCY OF OTHER INFORMATION

The RRB's required supplementary information is included, to which we have applied limited procedures in accordance with auditing standards generally accepted in the United States of America. The limited procedures consisted of making inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to the auditor's inquiries, the basic financial statements and other knowledge the auditor obtained during the audit of the basic financial statements. We do not express an opinion or provide any assurance on this information because the limited procedures do not provide sufficient evidence to express an opinion or provide assurance.

Emphasis of Matters

NRRIT

Pursuant to the Railroad Retirement and Survivors' Improvement Act of 2001, the NRRIT is authorized to invest railroad retirement assets in a diversified investment portfolio. As of September 30, 2012, the reported value of the net assets of the NRRIT was approximately $1.5 billion higher than reported at September 30, 2011. The RRB discusses its relationship with the NRRIT in Note 2 and Note 5 to the financial statements, and describes the impact of changes in the Treasury Securities and Assets held by the Program in Note 15.

Financial Interchange

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 represented approximately $4.2 billion (net), or about 35% of the financing sources reported on the RRB's statement of changes in net position for FY 2012 before considering the change in the reported value of NRRIT net assets. For FY 2011, financial interchange transfers of $4 billion (net) represented about 34% of the financing sources reported before considering the reduction in the reported value of NRRIT assets.

CONSIDERATION OF 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 Office of Management and Budget (OMB) audit guidance, and 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, the RRB has made progress in strengthening its information security program but this effort is not yet complete and material weaknesses remain.[2] The previously reported material weakness for budgetary reporting continues to exist because agency actions are not yet sufficient. The RRB has corrected the previously cited material weakness for non-integrated subsystems by successfully implementing reconciliations for various non-integrated subsystems.

Our internal control work would not necessarily disclose all deficiencies in internal control that might be material weaknesses or other significant deficiencies. 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

<u>Information Technology Security – Risk Management Framework</u>

During FY 2012, the OIG evaluated the RRB's information security pursuant to the provisions of the Federal Information Security Management Act (FISMA). OIG auditors found that weaknesses regarding the review of contractor deliverables associated with the risk management framework continue to be found. Although agency managers are working to strengthen controls, management action had either not been completed as of the end of the current reporting period, or had not been in place long enough to permit evaluation.

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[1] The definition of internal control as it relates to the basic financial statements is presented in the footnotes on page 7.

[2] A <u>material weakness</u> is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A <u>significant deficiency</u> is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Information Technology Security – Configuration Management[3]

During FY 2012, the OIG evaluated the RRB's information security pursuant to the provisions of FISMA. OIG auditors found that weaknesses associated with the configuration management of some agency systems continue to be found. Although agency managers are working to remediate these weaknesses, management action had not been completed as of the end of the current period.

Budgetary Reporting

In FY 2011 we reported a material weakness for budgetary reporting and recommended that the Bureau of Fiscal Operations (BFO) provide training for the preparation of the statement and implement a review process to ensure the accuracy of calculations, consistency in recorded amounts and effectiveness of controls. In an effort to address this material weakness, BFO staff conducted budgetary training for the accountants in March 2012. Although BFO has made an effort toward attempting to address this weakness, the training was not sufficient to prevent the financial reporting errors found in the June 30, 2012 Statement of Budgetary Resources. In addition, corrective action remains to be taken regarding an improved review process to ensure the accuracy of calculations, consistency in recorded amounts and effectiveness of controls.

COMPLIANCE WITH LAWS AND REGULATIONS

Our tests of the RRB's compliance with selected provisions of laws and regulations for FY 2012 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.

[3] This material weakness previously referred to as Information Technology Security Application and Services.

OBJECTIVES, SCOPE, AND METHODOLOGY

RRB management is responsible for (1) preparing the 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 (1) obtaining 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 laws for which OMB audit guidance requires testing; and (3) performing limited procedures with respect to certain other information appearing in the RRB's Performance and Accountability Report. In order to fulfill these responsibilities, we:

- assessed the factors, data, assumptions and model used by RRB management to prepare the long-term actuarial projections presented in the statement of social insurance;
- assessed the reconciliation of the beginning and ending open group measure including the significant components of the change presented in the statement of changes in social insurance amounts;
- 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);
- tested relevant internal controls over financial reporting and compliance, and evaluated the design and operating effectiveness of internal control;
- considered the design of the process for evaluating and reporting on internal control and financial management systems under the FMFIA; and

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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.*

- 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 considered the material weaknesses identified above in determining the nature, timing, and extent of our audit procedures on the FY 2012 financial statements.

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 selected provisions of laws and regulations that have a direct and material effect on the RRB's financial statements and those required by OMB audit guidance that we deemed applicable to the RRB's financial statements for the fiscal year ended September 30, 2012. 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 is not 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. Any opinion or conclusion that we may have formed concerning 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 arrangement for a separate audit of assets held and invested by the NRRIT 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

Agency management commented that they have worked hard to improve the quality, accuracy and reliability of the RRB's financial information. They stated that the results of improved financial stewardship by the agency are reflected in the elimination of the material weakness for non integrated subsystems and significant deficiency of railroad audits. Agency management commented that the disclaimer audit opinion provided assumes materiality concerns exists for total asset reporting by the agency based on NRRIT reporting of net assets in its audited financial statements. RRB management went on to state that based on OIG inquiries of the NRRIT's independent auditor's peer review, in addition to agency inquiries of NRRIT's audited financial statements, RRB management has found no financial inconsistencies attributed to NRRIT reporting that warrants the audit opinion provided. Agency management plans to continue to work closely with the OIG to resolve any further inquiries concerning this matter as agency management and the OIG work together to meet this year's reporting deadline of November 16, 2012.

The full text of management's response follows as an attachment to this report. We did not perform audit procedures on the RRB's written response and, accordingly, we express no opinion on the response.

