

Office of Inspector General

***Semiannual Report
to the Congress***

October 1, 2004 - March 31, 2005

Railroad Retirement Board



UNITED STATES RAILROAD RETIREMENT BOARD

OFFICE OF INSPECTOR GENERAL

April 29, 2005

The Honorable Michael S. Schwartz
Chairman
Railroad Retirement Board
844 North Rush Street
Chicago, IL 60611-2092

Dear Mr. Schwartz:

I am pleased to submit the Semiannual Report to the Congress on the activities and accomplishments of the Office of Inspector General for the period October 1, 2004 through March 31, 2005. This report provides descriptions of our reviews, audits and investigations performed during the past six months. The report is submitted in accordance with section 5 of the Inspector General Act of 1978 (Public Law 95-452, as amended). The Act requires that you transmit this report, along with any comments you may wish to make, to the appropriate Congressional committees and subcommittees within 30 days.

During this semiannual reporting period, we completed the audit of the Fiscal Year 2004 financial statements, and cited the agency's information security program as a source of material weakness in internal control. We also identified four serious management challenges facing the agency. Our criminal investigators achieved 27 convictions, 17 indictments and informations, and \$1,219,205 in recoveries, restitutions, fines, civil damages and penalties.

The continued cooperation and support of program officials at all levels is greatly appreciated.

Sincerely,

A handwritten signature in black ink that reads "Martin J. Dickman".

Martin J. Dickman
Inspector General

Enclosure

TABLE OF CONTENTS

EXECUTIVE SUMMARY	1
INTRODUCTION	2
OFFICE OF AUDIT	
Mission	4
Report Summaries	5
Audits: Management Decisions and Implementation	12
OFFICE OF INVESTIGATIONS	
Mission	13
Accomplishments	14
Investigative Cases	15
Representative Investigations	17
Affirmative Civil Enforcement Program	26
Hotline Calls	27
LEGISLATIVE AND REGULATORY REVIEW	28
APPENDICES	
(A) OIG Reports Issued	29
(B) OIG Reports with Recommendations that Questioned Costs and Recommendations that Funds Be Put To Better Use	30
(C) Report on Receivables, Waivers, and Recoveries	32
(D) RRB Management Reports	33
(E) Cross References to Inspector General Act	38

All reports are available on our website: <http://www.rrb.gov/oig/Rrboig.htm>

EXECUTIVE SUMMARY

Audit Activities

During the reporting period of October 1, 2004 - March 31, 2005, the Office of Audit completed the audit of the RRB's Fiscal Year (FY) 2004 financial statements, related internal controls and compliance with laws and regulations, and issued a clean opinion on the financial statements. Auditors again cited the agency's information security program as a source of material weakness in internal control. The audit also identified compliance as a reportable condition because the RRB lacks adequate controls to ensure that changes to laws and regulations are fully implemented.

Auditors identified four serious management challenges facing the agency: the control environment, asset stewardship, managing for change, and information technology security.

Auditors also conducted reviews related to the agency's processing of disability earnings cases and the agency's compliance with Federal laws and regulations on competitive sourcing. A paper summarizing past OIG recommendations concerning the staffing and utilization of field service offices was provided to the RRB's Chairman during this period. The OIG continues to support a consolidation of the field service offices and greater use of technology.

Investigative Accomplishments

During the past six months, the Office of Investigations (OI) achieved 27 convictions, 17 indictments and informations, 19 civil judgements, and \$1,219,205 in recoveries, restitutions, fines, civil damages, and penalties.

INTRODUCTION

Railroad Retirement Board

The Railroad Retirement Board (RRB) is an independent agency in the executive branch of the Federal government that is headed by a three member Board appointed by the President of the United States, with the advice and consent of the Senate. One member is appointed upon the recommendation of railroad employers, one is appointed upon the recommendation of railroad labor organizations, and the third, who is the Chairman, is appointed to represent the public interest.

The agency administers comprehensive retirement-survivor and unemployment-sickness insurance benefit programs for the nation's railroad workers and their families under the Railroad Retirement and Railroad Unemployment Insurance Acts. The RRB also has administrative responsibilities under the Social Security Act for certain benefit payments and Medicare coverage for railroad workers.

During FY 2004, the RRB paid approximately \$9 billion in retirement and survivor benefits to some 649,000 beneficiaries, while net unemployment and sickness insurance benefits of \$83 million were paid to almost 32,000 claimants. The RRB also administers its own Medicare Part B program through a single carrier, Palmetto GBA. The carrier made payments totaling \$923 million to provide medical insurance benefits for 551,000 beneficiaries.

Office of Inspector General

The Office of Inspector General (OIG) has the responsibility for promoting economy, efficiency and effectiveness in the programs of the Railroad Retirement Board. The office is also charged with the detection, prevention and elimination of fraud, waste and abuse in agency operations. To accomplish its mission, the OIG conducts audits, management reviews and investigations.

The Railroad Retirement Solvency Act of 1983 established the Office of Inspector General at the Railroad Retirement Board by naming the agency as “one of such establishments” identified under Section 2 of the Inspector General Act of 1978. The Inspector General Act Amendments of 1988 added the RRB to the list of agencies covered by the Inspector General Act.

The OIG has 53 employees assigned to three operational components: the immediate office of the Inspector General, the Office of Audit, and the Office of Investigations. The office conducts operations from two locations: the headquarters of the Railroad Retirement Board in Chicago, Illinois, and an investigative field office in Philadelphia, Pennsylvania.

OFFICE OF AUDIT

The Office of Audit (OA) conducts audits and reviews to promote economy, efficiency, and effectiveness in the administration of RRB programs, and to detect and prevent waste, fraud, and abuse in such programs. Through the Inspector General, the office ensures that the Board Members and Congress are informed of current and potential problems in the RRB's programs and operations, and advised of recommended improvements, as well as the status of corrective actions. OA examines programmatic, financial, and administrative aspects of RRB operations.

During this semiannual reporting period, OA performed the audit of the FY 2004 financial statements, related internal controls and compliance with laws and regulations. Auditors also identified four serious management challenges facing the agency: the control environment, asset stewardship, managing for change and information technology.