Original signed by:

Martin J. Dickman
Inspector General

November 6, 2012, except for matters
relating to the net assets of the NRRIT as of
September 30, 2012 as to which the date is
November 15, 2012

UNITED STATES GOVERNMENT

FORM G-115f (1-92)

MEMORANDUM

RAILROAD RETIREMENT BOARD

November 15, 2012

TO : Diana Kruel
Assistant Inspector General for Audit

FROM : George V. Govan
Chief Financial Officer

GEORGE GOVAN

Digitally signed by GEORGE GOVAN
DN: c=US, o=U.S. Government, ou=Railroad Retirement Board, cn=GEORGE GOVAN, 0.9.2342.19200300.100.1.1=60001300229 9652
Date: 2012.11.15 11:50:10 -06'00'

SUBJECT: FY 2012 Financial Statement Audit – Auditor's Report;
Re: Your memorandum dated November 15, 2012

My office, and those of the Board Members, have reviewed the Office of Inspector General's draft report. The agency has worked hard to improve the quality, accuracy and reliability of our financial information. The results of improved financial stewardship by the agency are reflected in the elimination of the material weakness for non-integrated subsystems and significant deficiency of railroad audits. Additionally, the agency continues to execute operational resources for meeting its mission at low cost to the public with improved value to railroad beneficiaries. The results are consistently demonstrated through the excellent customer satisfaction ratings and performance goals exceeded.

However, the disclaimer audit opinion provided assumes materiality concerns exist for total asset reporting by the agency based on NRRIT reporting of net assets in its audited financial statements. Based on your inquiries of NRRIT's independent auditor's peer review, in addition to agency inquiries of NRRIT's audited financial statements, we have found no financial inconsistencies attributed to NRRIT reporting that warrants the audit opinion provided.

We will continue to work closely with your office to resolve any further inquiries concerning this matter as we work together to meet this year's reporting deadline of November 16, 2012.

cc: The Board
Executive Committee

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OTHER ACCOMPANYING INFORMATION

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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 their respective agency and briefly assess the agency's progress in addressing those challenges.

Congress created the railroad retirement system more than 75 years ago. The Railroad Retirement Act (RRA) created a nationwide retirement system for railroad workers to provide income security in old age. Over the years the program has been expanded to include disabled workers, elderly spouses and widow(er) s, children, and parents of young children. In 1938, Congress added a nationwide system of unemployment insurance and later a program of sickness insurance benefits. During fiscal year (FY) 2011, the Railroad Retirement Board (RRB) paid about $11.0 billion for retirement and survivor benefits to approximately 578,000 beneficiaries and roughly $91 million in net unemployment and sickness insurance benefits to some 29,000 claimants.

Our identification of challenges facing RRB management is based on recent audits and evaluations; new congressional directives to prevent improper payments and fraud in government programs; and continued lack of audit oversight for the National Railroad Retirement Investment Trust (NRRIT), a multi-billion dollar investment enterprise. The following challenges were identified during FY 2012:

- Oversight and transparency of invested program assets;
- Disability program integrity;
- Financial impact of unilateral disability freeze cases;
- Information technology security;
- Budgetary reporting; and
- Preventing and detecting improper payments.

Providing Oversight of Invested Assets of the Railroad Retirement Act Program

The Railroad Retirement and Survivor's Improvement Act of 2001 (RRSIA) created the NRRIT, independent of the RRB, to manage and invest railroad retirement assets in a diversified investment portfolio in the same manner as those of private sector retirement plans.[1] Although the RRB maintains a reserve to pay benefits as they come due, approximately 79% of the agency's total assets, $22.1 billion, were entrusted to the NRRIT at the end of FY 2011.

During FY 2012, the Office of Inspector General (OIG) reiterated ongoing concerns regarding the lack of meaningful oversight for NRRIT activities. Specifically, in a memorandum dated August 30, 2012, the OIG addressed the significant compensation, bonus and incentive payments made to the NRRIT's investment staff. By reviewing publicly available documents, we were able to obtain a glimpse into the NRRIT's compensation structure. While NRRIT net assets have declined by significant amounts, 12 primary members of the investment staff received excessive annual bonus and incentive payments for fiscal years 2008 through 2011.

The NRRIT responded that compensation for senior staff (base compensation and bonus) is evaluated by reference to compensation paid for similar positions in corporate and public plans and that updated data is obtained annually and evaluated in the annual year-end compensation period. However, the OIG has noted the rationale and accountability for this level of compensation, bonus, and incentives during a period of continuing investment decline has not been disclosed.

In addition, administrative expenses have continuously increased. As components of the NRRIT's administrative expense, investment management fees, compensation, and professional fees represent more than 90% of administrative expense as reported in the NRRIT's financial statements; however, explanatory details to substantiate these significant annual costs are not being released to the RRB and its constituents. In response to the OIG's concerns, the NRRIT stated that while investment management fees for active management are higher, investment performance is expected to be stronger. The NRRIT also stated that the legal costs of reviewing proposed investment structures has increased and they have taken steps to negotiate rate reductions for all legal work, established fixed budgets for regular legal work and budget caps for legal review of individual investment partnership transactions. The NRRIT also stated that they will continue to seek additional efficiencies wherever possible. However, given the current lack of transparency, we were unable to validate the NRRIT's response.

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[1] Public Law 107-90, December 21, 2001, codified in 45 U.S.C. § 231n(j)

In response to the OIG's memorandum, the RRB's General Counsel's legal opinion concluded that there is no basis for civil action to be taken by the RRB in regard to the NRRIT's compensation and administrative expenses and that the current law limits the degree of oversight the RRB can exercise over the NRRIT.

The NRRIT's response regarding compensation and administrative expenses was a direct result of the concerns raised by the OIG and not agency management which still maintains a passive relationship with the NRRIT. It is imperative that the RRB management take a proactive approach in regard to the NRRIT to promote transparency and strengthen administrative and financial oversight.

Program Integrity for the Occupational Disability Program

The Office of Inspector General provides recommendations for improvement to agency management to promote efficiency and economy, and identifies fraud and abuse in agency programs and operations. While some improvements have been made for the occupational disability program since news of the Long Island Rail Road became public, further improvement is needed to prevent and detect potential fraudulent disability claims.

In November 2011, the OIG submitted 16 recommendations to the Board which were subsequently reviewed by the Executive Committee. The recommendations identified various improvements for the program integrity of the railroad occupational disability program. As of September 2012, most of these recommendations have not been implemented and as a result vulnerabilities continue to exist.

The OIG has identified actions that the RRB could take in an effort to reduce these vulnerabilities. This could be accomplished by obtaining additional information from the railroad employer, equally relying on medical opinions provided by the examining physician as well as the treating physician, and disqualifying individuals convicted of submitting false statements from receiving future benefits administrated by the RRB.

The OIG encourages agency management to rethink and challenge the existing adjudicative process for these cases. Given the environment of disability fraud, RRB management must continue to find ways to protect agency trust funds to ensure that only legitimately entitled disability annuitants receive RRB benefit payments.

Financial Impact of Unilateral Disability Freeze Cases

During FY 2012, the OIG reported that unilateral disability freeze cases have a significant financial impact on the RRA trust funds and the financial interchange. The financial interchange serves as a funds transfer mechanism between the

RRB and SSA. When the Social Security Administration (SSA) concurs with the RRB's decision to grant a disability freeze, the RRB recovers the social security equivalent of the disability annuity from SSA's disability trust fund through the financial interchange. When SSA does not concur, the RRB makes a unilateral disability freeze decision and no benefits are recovered as social security equivalents. The OIG found that RRB policies and procedures do not require that unilateral disability freeze cases be submitted for SSA's reconsideration when the annuitant's medical condition has worsened. The resubmission of these cases could result in an estimated reimbursement to RRA's trust funds that could range from $1 to $32 million annually through the financial interchange process.

The OIG urges RRB management to analyze existing policies and procedures and to find and correct those that do not safeguard agency trust funds to the fullest extent.

Information Technology Security

During FY 2012, the OIG evaluated information security pursuant to the provisions of the Federal Information Security Management Act of 2002 (FISMA) and concluded that the RRB has not yet achieved an effective FISMA-compliant security program. A material weakness for information technology security risk management framework will continue to be reported as OIG auditors determined that weaknesses regarding the review of contractor deliverables associated with the risk management framework continue to be found. Although agency managers are working to strengthen controls, management action had either not been completed as of the end of the current reporting period, or had not been in place long enough to permit evaluation.

A material weakness will also continue to be reported for information technology security configuration management as OIG auditors found that weaknesses associated with the configuration management of some agency systems continue to be found. Although agency managers are working to remediate these weaknesses, management action had not been completed as of the end of the current period.

RRB management is working to address these material weaknesses.

Budgetary Reporting

In FY 2011 we reported a material weakness for budgetary reporting due to material errors exceeding $2 billion found in the September 30, 2011 Statement of Budgetary Resources (SBR). The errors were subsequently corrected by the

Bureau of Fiscal Operations (BFO) prior to publication of the statement. We recommended that BFO provide training for the preparation of the SBR and implement a review process to ensure the accuracy of calculations, consistency in recorded amounts and effectiveness of controls.

BFO took action to address our first recommendation by providing training, which included coverage of budgetary guidance issued by Treasury and the Office of Management and Budget, for the accounting staff. However, we concluded that the training was not sufficient due to the discovery of financial reporting errors in the June 30, 2012 SBR. In addition, corrective action remains to be taken regarding an improved review process to ensure the accuracy of calculations, consistency in recorded amounts and effectiveness of controls.

Preventing and Detecting Improper Payments

Pursuant to the Improper Payments Elimination and Recovery Act of 2010, each year the RRB reports agency progress in reducing improper payments, and has reported a reduction in the rate of RRA improper payments (as compared with outlays) dropping from 1.64% in FY 2004 to .59% in FY 2011. During FY 2011, the RRB recognized more than $58 million in new overpayments in its retirement, survivor and disability benefit operations of which nearly 75% were associated with routine events such as the death of an annuitant or the administrative coordination of benefits with the Social Security Administration.

The RRB reports that more than 90% of RRA improper payments are due to changes coming from outside the agency and the challenge is to obtain the information and process it as quickly as possible. The RRB has identified several automated initiatives, manual processes, staffing and overtime as solutions for minimizing this group of improper payments. Cases that cannot be processed by various automated systems require manual processing by RRB staff and a backlog has accumulated. The RRB stated that it will take several years to see a significant reduction in the volume of backlogged cases.

While the OIG recognizes that monitoring and reducing improper payments is inherently challenging in an environment where errors result from external changes, the OIG also recognizes the initiatives employed by the RRB to minimize RRA improper payments. However, the RRB must continue to identify opportunities for improvement.

Original signed by:

Martin J. Dickman
Inspector General

October 12, 2012

Management's Comments

These are Management's comments on the Management and Performance Challenges identified by the Railroad Retirement Board (RRB) Inspector General.

Providing Oversight of Invested Assets of the Railroad Retirement Act Program

In the Statement on Management and Performance Challenges issued October 12, 2012, the RRB's Office of Inspector General expressed concern with what it believes to be a lack of oversight of the National Railroad Retirement Investment Trust and its investment activities carried out pursuant to the Railroad Retirement and Survivor's Improvement Act of 2001.

The Railroad Retirement and Survivors' Improvement Act of 2001 (RRSIA) authorized the establishment of the National Railroad Retirement Investment Trust (NRRIT) to handle investment of railroad retirement funds in securities including stocks and bonds. The NRRIT by statute is not a Federal agency or entity and is separate and apart from the RRB. The NRRIT is headed by a seven member Board of Trustees comprised of representatives appointed by rail carriers, rail labor, and seventh member selected by the six members representing rail carriers and rail labor who have the fiduciary responsibility to prudently invest and manage the assets held in trust by NRRIT. In enacting the RRSIA, Congress was concerned about too much control over the NRRIT and its investment activities by the Federal government. As such, responsibility for managing the assets of NRRIT was given to its seven trustees, but the legislation authorizes the RRB to bring legal action against the NRRIT or NRRIT officials to compel compliance with the provisions of the Railroad Retirement Act.