Auditors also completed two additional reviews: an evaluation of the RRB's processing of disability earnings cases and an audit of agency compliance with Federal laws and regulations on competitive sourcing. In addition, auditors provided a summary document to the RRB Chairman on previous OIG findings and recommendations concerning the agency's field service. The OIG has repeatedly recommended that the RRB consolidate the field service operations and place a greater emphasis on technology to provide customer service.

Discussion of the reviews, major findings and recommendations for corrective actions follow.

AUDIT OF THE FY 2004 FINANCIAL STATEMENTS

On October 25, 2004, the Railroad Retirement Board issued its FY 2004 Performance and Accountability Report that summarized the agency's accomplishments in administering the programs provided by the Railroad Retirement Act and the Railroad Unemployment Insurance Act. This report includes the results of the OIG audit of the FY 2004 financial statements and a discussion of the serious management challenges identified by the OIG.

The OIG concluded the audit of the Railroad Retirement Board's FY 2004 financial statements, related internal controls and compliance with laws and regulations, and issued a clean opinion on the financial statements. They also cited a material weakness in the RRB's information security program, and a reportable condition in controls over implementation of changes to laws and regulations. In addition, they noted other matters involving the RRB's internal control structure and its operation.

Material Weakness

Information System Security

In the audit of the FY 2003 financial statements, OIG auditors cited the agency with material weaknesses in internal control as a result of major deficiencies in access controls in both the mainframe and end-user computing environments, and in the training provided to staff with significant security responsibilities. During FY 2004, OIG auditors again evaluated information security in accordance with the Federal Information Security Management Act. These reviews identified continuing weaknesses in many areas of the RRB's information security program. As a result, auditors identified the program as a source of material weakness in internal control because of

significant deficiencies in program management and access controls.

The RRB has initiated actions to correct the identified weaknesses and to strengthen information security but has not completed corrective action necessary to eliminate the previously reported deficiencies.

Reportable Condition

Compliance

Auditors reported that the RRB's debt recovery program was not updated for changes to agency regulations that impact interest charges on program debt. As a result, some debtors were overcharged interest. The non-compliance did not have a material monetary impact in the aggregate, but indicated that the agency does not have adequate controls to ensure that changes to laws and regulations are fully implemented. Auditors recommended, and agency management concurred, that the Office of General Counsel should take action to ensure the laws and regulations are fully implemented in a timely manner.

Compliance with Laws and Regulations

The auditors' tests of compliance with selected provisions of laws and regulations disclosed two instances of non-compliance that are reportable under generally accepted government auditing standards or Office of Management and Budget guidance. The RRB did not implement a change to the Code of Federal regulations (CFR) that would have delayed interest charges on delinquent debt by an additional 30 days under 20 CFR Section 200.7(b)(2). The RRB also did not implement provisions of the Railroad Retirement and Survivors Improvement Act of 2001 that require railroad retirement

benefits to be disbursed by a qualified non-governmental financial institution rather than the Department of the Treasury. Agency management is currently seeking legislative relief from this requirement.

Other Matters Involving Internal Control

In the Letter to Management, auditors addressed other internal control issues related to recording obligations and transactions, quality assurance reviews, documenting procedures, and accounting for financial interchange advances and receivables. Management agreed to the auditors' recommendations and have scheduled corrective actions.

SERIOUS MANAGEMENT CHALLENGES

The OIG has identified four serious management challenges facing the RRB: Control Environment, Asset Stewardship, Managing for Change, and Information Technology Security.

Control Environment

The OIG expressed continuing concerns about the effectiveness of the RRB's overall control environment. This issue has been cited as a material weakness in previous audits of the financial statements because the agency's current structure fosters an emphasis on the issues and objectives of its various operating units at the expense of larger organizational goals.

Asset Stewardship

The OIG continues to question the adequacy of oversight provided to the National Railroad Retirement Investment Trust

(NRRIT), an entity with the responsibility for the investment of Railroad Retirement Act investments that total in excess \$25 billion. The agency's three member Board has accepted a largely passive relationship with the NRRIT. In addition, the NRRIT has not been required to consolidate financial reporting with the RRB. The OIG believes this separate financial reporting, although adhering to the letter of the law, undermines the effectiveness of the overall Federal initiative towards financial accountability.

Managing for Change

The OIG again cited the continued viability of the RRB as a business entity as a serious management challenge. The agency administers benefit programs that are redundant of other Federal social insurance programs and has a rapidly declining customer base. The OIG has repeatedly urged the agency to transform itself to meet the challenges of providing efficient service delivery to a declining number of railroad workers and beneficiaries. Agency management has generally disregarded OIG recommendations for altering the agency's service delivery model.

Information Technology Security

The agency's information services are experiencing increasing demands in providing service for existing data processing operations, adding new mainframe and desktop applications, and delivering service to the railroad community electronically.

As discussed above, the OIG has cited the agency with material weaknesses that have resulted from significant deficiencies in access controls in both the mainframe and end-user computing environments, and in the training provided to staff with significant security responsibilities. Agency management has acknowledged the material weaknesses reported by the OIG and has planned action to address them.

As the RRB expands internet communication services with beneficiaries and railroad employers, management will face additional challenges in developing and maintaining a strong information security position.

EVALUATION OF THE RRB'S PROCESSING OF DISABILITY EARNINGS CASES

Under the Railroad Retirement Act (RRA), the agency pays a total and permanent disability if an employee is disabled for all regular work and has at least ten years of creditable railroad service. An occupational disability is paid if an employee is disabled for his/her regular railroad occupation and has either ten years of creditable railroad service at age 60 or 20 years of service at any age.

Disabled employees have work restrictions and earnings limitations that can affect their annuity eligibility. An annuity is subject to a work deduction based on earnings in non-railroad employment or self-employment after an annuity beginning date. In addition, a disability annuity is not payable for any month in which an annuitant works for a railroad or other employer covered by the RRA. Although an annuitant is required to report any such earnings to avoid overpayments, the agency has established monitoring programs to identify post-disability earnings that have not been voluntarily reported.