In a memorandum to the Chairman of the RRB dated August 30, 2012, the OIG identified what it believed to be excessive compensation to investment staff and the independent Trustee, despite a decline in the net assets of the Trust. The OIG also questioned increased administrative expenses. The Chairman of the Trust responded to the General Counsel of the RRB that the OIG conclusion regarding staff compensation was in part triggered by an accounting change required by the IRS which caused much of the compensation paid in the Trust Fiscal Year 2007 to be included again in the Trust return for fiscal year 2008. However, the Chairman of the Trust also noted that the current staff compensation levels reflect independent advice purchased by the Trustees to reduce the rate of loss of staff to other entities.

The OIG also noted correctly that the NRRIT's administrative expenses have risen steadily since the inception of the Trust. However, this increase in costs is attributable to the increasing use of investment management firms to actively manage the investment of railroad retirement trust funds. Investments by the NRRIT in the first few years of it existence were made in index funds. Costs associated with these investments were relatively minor. In recent years, investments have moved from index funds to actively managed investments by investment managers, currently amounting to more than 75% of Trust assets. The fees charged by the investment managers comprise more than 84 percent of the total of the administrative costs reported by the NRRIT. While administrative costs have risen since the beginning of the NRRIT, it may be noted that these costs have remained relatively constant for the past four years as the NRRIT has moved the majority of its investment from index funds to actively managed investments. In addition, the total number of employees of the organization grew from two in 2002 to approximately 20 in 2007, and has since remained at that level.

The response by the Chairman of the Trust also mentioned that the Congressional Research Service has judged the overall administrative costs reported by the NRRIT to be very reasonable considering the size of the portfolio, and to compare favorably with costs of other pension funds of similar investment complexity. In a 2011 report, CRS found that while the average expense ratio for all investors was 95 basis points for stock funds; 72 basis points for bond funds, and 26 basis points for money market funds, the Trust's Fiscal Year 2010 expense ratio was 33 basis points (i.e., expenses were 0.33% of average net assets). After reviewing the legislative history of the amendment to the Railroad Retirement Act which created the Trust and the structure of the Trust as independent from the RRB, the RRB General Counsel advised the Board that based on the Chairman of the Trust's response, the RRB need take no action regarding the issues raised by the OIG in the August 2012 memo.

The RRB is fulfilling its responsibilities under the RRSIA. The RRB's Board Members meet with the Board of Trustees twice each year to discuss the activities of the NRRIT, and the agency's General Counsel participates in telephone conference calls nearly every month with the Chief Executive Officer/Chief Investment Officer and Counsel to the NRRIT to discuss the business conducted by the Board of Trustees at their periodic meetings. In addition, staff from the RRB's Bureau of Fiscal Operations and Bureau of the Actuary communicate on a regular basis with NRRIT staff as well as review various reports concerning investment activities and performance prepared by the NRRIT.

<u>Program Integrity for the Occupational Disability Program</u>

The RRB takes all allegations of program fraud and abuse very seriously and actively works to reduce vulnerabilities in all of its programs where they exist. We have devoted additional time and resources specifically to ensuring the integrity of the occupational disability program over the past several years. Our efforts have included carrying out a detailed 5-part plan concerning oversight of the occupational disability program and the Long Island Rail Road (LIRR); proactively studying trends in the occupational disability program for the purpose of detecting anomalies and/or patterns of fraud or abuse; developing and implementing a multi-phase Disability Program Integrity Action Plan focused on increasing fraud awareness and other fraud detection methods; and responding to numerous recommendations from the Office of Inspector General (OIG). In the past year, the agency partnered with the OIG and the Department of Justice on a voluntary disclosure program related to the ongoing LIRR fraud investigation. We also refer cases to the OIG for investigation immediately upon the first hint of any potentially fraudulent activity. Lastly, we are finalizing a proposal to present to the Social Security Administration requesting them to partner with the RRB in reviewing and comparing disability adjudications at our respective agencies and sharing best practices to insure proper payments, detect fraud and achieve processing efficiencies. Some of the OIG's more recent recommendations regarding the occupational disability program are still under review as they may involve complex statutory or regulatory changes.

<u>Financial Impact of Unilateral Disability Freeze Cases</u>

As indicated by Strategic Goal II of the agency's Strategic Plan, the RRB puts a high priority on safeguarding the trust funds and agency resources. On September 28, 2012, we received a Management Information Report from the Inspector General which contained two recommendations dealing with the topic of unilateral disability freezes and their impact on the financial interchange with the Social Security Administration in situations where a beneficiary's condition worsens over time. Since we were unaware of this study until the final report was received, we are currently reviewing the background on this topic to determine the feasibility and cost-effectiveness of implementing the recommendations.

<u>Information Technology Security</u>

The Railroad Retirement Board (RRB) takes Information Security very seriously and we continue to improve our security posture. We are in the process of implementing a Risk Management Framework that encompasses our continuous monitoring strategy to address OIG concerns. At the end of fiscal year 2012, the RRB obtained the assistance of a contractor to support our Risk Management efforts with the expectation that their assistance will mitigate the material weakness. We are expecting the Risk Management Framework to be implemented by the end of fiscal year 2013.

Budgetary Reporting

RRB provided training on the preparation of the Statement of Budgetary Resources with the accountants and budget staff involved in budget execution. Resources covered and provided in the training included budgetary guidance issued by the Department of the Treasury and the Office of Management and Budget. We plan to have additional training on budgetary reporting in fiscal year 2013 for the involved accounting and budget staff.

New budgetary reporting controls were developed in fiscal year 2012. These new budgetary reporting controls were implemented in fiscal year 2012 and included a review process to ensure the consistency in the recorded amounts. They are being monitored to determine their effectiveness and whether additional controls are warranted.