Auditors performed this review to determine if the agency identifies and applies deductions to disability employee annuities in a timely manner. Results indicated that there is insufficient monitoring of disabled annuitants with earnings for possible work deductions. The review also revealed that program staff failed to investigate earnings cases identified in 2000 and 2001 program integrity matches, and did not identify all disabled annuitants employed by a railroad employer after their annuity beginning date. In addition, staff did not always

process disability earnings cases to ensure the identification and collection of overpayments.

As a result of auditors' findings, agency management has agreed to:

- review the program integrity match results and track the amounts overpaid,
- implement revisions to the automated programs that will identify and compile service months,
- establish standards for timely processing of earnings cases identified in the annual policing, and
- develop standards to ensure all overpayment information for cases referred to the OIG is forwarded to the appropriate agency staff for establishment of receivables.

REVIEW OF THE RRB'S COMPLIANCE WITH FEDERAL LAWS AND REGULATIONS ON COMPETITIVE SOURCING

The Federal Activities Inventory Reform (FAIR) Act of 1998 directs Federal agencies to issue an annual inventory of all commercial activities performed by employees. Such activities include services such as information gathering, building security, mail operations, housekeeping, warehouse operations, and routine electrical or mechanical services. In May 2003, OMB revised Circular A-76, Performance of Commercial Activities, to implement the statutory requirements of the FAIR Act.

The OIG performed this review to determine if the RRB's competitive sourcing policy is in compliance with the FAIR

Act and OMB Circular A-76. Although agency policies and procedures are generally in compliance, auditors identified several areas in which RRB managers could make improvements. When completing the 2004 inventory, the responsible RRB office did not consult with various agency bureaus to obtain current information, but simply updated the prior year information independently. As a result, auditors recommended that the RRB implement procedures to ensure future reports are current, comprehensive and prepared in consultation with appropriate bureaus. Auditors also recommended that the RRB management direct staff to revise the agency website to provide more details on FAIR Act report, background information on the process used, and a notice of procedures for appeals and challenges.

The RRB has not performed any OMB Circular A-76 public-private job competitions for commercial activities since 1977. The Circular's guidelines direct Federal agencies to conduct public-private job competitions and determine if an internal agency unit is the most efficient organization or if an external contract can provide the service at a lower cost. In its FY 2004 Fair Act Inventory, the RRB indicated that 83% of its commercial activities are for data processing services and systems design, development and programming services.

Auditors believe that the agency's request for \$12.8 million in FY 2006 to implement information technology improvements provides the opportunity for the RRB to seek competitive sourcing solutions involving technology staffing, infrastructure and services. Such solutions will assist the agency, as many information technology employees become eligible for retirement, in ensuring extensive information technology upgrades can be completed. Auditors recommended that agency management perform a feasibility study to determine if the agency should implement public-private competitions of commercial information technology services. Agency officials concurred with all findings contained in the auditors' report and plan to complete all recommended action during FY 2005.

MANAGEMENT DECISIONS AND IMPLEMENTATION

The Office of Inspector General maintains the open audit follow-up system to track the status of corrective actions for all audit recommendations. Office of Management and Budget Circular No. A-50 (Revised) and the Inspector General Act Amendments of 1988 require the reporting of management decisions and corrective actions for all audit recommendations.

Management Decisions for Recommendations

Requiring a management decision on October 1, 2004	0
Pending management decisions for new recommendations	0
Management decisions for previous recommendations	<u>0</u>
Recommendations pending a management decision on March 31, 2005	0

Corrective Actions

Recommendations requiring action on October 1, 2004	97
Recommendations issued during this period	23
Corrective actions completed during the period	<u>32</u>
Final actions pending on March 31, 2005	88

OFFICE OF INVESTIGATIONS



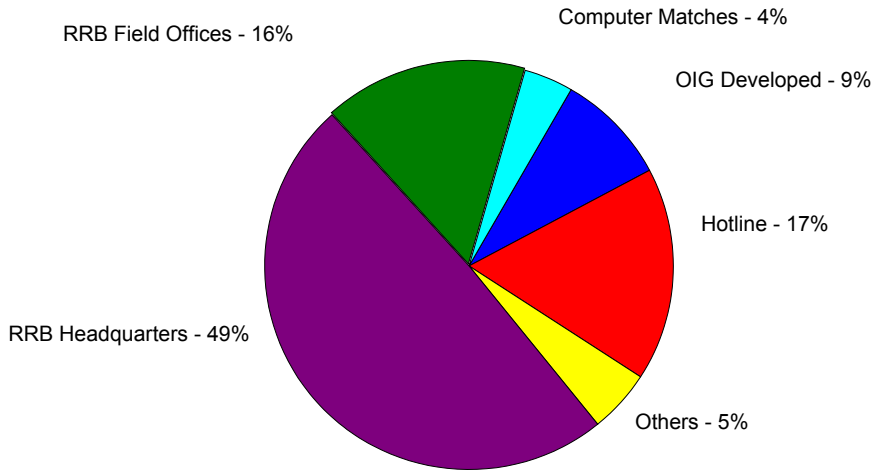
The Office of Investigations (OI) focuses on RRB benefit program fraud. OI's primary objective is to identify and investigate cases of waste, fraud and abuse in RRB programs and refer them for prosecution and monetary recovery action. Through its investigations, OI also seeks to prevent and/or deter program fraud. In order to maximize the effect of its resources, OI continues to pursue cooperative investigative activities and coordination with other Inspectors General and law enforcement agencies, which include the Social Security Administration-Office of Inspector General, the Office of Personnel Management-Office of Inspector General, the Federal Bureau of Investigation (FBI), the U.S. Secret Service, the Internal Revenue Service, and the Postal Inspection Service.

INVESTIGATIVE ACCOMPLISHMENTS

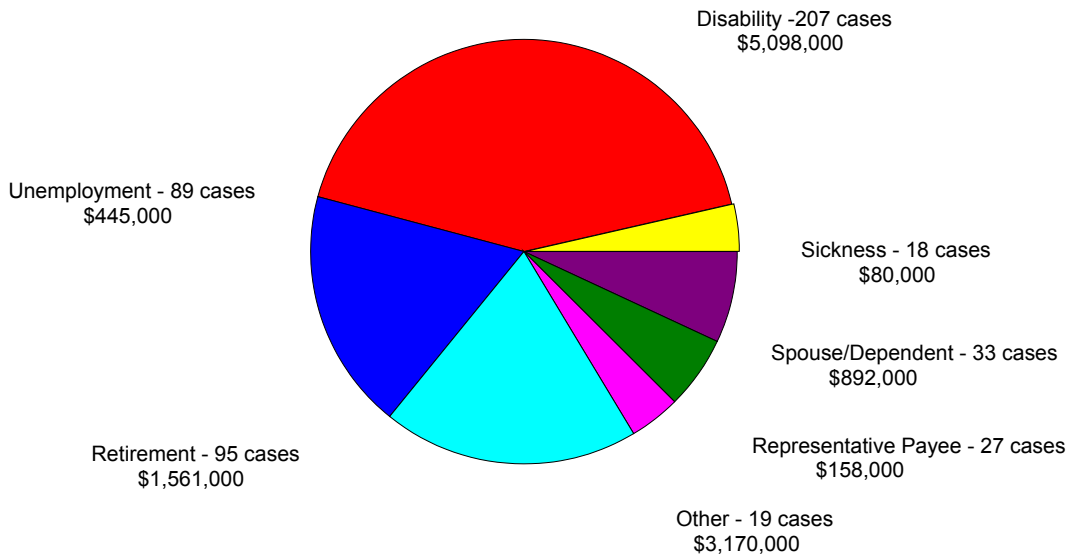
Convictions	27
Civil Judgements	19
Indictments/Informations	17
Investigative Recoveries	\$ 401,722
Restitutions and Fines	\$ 573,249
Civil Damages and Penalties	\$ 244,234
Potential Economic Loss Prevented (PELP)	\$ 107,236
Community Service Hours	280
Disciplinary/Administrative Action	0
Civil Complaints	10
Criminal Complaints	1
Arrests	3
Subpoena Service:	
Inspector General	5
Federal Grand Jury	41
Trial	7
U.S. Attorney Referrals	128

INVESTIGATIVE CASES

During this semiannual period, OI opened 91 investigations and closed 141 cases. The major sources of case referrals are illustrated below.



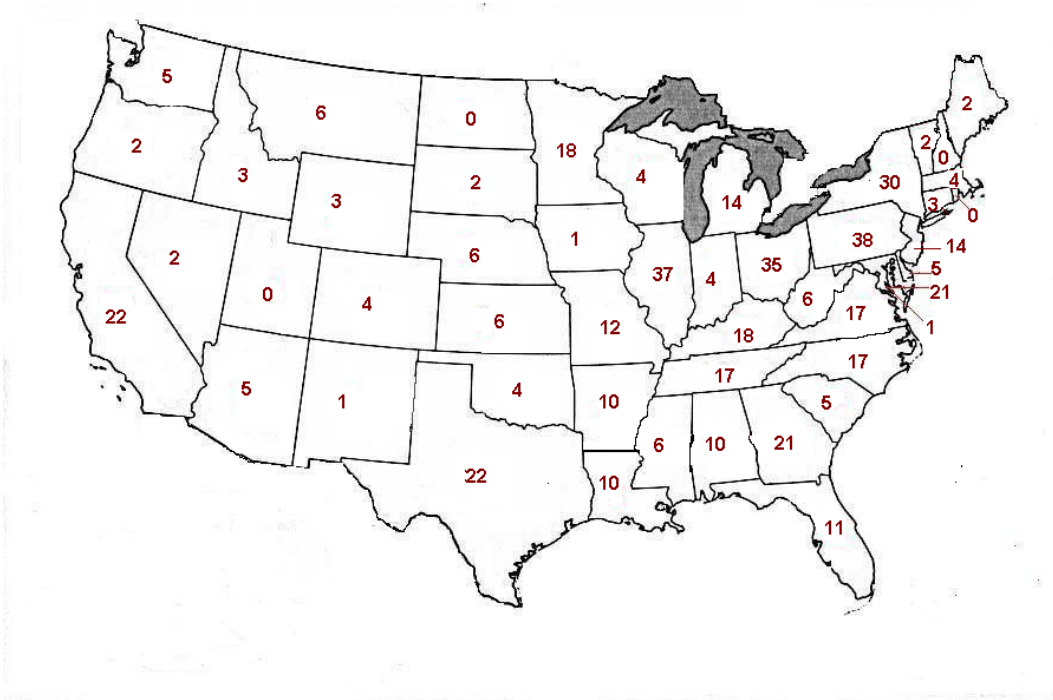
OI's current caseload totals 488 criminal matters, representing approximately \$11.4 million in fraud against the RRB.



DISTRIBUTION OF CASES

The Office of Investigations (OI) conducts its investigations throughout the United States in response to complaints or allegations regarding violations of Federal law.

The map below indicates the number of open investigations that OI currently has in each state; there are no open cases in Alaska or Hawaii. Two additional investigations are underway in Canada.



REPRESENTATIVE INVESTIGATIONS

Retirement Benefit Investigations

RRB retirement fraud typically involves the theft and fraudulent cashing of U.S. Treasury checks, or the illicit conversion of U.S. Treasury electronic fund transfers, by someone other than the authorized RRB annuitant. During this reporting period, OI obtained nine convictions for retirement fraud. The defendants in these cases received sentences totaling one year imprisonment, 22 years probation, and one year, four months house arrest. They were also ordered to pay \$268,187 in restitution, and \$325 in fines. The RRB will recover an additional \$187,185 in overpayments as a result of OIG investigations of retirement benefit programs.

OI routinely receives referrals from the RRB's Debt Recovery Division that involve the fraudulent receipt of RRB retirement annuity payments, usually by a relative of a deceased annuitant.