Preventing and Detecting Improper Payments

The RRB has consistently focused its efforts on monitoring and reducing improper payments and has steadily achieved impressive results. As recognized by the Inspector General, the rate of improper payments under the Railroad Retirement Act decreased from 1.64% in fiscal year 2004 to .59% in fiscal year 2011. This represents a decrease of 64% over 7 years. We attribute this accomplishment primarily to increased automation and standardization of work processes, and ongoing training of staff. We also perform detailed quality assurance studies and follow-up on all findings indicating that improvements are possible.

The Inspector General also noted that more than 90% of the RRA improper payments are due to information from external sources, such as changes in the beneficiary's status that affects entitlement or eligibility. We agree with the Inspector General that the RRB's challenge is to obtain current and accurate information and process it as quickly as possible, and we will continue to work toward that end.

Disclaimer of Audited Financial Statements

The Inspector General has rendered a disclaimer of audit opinion to the RRB's financial statements due to a system peer review rating of NRRIT's independent auditor Deloitte and Touche. The rating of Deloitte and Touche's peer review was a pass with discrepancies. The Inspector General determined that the deficiencies cited in the report warranted the disclaimer because of the materiality of the NRRIT's net assets included in the agency's total asset figure in the financial statements.

In order to address the Inspector General's concerns the agency made inquiries, with the support of NRRIT, into the results of Deloitte's and Touche's peer review report. The results of the inquiry revealed that NRRIT's financial statement audit by Deloitte and Touche was not included in the test by the peer reviewer. There was no implication of NRRIT's financial statements being deficient or requiring restatement. Additionally, Deloitte and Touche provided a response to the American Institute of Certified Public Accountants' National Peer Review Board on corrective actions taken and the board accepted the response. These results were shared with the Inspector General's office, however, the assessment by the Inspector General remained the same.

Based on the inquiries made by the RRB concerning NRRIT's financial statement audit and the results obtained, there were no financial inconsistencies that warranted the audit opinion provided. We will continue to work with the Inspector General's office to resolve any further inquiries.

Improper Payments Information Act (IPIA) Reporting Details
(as amended by IPERA)

I. Risk Assessment. Briefly describe the risk assessment(s) performed (including the risk factors examined, if appropriate) subsequent to completing a 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 by the agency risk assessments. Include any programs previously identified in the former Section 57 of OMB Circular No. A-11. Highlight any changes to the risk assessment methodology or results that occurred since the last report.

The RRB administers two benefit payment programs: Railroad Retirement Act (RRA) retirement and survivor benefits, and Railroad Unemployment Insurance Act (RUIA) benefits. Both were designated as "high risk" under the former Section 57 of Circular A-11.

In January 2009, the Office of Management and Budget granted a three year relief from reporting the RUIA program improper payments due to the consistently low level of error over several years. Therefore, our Performance and Accountability Reports for fiscal years 2009 through 2011 included only our analysis of RRA improper payments.

Since the relief period for RUIA improper payments has expired, we are reporting the level of improper payments for both programs in this year's Performance and Accountability Report.

This year's analysis of RUIA payments indicated an increase in the amount of improper payments since the analysis was last done in fiscal year 2008. The increase was primarily due to increased usage of the unemployment program as a result of the economic recession that occurred during this interim period, as well as the enactment of several pieces of legislation which increased duration of unemployment benefits. In addition, because several revisions had to be made to our adjudication and payment systems, there was a delay in implementing the first piece of legislation, the American Recovery and Reinvestment Act. During this delay, railroad workers who had been unemployed found employment outside of the railroad industry, but neglected to inform the RRB of this fact, resulting in improper payments. This became evident when state wage match investigations, which are our main program integrity activity for detecting fraudulent claiming of unemployment benefits, revealed a much higher level of activity. There is typically a three to nine month lag in the information received from the states, compounding the problem of detecting these improper payments on a timely basis.

We expect that the improper payment rate will decrease over time and return to the levels previously seen before the recent unemployment legislation was enacted.

The agency used the process described below to calculate the amount of RRA and RUIA improper payments made in fiscal year 2011.

Results of Fiscal Year 2011 Improper Payment Review

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. Statistical Sampling. Any agency that has programs or activities that are susceptible to significant improper payments shall briefly describe the statistical sampling process conducted to estimate the improper payment rate for each program identified with a significant risk of improper payments. Please highlight any changes to the statistical sampling process that have occurred since the last report.

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. Also included in the estimated amounts are projections of improper payments from audits, special studies, and estimates of manual work based on pending workload referrals.

III. Corrective Actions. Any agency that has programs or activities that are susceptible to significant improper payments shall describe the corrective action plans for:

a. Reducing the estimated improper payment rate and amount for *each* type of root cause identified. Agencies shall report root cause information (including error rate and error amount) based on the following three categories: Administrative and Documentation errors; Authentication and Medical Necessity errors; and Verification errors. This discussion must include the corrective action(s), planned or taken, most likely to significantly reduce future improper payments due to each type of error an agency identifies, the planned or actual completion date of these actions, and the results of the actions taken to address these root causes. If efforts are ongoing, it is appropriate to include that information in this section, and to highlight current efforts, including key milestones. Agencies may also report root cause information based on additional categories, or sub-categories of the three categories listed above, if available.

The root causes of error in the ***RRA program*** are summarized according to OMB's root causes in the table below.