Examples of recent retirement cases follow.

- OI opened a case based on an internal RRB referral that indicated an annuitant had died but the agency had not received notification of the death. As a result, the RRB paid a total of \$75,065 in annuity benefits after the annuitant's death.

A joint investigation with the U.S. Secret Service revealed that a daughter had converted the funds paid to her deceased father for her own use. She forged her father's signature and cashed 49 U.S. Treasury checks issued after her father's death. When interviewed, she admitted she knew her actions were illegal.

A 12 count indictment was filed against her for violating Title 18, §641, Theft of Government Property and Title 18, §1344, Bank Fraud. The subject pleaded guilty to the theft of government property, and was subsequently sentenced to three years probation and ordered to pay restitution of \$75,065 to the RRB.

After being indicted, the subject voluntarily cooperated with law enforcement authorities by providing significant information on unrelated criminal activities. The subject provided critical information on the identification of individuals who were in the possession of illegal firearms and narcotics. As a result, her cooperation resulted in a substantial number of Federal indictments and convictions of major criminal targets.

- Another referral from the RRB's Debt Recovery Division indicated that a death match performed by the Social Security Administration revealed that a current RRB annuitant had died in June 2000. Because no notification was forwarded to the RRB, the agency continued to electronically deposit annuity payments totaling \$20,981 into a joint account held by the deceased and his son.

OI special agents determined that the son had, in fact, withdrawn all the funds through a series of ATM transactions, debt card purchases and checks written against the account. When interviewed, the son admitted he was responsible for the withdrawals and had failed to report his father's death.

A criminal information was subsequently filed against the subject for violating Title 18, §641, Theft of Government Funds. He pleaded guilty and was ordered to pay restitution of \$19,390 to the RRB (the remaining funds were recovered through a reclamation by the U.S.

Treasury) and a special assessment of \$25. He was also placed on probation for four years.

- In May 1999, the agency's Chicago District Office planned to personally deliver a congratulatory centenarian letter to an RRB annuitant. Because the annuitant's monthly annuity benefits were sent to a post office box, RRB personnel sent a registered letter requesting the annuitant to contact the RRB district office. The return receipt for the letter was signed by the annuitant or someone acting in his place. The District Office subsequently received a telephone call a few weeks later from a person who identified herself as the annuitant's daughter. She stated that her father had been in Mexico, but had just returned. She invited the RRB staff to visit him at any time at an address in Chicago, but to telephone to set up a time. However, when staff attempted to visit, no building existed at the address provided.

OI special agents later identified the woman who had telephoned the RRB and determined that she had negotiated the annuity checks at various locations in Chicago, IL and northwest Indiana. She had used the funds to pay for personal obligations that she incurred. The investigation also revealed that she was receiving Supplemental Security Income (SSI) under various identities.

In August 2002, a Federal Grand Jury indicted the subject for violation of Title 18, §1341, Mail Fraud, and she pleaded guilty. On January 14, 2005, she was sentenced to one year probation, six months home confinement, ordered to make full restitution of \$67,705 to the RRB, and to pay a special assessment of \$100 to the District Court. The subject currently resides in a nursing home in Chicago, IL.

- OI concluded another case during this reporting period that involved a family member failing to inform the RRB of the death of his mother. The case was opened based upon a referral from the RRB District Office in Newark, NJ. Although an annuitant has died, her son continued to illegally receive her retirement benefits from April 1993 through May 2002.

When OI agents interviewed the son, he admitted that he had failed to notify the agency and that he fraudulently received \$85,852 in RRB benefits. In May 2004, he accepted the Plea Agreement offered to him for violation of Title 18, §641, Theft of Government Funds. In October 2004, he was sentenced to ten months home confinement followed by four years supervised probation. He is also required to make restitution to the RRB in the amount of \$85,852.

Disability Investigations

The OIG also conducts fraud investigations relating to the RRB's disability program, which typically involves larger financial amounts and more sophisticated schemes. An individual who receives a disability annuity is restricted to earning not more than \$400 in one month. An earnings cap of \$4,999 per year also applies. Disability annuitants must report all work activity to the RRB.

During this reporting period, OI obtained three convictions and one civil judgement for disability fraud. The defendants in these cases received sentences totaling three years, two months imprisonment, seven years probation, and five months house arrest. They were also ordered to pay \$222,248 in restitution, \$4,125 in fines, \$36,508 in damages and \$5,000 in penalties. The RRB will also recover \$145,755 in overpayments as a result of disability cases concluded during this reporting period. Descriptions of several cases follow.

- Based on an anonymous Hotline complaint, OI opened a case involving a disability annuitant who was allegedly earning in excess of \$40,000 annually through employment at a law firm that represents injured railroad workers.

Special agents found that, prior to receiving his occupational disability award from the RRB, the annuitant had been a union official with the United Transportation Union and had worked for the Union Pacific Railroad for 28 years. An examination of records revealed that he had performed investigative work for law firms during calendar years 1996 through 2003. In order to conceal his income, he established a consulting and management company, and had his compensation paid to the corporation. During 1996 and 1998, he attributed his earnings from the corporation to his spouse who was working full-time for Union Pacific Railroad during the same period. During the period 1999 through 2001, he had concealed his income as consulting fees and non-employee compensation.

In 2002, the annuitant had earnings of \$12,823 reported to his social security earnings record. In addition, he admitted to earning in excess of the disability limitation during the period January through May 2003, and advised the RRB to suspend his annuity on June 1, 2003. This action resulted in savings of \$34,326 in disability benefits that would have been paid erroneously to the subject during June 2003 through November 2004.

A criminal information was filed in United States District Court in the northern district of Texas charging the subject with a false statement in violation of Title 18, §1001, U.S.C. False Statement. On November 16, 2004, he entered a plea of guilty and was ordered to serve one year and one day imprisonment, and placed on supervised release for three years upon release from prison. The subject was

also ordered to pay restitution of \$106,266 at the rate of at least \$300 per month.