Root Cause of Error	Estimated Rate	Estimated Amount
Administrative and Documentation	**4.7%**	**$3,106,469**
Authentication and Medical Necessity	**3.4%**	**$2,237,435**
Verification and Local Administration	**91.9%**	**$60,273,374**
Total	**100%**	**$65,617,278**

Corrective Actions:

Administrative and Documentation: These errors result from improper handling by the agency's automated systems or its personnel. Planned corrective actions include:

- development of an enhanced automated retirement payment system to replace the current legacy system that processes Retirement Applications, planned for calendar year 2012,
- development of an interface between systems to ensure accurate use of military service in the calculation of benefits, tentatively scheduled for completion in calendar year 2012,
- expansion of a Medicare premium collection database to include Part B premium withholding history; work is scheduled to begin in fiscal year 2013,

- changes to ORCS (Overpayment Recovery Correspondence System), which is used to prepare overpayment notices and to upload overpayment data to other related agency systems (Program Accounts Receivable and Automated System to Recover Overpayments). ORCS is being automated to interact with mainframe programs to ensure that the most current data is retrieved and used in the development of RRA overpayment recovery. Current plans are to complete this automation initiative by the end of fiscal year 2012.

Authentication and Medical Necessity: Very few of the agency's improper payments fall into this category. There are no planned corrective/preventative actions.

Verification and Local Administration: These errors result from changes coming from outside the agency, particularly changes in the beneficiary's status which affect entitlement or eligibility either temporarily or permanently, and changes in service and compensation typically due to work. Our challenge is to obtain the information and process it as quickly as possible.

The initiatives to minimize this specific group of improper payments are:

- The RESCUE (Recalculate for Service and Compensation Updated to EDMA) system evaluates employer-reported changes to employee service and compensation records and adjusts annuities, if needed. RESCUE was implemented in fiscal year 2006 and evaluated record changes posted in January 2006. In fiscal year 2007, the system evaluated adjustments posted prior to January 2006 and identified specific RRA improper underpayments and paid out additional benefits due, resolving many of the improper payments that were included in previous years' estimates. However, a significant manual workload resulted from this initiative. As of September 30, 2011, 13,997 of these referrals (11,180 for active cases and 2,817 for terminated cases) were on hand. These backlogged cases are handled whenever any other work needs to be done on the case. RESCUE referrals are also processed using overtime funds as resources permit.
- RESCUE is currently run several times a year so that annuity adjustments for service and compensation changes are made timely and properly for those records that can be handled automatically. Those that cannot be processed by RESCUE are referred for manual handling and are included in the current workload. As of September 30, 2011, there were 13,877 of these current referrals. The agency also uses overtime funding in the short term for this workload.
- The RRB is also addressing the RESCUE backlog by hiring and training claims examiner staff which will eventually be able to handle these complex referrals. This is a long-term process which will take several years before we see a significant impact on these workloads.
- SPEED (System Processing Excess Earnings Data) is an automation initiative designed to process post-entitlement annuity adjustments in both retirement and survivor cases that result from excess earnings and work deductions. SPEED 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. SPEED Phases 1 through 5 are currently in production. Phase 6 is divided into two parts: Survivor Processing (Phase 6.1) and Retirement Processing (Phase 6.2). Phase 6 Retirement is expected to initiate or adjust regular and/or **L**ast **P**re-retirement Non-Railroad **E**mployer (LPE) work deductions when an estimated work report is entered. Phase 6 Survivor is expected to download survivor current year earnings estimates from the survivor payments system, create an estimate report, suspend annuity (if necessary), calculate withholding, establish a reinstatement call-up and release a notification letter to the annuitant. Current plans are to complete survivor 6.1 by the end of calendar year 2012, while retirement 6.2 is expected to be completed in calendar year 2013.
- Electronic Data Processing (EDP Policing) Enhancements – This project will address the internal handling and mechanical matching of earnings information received from our data match with the Social Security Administration. The project, which began in fiscal year 2012,

involves the automation and capture of earnings information stored on the On-Line Calculations (ROC) system. ROC is an on-line system for calculating and paying retirement annuities. Earnings information on ROC is only stored for three months and then purged. The new processing will extend the retention period and create additional data files for matching against recent activity received via the LPE earnings monitoring process. We will also update the LPE process to capture the latest monthly earnings and average monthly earnings amounts. The information will be used in the EDP process to monitor earnings information, eliminate redundant information, and reduce the number of records referred to the claims adjudication units.

- Our annual improper payments analysis indicates that a delay in the reporting of a beneficiary's death is a major cause of improper payments. To better inform our customers of the requirements for reporting a death and the consequences of a delay in reporting, the RRB implemented the following communication enhancements in May 2012:
    - ➢ Established a new prompt on the RRB's toll-free phone line to provide information on how to report a death and what to do with benefit payments received after the date of death.
    - ➢ Added detailed instructions to the death reporting FAQ on the agency's website, www.rrb.gov. This additional information includes how to report a death, what to do with payments received after the date of death, and a link to the nearest RRB field office that can assist in death reporting and returning payments.

The root causes of error in the ***RUIA program*** are summarized according to OMB's root causes in the table below.

Root Cause of Error	Estimated Rate	Estimated Amount
Administrative and Documentation	**12%**	**$1,155,669**
Authentication and Medical Necessity	**0%**	**0**
Verification and Local Administration	**88%**	**$8,095,230**
Total	**100%**	**$9,250,899**

The program integrity effort over the RUIA benefit payments is already at a very high level, keeping RUIA improper payments at a relatively low level. Because of this there is little room for improvement, and no new agency initiatives are planned for RUIA.

As noted in section I, there was an increase in RUIA improper payments in this year's analysis. We believe the RUIA improper payment rate will gradually return to its previous low level. Based on an analysis of historical trends and current available data we incrementally reduced our projected percentage of improper payments for the RUIA program.

As discussed in section I, some of the RUIA improper payments can be attributed to the delay in our state wage matches. This delay could be eliminated if the RRB had access to the *National Directory of New Hires.* We believe using this database could be very beneficial, allowing us to obtain additional information not available through our current matching programs with the states and to obtain it in a timely manner. However, at this time, the RRB does not have legal authority to access the database and the administrative costs of participating in that program are prohibitive. Making this database accessible to all agencies would greatly improve our detection and prevention of RUIA improper payments.

b. Grant-making agencies with risk-susceptible grant programs shall briefly discuss what the agency has accomplished in the area of funds stewardship past the primary recipient. Discussion shall include the status of projects and results of any reviews.

Not applicable to RRB.

IV. a) and b) Program improper payment reporting.

The table below is required for each reporting agency.

Improper Payment (IP) Reduction Outlook FY 2010 – FY 2015
($ in millions)

Program	FY 10 $ Outlays (actual)	FY 10 IP %	FY 10 IP $	FY 11 $ Outlays (actual)	FY 11 IP %	FY 11 IP $	FY 12 $ Outlays (estimated)	FY 12 IP %	FY 12 IP $
RRA	$10,780.2	0.58%	$62.6	**$10,946.5**	**0.59%**	**$65.6**	$11, 355.8	0.59%	$67.0
RUIA	Reporting Relief			**$129**	**7.2%**	**$9.3**	$126.4	5.2%	$6.6

Program	FY 13 $ Outlays (estimated)	FY 13 IP %	FY 13 IP $	FY 14 $ Outlays (estimated)	FY 14 IP %	FY 14 IP $	FY 15 $ Outlays (estimated)	FY15 IP %	FY 15 IP $
RRA	$11,722.8	0.59%	$69.2	$12,055.3	0.59%	$71.1	$12,393.1	0.59%	$73.1
RUIA	$125.8	4.5%	$5.7	$130.6	3.0%	$3.9	$134.7	2.5%	$3.4

Note: The absolute value of the overpaid and underpaid dollars and the rates is shown—the figures are not netted.

At the time this report was prepared, the latest actual data available was for fiscal year 2011 (shown in **bold** in the chart).

For fiscal year 2011, RRA actual overpayments were $51,316,843 and actual underpayments were $14,300,435.

RUIA actual overpayments were $8,501,470 and actual underpayments were $749,429.

The estimates for fiscal year 2012 through 2015 are based on the December 2011 OMB budget review estimates.

V. Recapture of Improper Payments Reporting.

a. An agency shall discuss payment recapture audit (or recovery auditing) efforts, if applicable. The discussion should describe: the agency's payment recapture audit program; the actions and methods used by the agency to recoup overpayments; a justification of any overpayments that have been determined not to be collectable; and any conditions giving rise to improper payments and how those conditions are being resolved (e.g., the business process changes and internal controls instituted and/or strengthened to prevent further occurrences). If the agency has excluded any programs or activities from

review under its payment recapture auditing program (including any programs or activities where the agency has determined a payment recapture audit program is not cost-effective), the agency should list those programs and activities excluded from the review, as well as the justification for doing so (i.e., a discussion of the analysis conducted to determine that a payment recapture audit program would not be cost-effective). Include in your discussion the dollar amount of cumulative recoveries collected beginning with FY 2004.

It is not feasible for the RRB to implement a formal payment recapture audit program. We do have a robust, multi-faceted review process in place that is an effective approach for evaluating payment accuracy in the RRA and RUIA programs and identifying and preventing improper payments. Taken as a whole, our full range of current activities constitutes *an effective alternative to* a formal payment recapture program. However, despite all the agency's best efforts to prevent improper payments, some will always occur, due to lack of timely information, etc. In overpayment situations, the agency is diligent in its recovery efforts.

The RRB's account receivable balance for the RRA program at the end of fiscal year 2011 was $51,339,861. This balance includes debts classified as currently not collectible. We estimate that approximately 77.1 percent of the RRA will be collected and the remaining 22.8 percent of the RRA debt will eventually be closed as uncollectible. For the period of fiscal years 2004 through 2011, the RRB recovered $315,866,420 in RRA program receivables.

The RRB's account receivable balance for the RUIA program at the end of fiscal year 2011 was $15,039,699. This balance includes debts classified as currently not collectible. We estimate that approximately 66.6 percent of the RUIA receivable balances will be collected and 33.4% will eventually be closed as uncollectible. It should be noted that uncollectible RUIA debts may be reinstated for recovery by offset when a debtor files an application for retirement benefits. For the period of fiscal years 2004 through 2011, the RRB recovered $267,751,686 in RUIA program receivables.

The RRB's collection program is in full compliance with the Debt Collection Improvement Act of 1996. Recoveries are made through offset of benefits, reclamation and return of erroneous benefit payments, and direct payment from debtors. Fraudulent payments are referred to the OIG for prosecution through the Department of Justice. Delinquent accounts are referred to Treasury for cross-servicing and offset of Federal payments.

d. Table 6

Overpayments Recaptured Outside of Payment Recapture Audits
($ in millions)

Agency Source		Amount Identified FY 11*	Amount Recovered FY 11**	Amount Identified FY 10*	Amount Recovered FY 10**	Cumulative Amount Identified FY 04 - FY 11*	Cumulative Amount Recovered FY 04 - FY11**
Various, including post payment quality reviews, special evaluations OIG reviews/audits, reports from the public, monitoring programs, and agency-identified errors. No breakdown between these sources is available.	**RRA**	**$49.2**	**$43.0**	**$45.3**	**$40.9**	**$360.3**	**$315.9**
	RUIA	**$36.1**	**$30.3**	**$31.5**	**$31.0**	**$274.7**	**$267.8**

*Amounts limited to established overpayments for fiscal year(s) identified.

**Recoveries include debts established prior to fiscal year(s) identified.

VI. Accountability. Any agency that has programs or activities that are susceptible to significant improper payments shall describe the steps the agency has taken and plans to take (including timeline) to ensure that agency managers, accountable officers (including the agency head), programs, and States and localities (where appropriate) are held accountable for reducing and recovering improper payments. Specifically, they should be held accountable for meeting applicable improper payments reduction targets and establishing and maintaining sufficient internal controls (including an appropriate control environment) that effectively prevents improper payments from being made and promptly detects and recovers any improper payments that are made.

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 plans. In addition, we have added two new goals, one aimed at minimizing improper payments and the other focused on maximizing recovery efforts, to our fiscal year 2012 performance plan.