- OI received another Hotline complaint concerning an occupational disability annuitant who was allegedly employed by a towing company while claiming and receiving a disability annuity from the RRB, but not reporting his employment and earnings to the agency as required. Special agents confirmed that the annuitant was employed. In response to an RRB questionnaire regarding his activities and earnings for an 11 year period, the annuitant stated he had not worked and had no earnings during the period.

OI agents subsequently conducted video surveillance of the subject that revealed he was, in fact, performing towing operations. They then obtained and analyzed numerous business and financial records that confirmed the annuitant had worked and earned income from December 1991 through October 2002. His earnings in 77 months were in excess of the monthly limitations for receiving an RRB disability annuity.

When interviewed by OI agents, the subject admitted he had been the only employee of the towing company during the period in question, and estimated his monthly earnings to be about \$2,000. He stated he had incorporated the company in his wife's name to hide his earnings from the RRB. He also told the agents that he was willing to repay the disability benefits that he received but to which he was not entitled.

The subject was indicted by a Federal Grand Jury in the central district of Illinois and charged with five counts of violating Title 18, §1341, Mail Fraud. He pleaded guilty and, on November 8, 2004, was sentenced to prison for a term of five months per indictment count to be served

concurrently. Following his release, he will serve five months of home confinement. He will then be on probation for three years and must pay restitution of \$115,982 and a penalty of \$500.

- OI initiated an investigation of a disability annuitant who was identified based upon a comparison of RRB disability annuitants and records maintained by North Carolina's Secretary of State Office as being associated with an incorporated business. The annuitant was identified as president of a poultry farm corporation but failed to report his employment to the RRB.

OI issued an IG subpoena to a major poultry corporation for records related to the annuitant and his corporation. Records indicated that this corporation had issued non-employee compensation to the annuitant and/or his corporation for a total of \$362,768. As a result, the RRB calculated that the annuitant had received \$89,883 in disability benefits to which he had no entitlement.

On November 30, 2004, the subject pleaded guilty to one count of Title 45, §2311, Failure to make a report or furnish information required by the RRB, in U.S. District Court in the middle district of North Carolina. He was sentenced to one year probation, fined \$3,500 and ordered to pay a \$25 special assessment to the Department of Justice.

OI provided information to assist the agency in pursuing an administrative recovery.

Unemployment and Sickness Insurance Investigations

Unemployment Insurance (UI) and Sickness Insurance (SI) benefit fraud involves individuals claiming and receiving UI or SI benefits while working and receiving wages from an employer, in violation of Federal law. OI receives the majority

of these cases for followup investigation from the RRB's Disability, Sickness and Unemployment Benefits Division as a result of information developed from state wage matching programs. These programs match RRB annuitants with individuals who also had wages reported to the state during the same period of time.

During this reporting period, OI obtained 13 convictions and 18 civil judgements for UI and SI fraud. Defendants in these cases received, in the aggregate, 18 years probation, and were ordered to perform 280 hours of community service. They were ordered to pay \$54,125 in restitution, \$120,935 in damages, \$325 in fines, and \$81,791 in civil penalties. The RRB will also be able to recover an additional \$30,884 as a result of OI investigations.

Examples of cases completed this reporting period follow.

- A wage match with Texas identified an annuitant who had received wages while claiming agency UI benefits. The subject filed 14 false claims with the RRB's Fort Worth, TX District Office, and received \$4,510 in unemployment benefits to which he was not entitled.

The U.S. Attorney's Office filed a civil complaint against the annuitant for his fraudulent actions. On January 12, 2005, the U.S. District Court filed a default judgement against the subject and ordered him to pay \$74,416 (\$5,000 penalty per false claim, \$13,530 treble damages, and \$386 in interest. The RRB will receive \$4,510.

- A wage match with the State of Illinois resulted in a referral to OI concerning an annuitant who was receiving UI benefits on many of the same days that he was employed by a non-railroad employer. OI investigation revealed that the annuitant had filed nine false claims, resulting in the fraudulent receipt of \$4,080 while employed as a laborer.

The U.S. Attorney's Office filed a civil complaint against the subject for his fraudulent actions. The U.S. District Court in the Central District of Illinois subsequently filed a default judgement against him ordering payment of \$4,080 to the RRB, and a civil penalty amount of \$8,160 to the U.S. District Court.

- The RRB referred another case to OI as the result of a wage match with the State of Nevada. The program identified an RRB unemployment insurance claimant who falsely certified that he did not work on days for which he claimed unemployment benefits. He falsely received \$5,954. The U.S. Attorney's Office filed a civil complaint against the subject. As a result, the U.S. District Court, Las Vegas, NV filed a consent judgement for \$7,900. Of this amount, the RRB will receive the original overpayment of \$5,954 and the interest pertaining to this sum.

AFFIRMATIVE CIVIL ENFORCEMENT (ACE) PROGRAM

OI continues to pursue prosecution of cases under the Department of Justice's Affirmative Civil Enforcement Program. This program involves "fast track" civil prosecution of cases under the provisions of the Title 31, U. S. Code, Sections 3729-3733, The Civil False Claims Act. This statute allows the government to recover up to triple damages as well as \$5,000 to \$10,000 for each false claim submitted.

The Department of Justice frequently obtains double damages through these civil false claims prosecutions. The judgements obtained in these cases also provide the agency with an efficient and effective basis to pursue their collection activities.

The ACE Program continues to provide an efficient means to address fraud against agency programs, particularly where the fraud losses are below the financial guidelines for criminal prosecution. It also is an effective way to return fraud losses to the RRB's trust funds and create a deterrent against future fraud.

During this reporting period, eight civil judgements under the ACE program were entered by Federal district courts which will result in the return of \$84,602 to the government when the funds are collected.

HOTLINE CALLS

The Office of Inspector General established its Hotline to receive complaints concerning suspected fraud, waste and abuse in RRB programs and operations. The Hotline provides an open line of communication for individuals to report suspected criminal activity, conflict of interest, mismanagement, and waste of RRB funds.