VII. Agency information systems and other infrastructure.

a. Describe whether the agency has the internal controls, human capital, and information systems and other infrastructure it needs to reduce improper payments to the levels the agency has targeted.

The agency has established effective internal controls aimed at minimizing improper payments.

Although the agency has limited staff and expects further attrition of experienced personnel, the RRB has been able to meet the challenge of minimizing improper payments for both the RRA and RUIA programs. Neither benefit program has "significant" improper payments as defined by law.

In order to prevent and reduce the already low levels of improper payments the RRA and RUIA program generates, information systems need to be developed or modified as described in the project initiatives discussed in section III.a above.

b. If the agency does not have such internal controls, human capital, and information systems and other infrastructure, describe the resources the agency requested in its most recent budget submission to Congress to establish and maintain the necessary internal controls, human capital, and information systems and other infrastructure.

In fiscal years 2010, 2011 and 2012 the agency requested funding for its System Modernization project. The project is a multi-year effort to modernize the agency's automation systems. System Modernization, when complete, will contribute to achieving the agency's target information technology architecture, and will help the agency meet its performance goals, including improved accuracy of benefit payments and stewardship of the trust funds. In fiscal year 2013 the agency's budget submission did not include, due to fiscal funding constraints, funding for system modernization specifically. However, work has continued using internal resources on internal software improvement projects. Modernization will help reduce redundancy, improve processing accuracy and speed, and transition our computing environment to more modern technology platform and methodologies.

In addition, information technology infrastructure provides a critical foundation for the agency's mission and business processes. This includes desktops, notebooks, servers, printers, routers, scanners and other significant components. The agency has a long-term strategic goal to systematically replace all IT components according to industry standards in order to provide a stable technology environment. As funding is made available, IT equipment at its headquarters facility and field offices is replaced in accordance with the agency's *IT Equipment Replacement Policy*. This ensures that the agency will provide the most efficient, reliable and secure services to its customers.

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

None.

IX. Additional Comments. Discuss any additional comments, if any, on overall agency efforts, specific programs, best practices, or common challenges identified, as a result of IPERA 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 its investigation and prosecution. However, continued loss of experienced staff and the long lead time to hire and train staff to handle the complicated manual work generated as a result of systems limitations presents an ongoing challenge to making further significant reductions in the levels of improper RRA payments. 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	Disclaimer				
Restatement	No				
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Ending Balance
Information Technology Security – Risk Management Framework	1				1
Information Technology Security – Configuration Management*	1				1
Non-Integrated Subsystems	1		1		
Budgetary Reporting	1				1
Total Material Weaknesses	4				3

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 – Risk Management Framework	1					1
Information Technology Security – Configuration Management*	1					1
Non-Integrated Subsystems	1		1			
Budgetary Reporting	1					1
Total Material Weaknesses	4					3

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

* Formerly referred to as Information Security – Applications and Services.

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APPENDICES

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Appendices

Glossary of Acronyms and Abbreviations

A

AABR	Average Account Benefits Ratio
ABR	Account Benefits Ratio
ACSI	American Customer Satisfaction Index
ARRA	American Recovery and Reinvestment Act of 2009

B

BPD	Bureau of the Public Debt

C

CGI	Consultants to Government and Industry
CMS	Centers for Medicare & Medicaid Services
CNC	Currently Not Collectible

D

DBP Account	Dual Benefits Payments Account
DOL	Department of Labor

E

EDMA	Employment Data Maintenance
ERP	Economic Recovery Payments
ERS	Employer Reporting System

F

FACTS II	Federal Agencies' Centralized Trial-Balance System
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
FISMA	Federal Information Security Management Act
FMFIA	Federal Managers' Financial Integrity Act
FY	Fiscal Year
FOASI/DI	Federal Old-Age and Survivors Insurance/Disability Insurance

G

GPRA	Government Performance and Results Act

I

IPERA	Improper Payments Elimination and Recovery Act
IPIA	Improper Payments Information Act
IRMAA	Income-Related Monthly Adjustment Amount
IRS	Internal Revenue Service
IT	Information Technology
IVR	Interactive Voice Response

L

LAN	Local Area Network
LPE	Last Pre-retirement Non-Railroad Employer

M

MCRC	Management Control Review Committee
MMA	Medicare Prescription Drug, Improvement and Modernization Act of 2003

N

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
PII	Personally Identifiable Information
POA&M	Plan of Action and Milestones

R

RESCUE	Recalculate for Service and Compensation Updated to EDMA
RR	Railroad Retirement
RRA	Railroad Retirement Act
RR Account	Railroad Retirement Account
RRB	Railroad Retirement Board
RRSIA	Railroad Retirement and Survivors' Improvement Act of 2001
RUI	Railroad Unemployment Insurance
RUIA	Railroad Unemployment Insurance Act
RUI Account	Railroad Unemployment Insurance Account

S

SFFAS	Statement of Federal Financial Accounting Standards
SI	Sickness Insurance
SPEED	System Processing Excess Earnings Data
SSA	Social Security Administration
SSEB	Social Security Equivalent Benefit
SSP	Shared Service Provider

T

Treasury	Department of the Treasury
Trust	National Railroad Retirement Investment Trust

U

UI	Unemployment Insurance
USC	United States Code
USPS	United States Postal Service

V

VoIP	Voice over Internet Protocol

W

WHBAA	Worker, Homeownership and Business Assistance Act of 2009

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

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Labor Member	Walter A. Barrows
Management Member	Jerome F. Kever

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Inspector General	Martin J. Dickman

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Chief Financial Officer	George V. Govan
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General Counsel	Karl T. Blank
Director of Field Service	Martha M. Barringer

For additional copies of this report, please contact:

Railroad Retirement Board
Bureau of Fiscal Operations
844 North Rush Street, 5th Floor
Chicago, Illinois 60611-2092
Telephone: (312) 751-4590
Fax: 312-751-7171
Available on the Internet at: www.rrb.gov