	<u>10/01/04 - 03/31/05</u>
Total Contacts: (Telephone Calls and Letters)	480
Referred to: RRB-OIG, Office of Investigations	50
RRB Bureaus/Offices	278
Other Federal Agencies	26
RRB Medicare Carrier/Durable Medical Equipment Regional Carriers	1
Other (misdirected calls, follow-up calls to agents, etc.)	115
Calls for which there was insufficient information to substantiate an allegation or to make a referral	10

LEGISLATIVE & REGULATORY REVIEW

The Inspector General Act requires the Inspector General to review existing and proposed legislation and regulations relating to the programs and operations of the agency, and to make recommendations in the semiannual report concerning the impact on the economy and efficiency of the agency's administration of its programs and on the prevention of fraud and abuse.

During this reporting period, the agency issued no regulations.

APPENDIX A

REPORTS ISSUED

- Fiscal Year 2004 Financial Statement Audit, October 25, 2004
- Fiscal Year 2004 Financial Statement Audit, Letter to Management, October 25, 2004
- Review of the RRB's Compliance with Federal Laws and Regulations on Competitive Sourcing, December 3, 2004
- Evaluation of the RRB's Processing of Disability Earnings Cases, February 11, 2005

APPENDIX B

INSPECTOR GENERAL ISSUED REPORTS WITH QUESTIONED COSTS

	<u>Number</u>	<u>Questioned Costs</u>	<u>Unsupported Costs</u>
A. For which no management decision had been made by October 1, 2004	0	0	0
B. Which were issued from October 1, 2004 through March 31, 2005	0	0	0
Subtotals (A + B)	0	0	0
C. For which a management decision was made from October 1, 2004 through March 31, 2005	0	0	0
(i) dollar of disallowed costs		0	0
(ii) dollar value of costs not disallowed		0	0
D. For which no management decision had been made by March 31, 2005	0	0	0
Reports for which no management decision was made within six months of issuance	0	0	0

**INSPECTOR GENERAL ISSUED REPORTS WITH
RECOMMENDATIONS THAT FUNDS BE PUT TO
BETTER USE**

	<u>Number</u>	<u>Dollar Value</u>
A. For which no management decision had been made by October 1, 2004	0	0
B. Which were issued from October 1, 2004 through March 31, 2005	1	\$ 1,800,000
Subtotals (A + B)	1	\$ 1,800,000
C. For which a management decision was made from October 1, 2004 through March 31, 2005	1	
(i) dollar value of recommendations that were agreed to by management		\$ 1,800,000
(ii) dollar value of recommendations that were not agreed to by management		0
D. For which no management decision had been made by March 31, 2005	0	
Reports for which no management decision was made within six months of issuance	0	

APPENDIX C

REPORT ON RECEIVABLES, WAIVERS, AND RECOVERIES

The FY 1999 appropriations language for this office requires the reporting of additional information concerning actual collections, offsets and funds put to better use achieved as a result of Inspector General activities.

Office of Audit

<u>Report</u>	<u>Funds to be put to better use</u>	<u>Funds Agreed by Management</u>	<u>Receivables Established</u>	<u>Waivers</u>	<u>Recoveries to date</u>
99-03	\$ 50,850	\$ 50,850	\$ 50,580	\$ 50,490	\$ 360
99-14	83,000	83,000*	34,423		30,584
99-16	48,000,000	48,000,000			
99-17	11,000,000	11,000,000			1,604,535**
00-16	235,000	235,000			253,846***
04-06	820,766	820,766	646,623		494,069
04-10	400,000	400,000			

* This figure includes monies owed to the agency and overpayments which must be refunded.

** This figure represents case corrections that resulted in receivables, annuitant payments, employer tax credits and liabilities.

***This figure represents returned payments credited to debtor accounts.

Office of Investigations

Recoveries realized by the RRB resulting from court-ordered restitution and civil damages:

FY 1999	\$ 855,655
FY 2000	1,038,134
FY 2001	990,356
FY 2002	785,843
FY 2003	947,876
FY 2004	646,273
October 1, 2004 - March 31, 2005	376,130

APPENDIX D

RRB MANAGEMENT REPORTS*

MANAGEMENT REPORT ON FINAL ACTION ON AUDITS WITH DISALLOWED COSTS FOR THE SIX MONTH PERIOD ENDING MARCH 31, 2005

	<u>Number</u>	<u>Disallowed Costs</u>
A. Audit reports, with management decisions, on which final action had not been taken at the beginning of the period.	0	0
B. Audit reports on which management decisions were made during the period.	0	0
C. Total audit reports pending final action during the period.	0	0
D. Audit reports on which final action was taken during the period.		
1. Recoveries		
(a) Collections	0	0
(b) Property		
(c) Other		
2. Write-offs	0	0
3. Total of 1 and 2	0	0
E. Audit reports needing final action at the end of the period.	0	0

* The information contained in this section has been provided by RRB management.

**MANAGEMENT REPORT ON FINAL ACTION ON AUDITS WITH
RECOMMENDATIONS TO PUT FUNDS TO BETTER USE FOR THE
SIX MONTH PERIOD ENDING MARCH 31, 2005**

	<u>Number</u>	<u>Funds to be put to better use</u>
A. Audit reports, with management decisions, on which final action had not been taken at the beginning of the period.	3	\$ 48,929,996 *
B. Audit reports on which management decisions were made during the period.	1	\$ 1,800,000 **
C. Total audit reports pending final action during the period.	4	\$ 50,729,996
D. Audit reports on which final action was taken during the period.		
1. Value of recommendations implemented.	0	\$ 0
2. Value of recommendations that management concluded should not or could not be implemented.	0	\$ 0
3. Total of 1 and 2.	0	\$ 0
E. Audit reports needing final action at the end of the period.	4	\$ 50,729,996

* Comprised of the following amounts: \$48,000,000 from Audit Report 99-16, "Financial Interchange: Status of Prior Recommendations for Change;" and \$529,996 from Audit Report 01-11, "Review of the Quality of the Debt Recognition and Collection Process for Railroad Retirement Act Overpayments," and \$400,000 from Audit Report 04-10, "Review of Spouse Annuity Work Deductions at the Railroad Retirement Board."

**Identified in Audit Report 05-03, "Evaluation of the RRB's Processing of Disability Earnings Cases."

**MANAGEMENT STATEMENT ON RESOLVED AUDIT REPORTS
OVER TWELVE MONTHS OLD WITH FINAL ACTION PENDING
AS OF MARCH 31, 2005**

<u>Report</u>	<u>Date</u>	<u>Disallowed Costs</u>	<u>Funds to be put to better use</u>	<u>Reason action has not been completed</u>
Review of Quality Assurance Activities (97-06)	1/22/97	None	None	The remaining recommendation will be addressed in conjunction with efforts to improve calculation and reporting of performance measures.
Review of Non-Priority Correspondence Handling (97-09)	3/13/97	None	None	The Office of Programs plans to implement a tracking system in FY 2006 to close the remaining recommendation.
Review of Railroad Unemployment Insurance Act Contributions (99-14)	9/21/99	None	None	The agency is compiling data on the effectiveness of program changes that expedited the reconciliation process.
Financial Interchange: Status of Prior Recommendations for Change (99-16)	9/28/99	None	\$48,000,000	The Social Security Administration and the RRB agreed on a method to include uncollectible overpayments in future Financial Interchange computations.
Information Systems Security (INFOSEC) Assessment Report	6/28/00	None	None	The agency has implemented 12 recommendations, and is working to close out the remaining 3.
Review of Document Imaging - Railroad Unemployment Insurance Act Programs (01-01)	11/17/00	None	None	The agency is making progress, using hardware and software approaches, to improve server backup and disaster recover capabilities.
Audit of the RRB's FY 2000 Financial Statements (01-03)	2/23/01	None	None	The Bureau of Information Services is working to enhance problem reporting and phase out obsolete servers.
Site Security Assessment for the Office of Inspector General	7/20/01	None	None	The Bureau of Information Services has closed out 10 recommendations, and is in the process of addressing the last 2.

**MANAGEMENT STATEMENT ON RESOLVED AUDIT REPORTS
OVER TWELVE MONTHS OLD WITH FINAL ACTION PENDING
AS OF MARCH 31, 2005**

<u>Report</u>	<u>Date</u>	<u>Disallowed Costs</u>	<u>Funds to be put to better use</u>	<u>Reason action has not been completed</u>
Review of the Quality of the Debt Recognition and Collection for RRA Overpayments (01-11)	8/09/01	None	\$ 529,996	The Office of Programs will evaluate the results of a case review and hopes to issue findings in the spring of 2005.
Security Controls Analysis for the Office of Inspector General	8/17/01	None	None	The Bureau of Information Services has closed 35 recommendations and is developing necessary documentation on the remaining 3.
Review of Information Security at the Railroad Retirement Board (02-04)	2/05/02	None	None	The Bureau of Information Services has closed 16 recommendations and is currently addressing the remaining 12.
FY 2002 Evaluation of Information Security at the RRB (02-12)	8/27/02	None	None	The agency updated its disaster plans, and recently awarded a new contract for offsite recovery services.
Evaluation of the Self-Assessment Process for Information System Security (03-02)	12/27/02	None	None	The Bureau of Information Services is devising procedures to improve system security assessments, including use of automated software tools during FY 2005.
Evaluation of the RRB E-government Initiative: RUIA Contribution Internet Reporting and Payment (03-03)	12/27/02	None	None	The Bureau of Fiscal Operations closed nine recommendations and is working on an MOU with Treasury to close the remaining two.
Inspection of Unverified Records in the RRB's Employment Data Maintenance System (03-06)	3/20/03	None	None	The Office of Programs is reviewing records and developing procedures to verify employer reported data for individual railroad workers.

**MANAGEMENT STATEMENT ON RESOLVED AUDIT REPORTS
OVER TWELVE MONTHS OLD WITH FINAL ACTION PENDING
AS OF MARCH 31, 2005**

Report	<u>Date</u>	<u>Disallowed Costs</u>	<u>Funds to be put to better use</u>	Reason action has not been completed
Review of the RRB's PIN/Password System for On-Line Authentication (03-09)	9/8/03	None	None	The Bureau of Information Services will establish procedures as part of its standards update for Report 03-10 to close the remaining recommendation.
Review of the Systems Development Life Cycle for End-User Computing (03-10)	9/8/03	None	None	The Bureau of Information Services is identifying needed programming to improve tracking and quality reviews of systems projects.

APPENDIX E

REPORTING REQUIREMENTS

Inspector General Requirements	<u>Page</u>
Section 4(a)(2) - Review of Legislation and Regulations	28
Section 5(a)(1) - Significant Problems, Abuses, and Deficiencies	5
Section 5(a)(2) - Recommendations With Respect to Significant Problems, Abuses, and Deficiencies	6
Section 5(a)(3) - Prior Significant Recommendations Not Yet Implemented	6
Section 5(a)(4) - Matters Referred to Prosecutive Authorities	14
Section 5(a)(5) - Instances Where Information Was Refused	None
Section 5(a)(6) - List of Audit Reports	29
Section 5(a)(7) - Summary of Each Significant Report	5
Section 5(a)(8) - Statistical Tables on Management Decisions on Questioned Costs	30
Section 5(a)(9) - Statistical Tables on Management Decisions on Recommendations That Funds Be Put to Better Use	31
Section 5(a)(10) - Summary of Each Audit Report Over 6 Months Old For Which No Management Decision Has Been Made	None
Section 5(a)(11) - Description and Explanation for Any Significant Revised Management Decision	None
Section 5(a)(12) - Information on Any Significant Management Decisions With Which the Inspector General Disagrees	None

Management Requirements

Section 5(b)(1) - Comments Deemed Appropriate	Transmittal Letter
Section 5(b)(2) - Statistical Table on Final Action on Disallowed Costs	33
Section 5(b)(3) - Statistical Table on Final Action To Put Funds to Better Use	34
Section 5(b)(4) - Statement on Audit Reports With Final Action Pending	35

REPORT

FRAUD, WASTE AND ABUSE



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